The Rise of Internationalized Capital: ASEAN Economic Governance and Indonesian Conglomerates

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Murdoch University

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Declaration

I declare that this thesis is the product of my own original research, and contains no material which has been accepted as part of the requirements of any other degree at any other university, or any material previously published or written by another person except where due reference is made.

Faris Al-Fadhat
Since the end of the Cold War, the forms, instruments and mechanisms of regional economic institution in many parts of the globe have increasingly become a matter of scholarly debate. The prominent accounts emerging from International Relations (IR) theory draw attention to the functional process of such regional project. The problem with this perspective lies in the static notion of the state that separates it from the underlying processes of social forces and political coalitions. The political economy literature, on the contrary, with its focus on domestic politics places more analytical weight on the capitalist class and its position/s with respect to regional governance. Yet, even this literature is limited by its focus on the role of ‘national capital’. This obscures the role of internationalization process in constituting transnational or regionalized capitalist interests and forces.

In contrast, this thesis develops a new social and class relations approach for explaining the structure and the possible trajectories of regional economic governance. Through the case study of economic integration project of ASEAN, this thesis is concerned with analysing the social forces and political coalitions driving regional integration projects of Asian states. It asks which social forces, within the domestic political economy of Asian states, are driving governments to seek regional arrangements for economic governance. In particular the thesis asks how the emergence, reorganization, and expansion of capitalist class have conditioned political support for regional economic integration. By addressing these issues, this study emphasizes that the wellspring of regional economic institution projects stem from transformations in the nature, spaces, and forms of capital accumulation and the social forces it has unleashed.

This thesis argues that regional economic governance has been shaped as part of, and systematically affected by, the broader context of the internationalization of capital, where the profit-making activities operate beyond territorial boundaries. In this sense, such project has crucially provided foundations for the vast expansion of
capital across the region; specifically through regionalization of trade flows, production networks, and capital investment. It is noteworthy that the most internationalized fraction of capitalist has become the motor-force of this process, notably through its alliance with state apparatuses and other social and political forces which manifests in the form of economic policies that support the projects of regional integration. The key insight of this study is to bring the role of capital back into the analysis of regional trade governance.
# Contents

Abstract

Contents

List of Table and Figures

List of Abbreviations

Acknowledgements

1 Introduction

   The study
   Methodology and case study selection
   Data collection
   Thesis structure

2 Frameworks to Economic Regionalism and Their Limitations:

   Towards a New Approach

   Introduction
   The politics of the evolution of regional governance
   Competing theorization for economic regionalism
     Liberal approach
     Realist approach
     Political economy approach
   Regional governance and the internationalization of capital: towards a social relations approach
   Conclusion

3 Regional Economic Governance and the Internationalization of Capital: Theoretical Issue

   Introduction
   The internationalization of capital and regional economic governance
   Regional economic governance, internationalized bourgeoisie and the state
   Fractions of capital and the internationalization of the state
   Conclusion

4 State Restructuring and the Internationalization of Capital in Southeast Asia

   Introduction
   State restructuring, international fractions of capital and foreign economic policy
     Singapore
Malaysia  
Thailand  
Internationalization of capital and contestation  
Conclusion  

5 ASEAN Regional Economic Integration and the Internationalization of Capital  
Introduction  
ASEAN economic cooperation: historical trajectory  
The post-cold war, class formation and AFTA  
The ASEAN Economic Community and internationalization of capital  
Regionalization of capital: integration, alliances and joint ventures  
Conclusion  

6 The Politics of Indonesian Conglomerates: Capital Expansion and Regional Alliance  
Introduction  
The emergence of internationalized capital in the post-Asian crisis  
The internationalized big business: regional expansion and global ambition  
Conglomerates and the state: economic projects and internationalized fractions of capital  
  From bureaucrats to politico-business  
  The influence of business association  
Conclusion  

7 The Social Relations of Capital Expansion: The Case of the Salim Group  
Introduction  
The Salim Group: the genesis of conglomerate  
  Political and economic alliance  
  Business expansion at domestic market  
Salim’s internationalization of capital  
  Early movement and economic crisis disruption  
  Deepening internationalization and regional economic governance  
The state and the political role of the Salim Group  
Conclusion  

8 Conclusion  

Appendix: list of interviewees  
Bibliography
List of Tables

Table 3.1. AEC Four Pillars and Core Elements 131
Table 6.1. 30 Largest Business Groups in the Post-Crisis Period (2015) 165
Table 6.2. Indonesian Trade by Trading Partners, 2010-2014 175
Table 7.1. Salim Group Companies in the early 1980s 204

List of Figures

Figure 3.2. ASEAN’s intra-regional trade share from 1998-2014 133
Figure 6.1. Indonesia’s Outward FDI Flow from 2004-2014 168
Figure 7.1. Number of Salim Group Companies from 1957-1993 205
Figure 7.2. Salim Group Compositions of Sales According to Origin 1995-1996 210
Figure 7.3. First Pacific Corporate Structure 2015 215
## List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABIF</td>
<td>ASEAN Banking Integration Framework</td>
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<td>ACIA</td>
<td>ASEAN Comprehensive Investment Agreement</td>
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<td>ADM</td>
<td>Archer Daniels Midland Company</td>
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<tr>
<td>ACIA</td>
<td>ASEAN Comprehensive Investment Agreement</td>
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<td>AEC</td>
<td>ASEAN Economic Community</td>
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<td>AFAS</td>
<td>ASEAN Framework Agreement on Services</td>
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<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>AIA</td>
<td>ASEAN Investment Area</td>
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<td>AIC</td>
<td>ASEAN Industrial Complementation</td>
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<tr>
<td>AIIB</td>
<td>Asian Infrastructure Investment Bank</td>
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<td>AJIV</td>
<td>ASEAN Industrial Joint Ventures</td>
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<tr>
<td>APBN</td>
<td>National budget (<em>Anggaran Pendapatan dan Belanja Negara</em>)</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<td>APINDO</td>
<td>Indonesian Employers Association (<em>Asosiasi Pengusaha Indonesia</em>)</td>
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<td>APRIL</td>
<td>Asia Pacific Resources International Holdings</td>
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<td>APSC</td>
<td>ASEAN Political Security Community</td>
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<td>ASCC</td>
<td>ASEAN Socio-Cultural Community</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>ASEAN-BAC</td>
<td>ASEAN Business Adversary Council</td>
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<tr>
<td>ASEAN-BIS</td>
<td>ASEAN Business and Investment Summit</td>
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<tr>
<td>ASEAN-CCI</td>
<td>ASEAN Chambers of Commerce and Industry</td>
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<td>ASEAN-SAM</td>
<td>ASEAN Single Aviation Market</td>
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<tr>
<td>ASC</td>
<td>ASEAN Security Community</td>
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<td>ASCC</td>
<td>ASEAN Socio-Cultural Community</td>
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<td>ASW</td>
<td>ASEAN Single Window</td>
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<td>ATIGA</td>
<td>ASEAN Trade in Goods Agreement</td>
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<td>BCA</td>
<td>Bank Central Asia</td>
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<td>BCIC</td>
<td>Bumiputera Commercial and Industrial Community</td>
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<tr>
<td>BKPM</td>
<td>Investment Coordinating Board (<em>Badan Koordinasi Penanaman Modal</em>)</td>
</tr>
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<td>BIAC</td>
<td>Business and Industry Advisory Committee</td>
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<tr>
<td>Bupati</td>
<td>Regent or district chief</td>
</tr>
<tr>
<td>CAPA</td>
<td>Centre for Aviation</td>
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<tr>
<td>CEP</td>
<td>Comprehensive Economic Partnership</td>
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<tr>
<td>CEPT</td>
<td>Common Effective Preferential Tariff</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>CLMV</td>
<td>Cambodia, Laos, Myanmar, and Vietnam</td>
</tr>
<tr>
<td>CPF</td>
<td>Charoen Pokphand Foods</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>CPO</td>
<td>Crude Palm Oil</td>
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<td>CRG</td>
<td>China Resource Group</td>
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<tr>
<td>CSCE</td>
<td>Commission on Security and Cooperation in Europe</td>
</tr>
<tr>
<td>CSIS</td>
<td>Centre for Strategic and International Studies</td>
</tr>
<tr>
<td>DNI</td>
<td>Negative Investment List (Daftar Negatif Investasi)</td>
</tr>
<tr>
<td>DPR</td>
<td>House of Representatives or National Parliament (Dewan Perwakilan Rakyat)</td>
</tr>
<tr>
<td>EAEC</td>
<td>East Asia Economic Caucus</td>
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<tr>
<td>EAGCC</td>
<td>Economic Agreement between the Gulf Cooperation Council States</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
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<tr>
<td>EC</td>
<td>European Community</td>
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<tr>
<td>ECSC</td>
<td>European Coal and Steel Community</td>
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<td>EDB</td>
<td>Economic and Development Board</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>EMU</td>
<td>Economic and Monetary Union</td>
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<tr>
<td>EOI</td>
<td>Export-oriented Industrialization</td>
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<td>EPU</td>
<td>European Payments Union</td>
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<td>ERT</td>
<td>European Round Table</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FTA</td>
<td>Free Trade Agreements</td>
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<tr>
<td>GAPKI</td>
<td>Indonesian Palm Oil Association (Gabungan Pengusaha Kelapa Sawit Indonesia)</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<tr>
<td>GCC</td>
<td>Gulf Cooperation Council</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GIC</td>
<td>Government of Singapore Investment Corporation</td>
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<tr>
<td>GLC</td>
<td>Government-linked company</td>
</tr>
<tr>
<td>Gerindra</td>
<td>Greater Indonesia Movement Party (Partai Gerakan Indonesia Raya)</td>
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<tr>
<td>Golkar</td>
<td>Functional Groups Party (Partai Golongan Karya)</td>
</tr>
<tr>
<td>Hanura</td>
<td>The People’s Conscience Party (Partai Hati Nurani Rakyat)</td>
</tr>
<tr>
<td>HICOM</td>
<td>Heavy Industries Corporation of Malaysia</td>
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<tr>
<td>IBRA</td>
<td>Indonesian Bank Restructuring Agency (Badan Penyehatan Perbankan Nasional)</td>
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<tr>
<td>IDR</td>
<td>Indonesian Rupiah</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>Inpres</td>
<td>Presidential Instruction (Instruksi Presiden)</td>
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<tr>
<td>IPE</td>
<td>International Political Economy</td>
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<tr>
<td>IR</td>
<td>International Relations</td>
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<td>ISI</td>
<td>Import Oriented Industrialization</td>
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<td>KADIN</td>
<td>Indonesian Chamber of Commerce</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>KEIN</td>
<td>National Economic and Industrial Committee (Komite Ekonomi dan Industri Nasional)</td>
</tr>
<tr>
<td>KEN</td>
<td>National Economic Committee (Komite Ekonomi Nasional)</td>
</tr>
<tr>
<td>Keppres</td>
<td>Presidential Decree (Keputusan Presiden)</td>
</tr>
<tr>
<td>Maybank</td>
<td>Malayan Banking Berhad</td>
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<tr>
<td>MERCOSUR</td>
<td>Southern Cone Common Market (Mercado Común del Sur)</td>
</tr>
<tr>
<td>MITI</td>
<td>Ministry of International Trade and Industry, Japan</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational corporation</td>
</tr>
<tr>
<td>MP3EI</td>
<td>Masterplan for the Acceleration and Expansion of Economic Development of Indonesia (Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia)</td>
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<tr>
<td>MPIC</td>
<td>Metro Pacific Investments Corporation</td>
</tr>
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<td>MTI</td>
<td>Ministry of Trade and Industry, Malaysia</td>
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<tr>
<td>NAFTA</td>
<td>North American Free Trade Area</td>
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<tr>
<td>Nasdem</td>
<td>National Democrats (Partai Nasional Demokrat)</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
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<tr>
<td>New Order</td>
<td>The term Suharto coined for his government, from 1965 to 1998</td>
</tr>
<tr>
<td>NEP</td>
<td>New Economic Policy</td>
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<tr>
<td>NSW</td>
<td>National Single Window</td>
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<tr>
<td>OAU</td>
<td>Organization of African Union</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<tr>
<td>OEEC</td>
<td>Organization of European Economic Cooperation</td>
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<tr>
<td>OUE</td>
<td>Overseas Union Enterprise</td>
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<tr>
<td>PAN</td>
<td>National Mandate Party (Partai Amanat Nasional)</td>
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<tr>
<td>PAP</td>
<td>Peoples’ Action Party</td>
</tr>
<tr>
<td>Perodua</td>
<td>Perusahaan Otomobil Kedua Sendirian Berhad</td>
</tr>
<tr>
<td>PIS</td>
<td>Priority integration sector</td>
</tr>
<tr>
<td>PKB</td>
<td>National Awakening Party (Partai Kebangkitan Bangsa)</td>
</tr>
<tr>
<td>PKI</td>
<td>Communist Party of Indonesia (Partai Komunis Indonesia)</td>
</tr>
<tr>
<td>PLDT</td>
<td>Philippine Long Distance Telephone</td>
</tr>
<tr>
<td>Proton</td>
<td>Perusahaan Otomobil Nasional</td>
</tr>
<tr>
<td>PTA</td>
<td>Preferential trade agreement</td>
</tr>
<tr>
<td>QAB</td>
<td>Qualified ASEAN Bank</td>
</tr>
<tr>
<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
</tr>
<tr>
<td>RGE</td>
<td>Royal Golden Eagle</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>SEOM</td>
<td>Senior Economic Officials Meeting</td>
</tr>
<tr>
<td>SME</td>
<td>small and medium-sized enterprise</td>
</tr>
<tr>
<td>TAC</td>
<td>Treaty of Amity and Cooperation in Southeast Asia</td>
</tr>
<tr>
<td>TPP</td>
<td>Trans-Pacific Partnership</td>
</tr>
<tr>
<td>TRT</td>
<td>Thai Rak Thai Party</td>
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<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
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</table>
UMNO United Malays National Organisation
UMW United Motor Works
UN United Nations
UNCTAD United Nations Conference on Trade and Development
UOB United Overseas Bank
US United States of America
USD US dollars
WANTIMPRES Presidential Advisory Council (*Dewan Pertimbangan Presiden*)
WGIC Working Group on Industrial Cooperation
WTO World Trade Organisation
Acknowledgements

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Perth, October 2017

Faris Alfadhat
1

Introduction

The study

Regional economic cooperation has become a prominent feature of the global economic architecture in the post-Cold War era (e.g., Breslin and Higgott, 2000; Hettne, 2005; Wunderlich, 2007). Despite a major challenge to the European Union (EU) in 2016 through the unexpected Brexit vote, regional governance projects continue to proliferate in other regions. In Asia, the election of Donald Trump has seen the U.S. abandon the 12-member Trans-Pacific Partnership (TPP). However, alternative vehicles for regional economic cooperation are gaining steam in Asia, such as the ASEAN-centred Regional Comprehensive Economic Partnership (RCEP) trade agreement and China’s ‘Belt and Road’ interconnectivity project (Wilson, 2015; Chacko and Jayasuriya, 2017). While these may be regional projects, the underlying political support for such initiatives comes from the social and political coalitions at the national level.

This thesis is concerned with analysing the social forces and political coalitions driving regional integration projects in Asia. It asks which social forces, within the domestic political economy of Asian states, are driving governments to seek regional arrangements for economic governance. In particular the thesis asks how the emergence, reorganization, and expansion of capitalist class have conditioned political support for regional economic integration. By addressing these issues, this
study emphasizes that the wellspring of regional economic institution projects stem from the process of capitalist development and the social forces it has unleashed. The thesis aims place the social and class relations that underpin regional projects – rather than the institutions which result from them – at the centre of the analysis of regional integration.

This class and social relational perspective, as outlined in Chapter Two, is largely absent in the literature on economic regionalism, which are dominated by accounts emerging from International Relations (IR) theory. In explaining the forms, instruments, and mechanisms of regional economic institutions, IR analyses place emphasis on understanding the objectives of regional economic integration – and measuring its success or failure. However, they often fail to examine which social forces and political alliances drive governments to pursue such initiatives. Regionalism projects are viewed by institutionalist and liberal perspectives within International Relations as a functional process, which is a product of growing economic interdependence and the consequent attempt by national states to generate solutions to cross-border social and economic challenges (e.g., Mitrany, 1966; Milner, 1992; Baldwin, 1993a; Keohane, 1993). In other words, the analysis of regional cooperation remains focussed on the systemic and institutional factors and incentives which shape state policymaking; but do not systematically explore the domestic politics and social forces and their contestation that condition political support for regional projects.
This institutionalist viewpoint has long shaped the views of leading policymakers whose attitudes to integration are premised on the externalities created by international institutions. On the imperative of regional cooperation, former United Nations (UN) Secretary-General Ban Ki-moon has said that ‘the challenges of climate change, drug-trafficking, terrorism and extremism cannot be tackled by any one country alone. Joint action will also help countries [of Asia] better manage natural resources, expand trade and improve transport’ (Ki-moon, 2012). Hence, as emphasized by World Trade Organization (WTO) former Director-General Pascal Lamy, regional economic integration needs strong political commitment from all governments involved (Lamy, 2012; 2013). The problem with this perspective lies in the static notion of the state, without consideration of the underlying processes of social forces and political coalitions. It assumes an identity of state interests that is based on an implicit account separating the state from social forces. Importantly, it neglects the underlying social relationship – the coalitions and alliances – that underpin the state interests as well as the institutional cooperation (e.g., Poulantzas, 1974; Jessop, 1990b; Glassman, 1999).

For scholars working within a political economy framework, the politics of the capitalist class and its position/s with respect to regional governance are a crucial part of the politics of regionalism. This perspective argues that regional integration is a political endeavour that is embedded in a deeper domestic structural context of coalitions and struggle for resource (e.g., Jayasuriya, 2003a; 2008; Jones, 2015). Domestic capitalist class, in this sense, demonstrates a significant role through their ties with the ruling government, which generates a symbiotic relationship between
political and business interests (Gomez, 2002b; Nesadurai, 2003; Rodan, Hewison, and Robison, 2006a). Yet, even this literature is limited by focusing on the role of ‘national capital’ – that is capital predominantly tied to nationally defined economic circuits – as the principal actor conditioning regionalism projects. While this literature makes substantial advances in the analysis of social foundations of regional projects, the domestic interests are static and confined to the national level. The literature is limited by its methodological nationalism, which assumes that the domestic capitalist class is defined by its national focus (see Hameiri, 2009). This methodological nationalism obscures the role of internationalization process in constituting transnational or regionalized capitalist interests and forces those in turn sharper social forces that shape the social relations which underpin various regional political projects. In this sense, this is a ‘second image reversed’ analysis of the regional integration projects (see Gourevitch, 1978). This thesis extends and builds on this work.

Departing from limitations of the existing accounts on regional integration, this thesis develops a new social relations approach for explaining the structure and the possible trajectories of regional governance. It explicitly argues that regional economic governance has been shaped as part of the broader context of the internationalization of capital, where the profit-making activities operate beyond territorial boundaries. This has crucially provided foundations for the vast expansion of capital across the region; specifically through the regionalization of trade flows, production networks, and capital investment. It is noteworthy that the most internationalized capitalist class has become the motor-force of this process, notably
through its alliance with other socio-political forces, which manifests in the form of economic policies that support the projects of regional integration. This process is carried out in order to facilitate the expansion of this fraction of capital which already has the international scale of investment, production and commodity (i.e., Palloix, 1977a; Bryan, 1987; Glassman, 1999).

The key contention of this study is that regional economic integration projects arise from transformations in the nature, spaces, and forms of capital accumulation. In this case, the changes in the organisation and nature of capitalist development lead to the emergence of distinctive social forces and interests – with a focus on the owners and controllers of internationalized capital – that are linked to the patterns of accumulation that are regional and transnational in form. New patterns of accumulation, in turn, require new forms of regionalization for economic activities (e.g., Harvey, 2003: 33; Chacko and Jayasuriya, 2017: 16). This is evident through a deepening process of economic connections via cross-border flows of commodities, money, people and knowledge. Importantly, such patterns of regionalization are not necessarily imposed from ‘above’ by governments, but originate in political projects and alliances that have their origin within states themselves.

The relationship between state and the capitalist class becomes the linchpin for projects of regional economic integration. Analytically, this thesis situates the state as a site of social and political struggle involving alliances of different fractions of capitalists, state apparatuses, as well as other social and political forces (Poulantzas, 1978a; Jessop, 1990b). Literatures within the political economy approach have
indeed drawn attention to the primacy of politics within state institutions, but what is distinct and extended here is that the state plays a substantial role in facilitating the expansion of capital beyond the state’s frontiers, in particular through regional economic projects. The role played by the state for the pathways of internationalization of capital across the region has its foundations in the nature of prior patterns of state formation, which lead to the emergence of the capitalist class and the state-capital relations that follow. The political coalitions between different social forces not only shape the forms of the internationalization of capital across the region, but also help intensify the rise of internationalized capitalists through the transnationalisation of crony capitalism.

**Methodology and case study selection**

The examination of the social foundations of regional economic governance in this thesis employs a qualitative methodology. This is applied to a detailed case study of economic integration in Southeast Asia, specifically with the recent project of the ASEAN Economic Community (AEC). The case study method is used as it is significant for building a comprehensive theoretical framework that places class and social relations at the centre of the analysis of regional institutions. The development of thick analysis such as the AEC is essential in identifying the complex processes through the class and social relations are embedded in projects of institution building. Such case study analysis is central to the development in refining and building a social and class relational framework to understand regional institutional building (Peter, 1998; Gerring, 2007). The AEC is selected because it is the most advanced regional economic integration initiative in Asia and the most ambitious project
outside Europe that provides a useful case in which socio-political forces that support regional governance can be examined. Moreover, the AEC allows us to test the role of internationalized or transnational capital, in a context outside of the EU or North American Free Trade Agreement (NAFTA) (e.g., Palloix, 1977b; Van Apeldoorn, 2002; Wise, 2009). Case studies of the regional institution building and class relations have – with the exception of studies such as Nesadurai (2003) – focused on European or North American cases. The AEC allows us to analyse the impact of internationalized capital outside of Europe and North America- and therefore contribute to the development of a more robust theoretical framework.

First, the AEC agreement, initiated in the aftermath of the Asian Financial Crisis (AFC) of 1997-8, and officially launched at the end of 2015, marked an important milestone in the trajectory of ASEAN’s economic cooperation. Its aim is to combine Southeast Asian economies into a single market, and to create an integrated production base for transboundary capital movement as well as to integrate the region into the global economy (ASEAN, 2008). As the region becomes Asia’s third largest economy, the AEC has contributed to deepening the regionalization of economic activities among its ten member countries. This is evident from the growing amount of intra-regional trade and investment. In 2014, the intra-ASEAN market has become the largest component of ASEAN trade at 24.1%. Intra-regional foreign direct investment (FDI) became the second highest source of total FDI inflows to ASEAN by 18% at US $24.4 billion, lagging behind only the EU (ASEAN, 2015c; d).
Second, the AEC is an important initiative for the capital expansion process in Southeast Asia through the regionalization of circuits of capital i.e. production, commodities, and investments. It is noteworthy that capitalist development in the region has been characterized by the close relationship between the powerful bourgeoisies and state apparatuses since the 1980s onwards. In countries such as Indonesia, Thailand, Singapore, and Malaysia, this capitalist class benefited from state policies and programs, such as monopolies over natural resources, domestic market protection and infant industry support. As a result, many large business groups came to control the most strategic industries in these economies (e.g., Robison, 1995; 2012; Brown, 2006b; Chang, 2006). In the post-Cold War era, especially after the AFC, transformations in global capitalism have led to the internationalization of capital, where the accumulation activities operate beyond the state’s territorial boundaries. Many Southeast Asian capitalists during this period continued to merge into international fractions of capital and express their strong preferences of more liberal economic policies at the regional level (Tsui-Auch, 2006). Therefore, it is important to explain the transformation of the capitalist class as a social force which influenced the trajectories of ASEAN economic integration.

Examining the changing nature of capitalist development in ASEAN member states will help expose the social forces and political coalitions driving the regional economic project. In this sense, this thesis applies a single case study (within case study) which is a method of a ‘purposive’ selection based on the notable and necessary case to confirming the theoretical proposition developed in this study (Gerring, 2007; Eckstein, 2009; Ulriksen and Dadalauri, 2016). The purpose of this
method is to understand a broader phenomenon or larger class of cases through an intensive study. This is because a small number of cases, or a single case observed, often provides a deeper insight than through a large sample of heterogeneous units. Importantly, the method deals with a ‘process tracing’ which can reveal the details of internationalized capitalist expansion such as the forms of corporate mergers and acquisitions; the specific political roles and alliances; and the policy outcomes supported the regional economic integration. It also allows the study to look at evolution of capitalist transformation over time. All of these can only be traced deeply though a small case study work (Gerring, 2011: 1135). Such a focused analysis of a case study allows us to identify and analyse the processes through with class relations have shaped regional institutional building projects. It is important to note that the single case study applied in this thesis is also supported by a discussion of other selected cases from ASEAN countries. This is to suggest that the single case study is part of the broader context of what happened across the region.

Indonesia is selected for the case study within ASEAN because of its relative weight and political importance within the AEC project. First, within Southeast Asia, Indonesia is the largest economy and represents almost 40 percent of the region’s economic output; therefore it is a crucial member of the AEC project. It is noteworthy that Indonesia’s foreign economic policy towards ASEAN integration has become increasingly active in recent years. Indonesia reluctantly adopted the agreement when the ASEAN Free Trade Area (AFTA) was initiated in the 1990s. Nevertheless, the country has showed its full support for the new project of the AEC as it was seen as the way for helping big business to recover from the AFC. The AEC
initiative has started to contribute to the Indonesia economy, especially with regards to the growing amount of FDI flows as well as the intra-ASEAN trade. In 2015, for instance, FDI inflows to Indonesia rose by 20%, which is the highest growth among other ASEAN countries (UNCTAD, 2015: 41).

Second, and more importantly, Indonesia’s foreign economic policy, which supports regional economic integration, has allowed for the transformation of the Indonesian capitalist class following the AFC. The capitalist class was able to not only survive the crisis but also expand their businesses operations across the region. Top conglomerates such as Salim Group, Rajawali Group, Sinar Mas Group, and Lippo Group, begun to internationalize through acquisitions and joint ventures, as well as link into production networks in the region. As such, the Indonesian context provides a crucial case study through which this thesis can examine the influence of internationalised capitalist class interest in shaping the political project of the AEC. At the same, it is also able to analyse the contentions relating to this project within the state.

This transformation is in line with the reorganization of power of the capitalists in Indonesia, which Robison and Hadiz (2004) term an oligarchic alliances. Despite the collapse of the Suharto regime in 1998, such power coalitions continue to be the dominant feature of Indonesia’s political economy through the new electoral coalitions involving business tycoons, political elites, as well as other social forces (i.e., Robison and Hadiz, 2004; Chua, 2008; Fukuoka, 2012; Winters, 2013). However, this study argues that it is important to move beyond the methodological
nationalism of these accounts of the oligarch alliances in Indonesia, and locate their role within changing structures of global and regional capitalist transformation. Hence, the Indonesian case, especially with the rise of many Indonesian conglomerates, provides strong theoretical confirmation, in Gerring (2011) terms, to examining the crucial role of social forces and political coalitions in shaping the preferences for economic integration project.

In explaining the expansion of Indonesian capitalist class and its relations to regional economic governance, the Salim Group is selected as case study for close analysis of this study. Salim is selected not merely because it is one of the largest and most prominent Indonesian conglomerates, but most importantly because it provides an example of the transformation from ‘national capital’ into a more internationalized capital. In close to two decades, this has been possible through state political and economic restructuring and the promotion of the regional economic project. This case study further confirms how market oriented economic policies as they emerge through regional governance projects are embedded within the broader context of the changes in the social forces and coalitions involving capitalist classes that seek to broaden their scale of accumulation.

**Data collection**

The data of this study draws upon primary and secondary research materials. The secondary research data includes a wide array of academic sources. The primary research material was obtained from in-depth interviews, corporate’s annual reports, government and organizational statements and media resources. Interviews are used
with the aim of confirming and understanding the view and policy direction of the interviewees (Fontana and Frey, 2008). Especially, it aims to examine the political coalitions involving government elites and the capitalist class in facilitating the international expansion of capital across the region through the form of regional economic integration projects.

The interviews were conducted in Jakarta during a fieldtrip between February and June 2015 with a total of 50 persons in 49 semi-structured interview sessions comprised of business elites, Indonesian politicians and bureaucrats, ASEAN Secretariat officials, academics, non-governmental organization (NGO) activists, and journalists (see Appendix). These interviewees were selected based on purposive sampling which focuses on particular characteristics of interviewees that are the interest of the study (Corbin and Strauss, 2008). The involvement of political elites and top-level bureaucrats as well as conglomerates (or board members of their companies), was in order to examine the transformation of the capitalist class and its linkages to the regional governance of economic activities and the international expansion of capital.

Nevertheless, purposive sampling is prone to researcher bias. Being aware of such risks, the main criteria for the selection of the interviewees in this study was to ensure the political elites and top-level bureaucrats were engaged in decision-making positions within Indonesian foreign economic policy towards ASEAN. The conglomerates circle interviewees had to be part of the top-level business groups and have been engaged with influential business associations. To support and substantiate
these elite interviews, a triangulation of data was conducted through cross verification from other sources. This data was gathered from corporate’s annual reports available online. Interviews with relevant intellectuals, NGO activists, and journalists were also useful in providing additional sources and insights. Importantly, multiple sources of information help cross-referring and overcome the possible subjectivity and bias resulting from the elite interviews.

**Thesis structure**

Following this introductory chapter, Chapter Two critically evaluates the existing literature on regional economic integration, specifically on the liberal, realist, and political economy approaches. The limitations and weaknesses of these existing accounts leads to an explanation of the theoretical premise developed in Chapter Three. Chapter Three details how the wellspring of regional economic governance stems from the process of capitalist development and transnational capital. The conceptual framework, as explained in the third chapter, provides an understanding for the social and class relations of regional economic governance. Here, regional economic integration is conceptualized as part of the broader process of the internationalization of capital where the forms, instruments, and mechanisms of such regional project have crucially provided foundations for the extensive expansion of capital beyond territorial boundaries. This Chapter shows that the regionalization of capital accumulation must be explained with reference to the changes in the social relations of capitalist classes and the transformations of capital accumulation taking place within the state. Within this process, the rise of internationalized fractions of
capitalists and their promotion of projects of regional economic governance have become crucial.

Chapter Four argues that the international expansion of capital is intrinsically linked to the process of state restructuring, via a transformation in state-capital relations and contestation between different fractions of capitalist classes. Through an analysis of some ASEAN member countries i.e. Singapore, Malaysia, and Thailand, it is argued that the state is important not only in conjunction to the economic processes of the accumulation, but also to the broad array of social and political activities, especially to the emergence and reorganization of the capitalist class. Since the 1980s onwards, there has been an important shift in Southeast Asia: from the consolidation of domestic capitalist classes through statist politics, to the emergence of new internationally oriented fractions of capital via state-capital relations. In turn, this has shaped the foreign economic policies that promote the internationalization of capital through regional governance of economic activities. Nevertheless, the state’s promotion towards internationalization of capital reveals the contestation between business players.

Chapter Five examines the case of ASEAN regional economic integration, specifically the political economy of the new AEC project, which initiated soon after the Asian crisis. The chapter focuses on the way the AEC facilitated the international expansion of capital across the region; in particular through strengthen the single market and production networks, the flow of commodity and financial capital, as well as boosting the region’s integration with Asian neighbours and the global
economy. This regional capital accumulation, in turn, has promoted the regional economic integration initiative. The analysis demonstrates that big businesses in Southeast Asia have acted as the principal driver of the regionalization of capital. This process represents a new set of social relations forming the interlocking of capitalist classes, reflected in the patterns of cross-border investment flows, intra-ASEAN trade, joint ventures and acquisitions.

Chapter Six focuses on the political economy of Indonesian capitalists, especially the way capital expanses into a wider scale underpinned regional economic projects and how it was conditioned through social and political alliances within the state. Following the 1997 AFC, numerous Indonesian conglomerates have continued to reorganize and expressed their new regional and global ambition. It explores how a shift in the dominant fraction of capital has taken place, from business groups only interested in protecting domestic markets, to those with an interest in the unrestricted regional economy, particularly through the initiative of ASEAN economic integration. This internationalization process has been achieved through the new forms of political coalitions within the state-capital relationship, specifically with the advent of new electoral democracy, which led to the ascendance of business in the political arena.

Chapter Seven examines the internationalization of the Salim Group – which has principally focussed on Southeast Asia – and the way it structured the political support for regional economic integration project. Years after the economic and political turmoil that hit Indonesia, there have been changes in the Group’s nature of
capital accumulation, from its protective shell under Suharto to its increasingly internationalized character. Salim successfully reorganized its businesses and immensely expanded its capital beyond Indonesia, namely throughout the Asia Pacific region where the ASEAN market served as the basis of its operations. This Chapter points out that Salim’s internationalization of capital was carried out under a certain kind of socio-political and economic structure at both regional and domestic levels. First, the crucial context for such activity is the way Salim’s expansion of capital in Southeast Asian economies has enhanced its interests towards market liberalization in the region. In this case, the way circuits of capital i.e. production, commodity, and investment, were governed through regional initiative of economic integration has become crucial to facilitate the Group’s accumulation across the region. Second, the process of state restructuring, which allowed the internationalized capitalists to play a key role within the state institutions, helped to underpin Salim’s political support towards the regional integration project.

Chapter Eight is a conclusion that draws together the thesis’ findings to argue that the trajectories of regional economic governance is largely shaped by the process of capitalist development and the social forces it has unleashed. The chapter highlights the implications of this study to the broader literature on economic regionalism as well as to that of Southeast Asia, especially in providing a new way of understanding the regional economic integration. It accentuates the social and class relations through to the transformations in the nature, spaces, and forms of capital accumulation, which leads to the emergence of internationally oriented fractions of capital underpinning regional economic integration. Furthermore, it asserts that the
state institution – through complex forms of alliances – has become important in facilitating the international expansion of capital through regulatory economics at regional level.
2 Frameworks to Economic Regionalism and Their Limitations: Towards a New Approach

Introduction

Since the end of the Cold War, the development of economic regionalism in many parts of the globe has been a matter of scholarly debate concerning the forms, instruments and mechanisms of regional governance. The existing literature has developed around three different emphases, namely on the functional objectives of regional economic integration, the nation-state’s strategy in order to survive, and the political and economic sources of regional institution building. These emphases emerged from the international relations theory and have been associated with three different groups of literature: liberal framework of regionalism (functionalism and neoliberal institutionalism); the realist approach; and political economy approach respectively.

Functionalism and neoliberal institutionalism, despite the differences, both deal with the similar question of the extent to which economic integration has been promoted as a result of the growing economic interdependence. They also deal with how such regional projects are initiated in order to generate solutions for the common cross-border social and economic challenges faced by the national states (e.g., Balassa, 1961; Mitrany, 1966; Hurrell, 1995b). While the realist approach revolves around the
question of how regional integration provides ways for the state’s strategy to survive within the anarchical international political system (Walt, 1987; Mearsheimer, 1990).

A limitation of the liberal and realist accounts lie in their static concept of the state, viewed as an independent instrument and detached from the underlying processes of social and political forces. This has led to the frailty of these groups of literature in unfolding the political nature of the state and why the regional economic institution was initiated in the first place. Although, the concept of the state within neoliberal functionalism is attributed a particular set of interests, the literature is still unable to explain the nature of these interests and the distribution of profits that flow from pursuing these state interests. It fails to examine who drive these interests within the national state and for whose benefits. In other words, the state is a mask that cannot be opened by both realist and liberal literature.

In contrast, the prominent explanation from the international political economy literature is focused on the domestic sources of regional economic integration. The analyses are constructed around whether such regional projects are shaped in response to the state’s position in the global economic competition (e.g., Hew and Sen, 2004; Chia, 2010; Severino, 2011). The analyses also focus on the primacy of domestic politics which is embedded in a deeper structural context that includes domestic coalitions, growth strategies, and a set of permissive international conditions (e.g., Jayasuriya, 2003b; 2008; Nesadurai, 2003; Jones, 2015).
International political economy literature is limited as domestic interests are seen to be static and confined to the national level. The social forces that drive the regional economic institution are defined in the form of symbiotic relationship between ‘national capital’ and domestic government elites. This literature missed the importance of the broader structural context in which the capitalist transformation takes place within the process of transnationalization of capital. Hence, there is an implicitly methodological nationalism bias to this literature, which obscures the role of the internationalization process in constituting transnational or regionalized capitalist interests that in turn shape the social forces, which underpin various regional political projects (see Hameiri, 2009). This thesis extends and builds on this work.

This study finds that the development of regional economic integration is very much related to the transformation in the nature, forms, and spaces of capital accumulation. These changes lead to the emergence of distinctive social forces and interests, which are linked to the patterns of accumulation that are regional and transnational in form. New patterns of accumulation, in turn, requires new forms of regionalization for economic activities that is evident through a deepening process of economic connections via cross-border flows of commodities, money, people and knowledge. Such patterns of a regionalization project, crucially, are not necessarily imposed from ‘above’ by governments, but originate in political projects and alliances that have their origin within states themselves. The state, in this sense, is understood as a site of social and political struggle between different classes and socio-political forces
and yet has important role within the process of capital expansion through the regionalization of economic governance.

This chapter contains three main sections. The first section explains the political evolution of regional governance. The second part of the chapter explores the debates within the existing literature on economic regionalism and identifies their limitations. The third section takes an initial step towards developing a new approach for explaining regional economic integration. The section elaborates on the theorization of capital accumulation and expansion advanced in this study and its relevance for the analytical approach taken in the next chapter.

**The politics of the evolution of regional governance**

Regionalism is a contested term. Hettne (2005: 545), for example, describes regionalism as ‘a tendency and a political commitment to organize the world in terms of regions’. In other words, regionalism can be viewed as a process of collaboration and engagements among national states and other actors in specific geographic regions (Payne and Gamble, 1996: 2; Griffiths and O’Callaghan, 2002: 273; Beeson, 2007: 5). Furthermore, Beeson and Stubbs (2012: 1) see regionalism as ‘a conscious, coherent and top-down policy of states, as well as sub-state and non-state actors’. As a project, regionalism leads to the development of certain formal regional institutions and strategies (Hettne and Söderbaum, 2000: 5). Examples of regional institutions include: the deepening of the European Union (EU); the increasing interdependence among three North American countries (United States, Canada, and Mexico) through the North American Free Trade Agreement (NAFTA); the African Union; and the
establishment of the Association of Southeast Asian Nations (ASEAN) and its transformation towards a more economy-oriented organization since the end of 1980s.

Regionalism has been prominently developed as a subject within the study of social sciences specialization such as European studies, comparative politics, international relations (IR), and international political economy (IPE). This is in conjunction to the significance of regionalism as a global phenomenon that according to Hettne (2005) ‘might actually shape the world order’. More importantly, this growing concern was due to the major transformation in the context, forms, and characteristics of such regional institution (Beeson and Stubbs, 2012). In many parts of the world, ranging from Europe, North America, East Asia, to Africa, regional institution projects continue to dynamically grow and develop—becoming even more complex and unprecedented in terms of form, structure, and characteristic.

Since its first inception during the 1950s and 1960s in Western Europe, regionalism has massively expanded and become a new kind of world order. Many regional institutions were established in mega-regional form, in either political or mercantile clusters within the larger international system. Political and military motives prompted the creation of regional alliances such as the North Atlantic Treaty Organization (NATO) and the Organization of African Union (OAU). Since the 1990s onwards, however, numerous sub-regional or micro-regional blocs have been initiated. Examples include: the Visegrad Group, established in 1991, consisting of four Central European states (Czech Republic, Hungary, Poland and Slovakia); in the
same year, Mercosur was established and covered five countries of South America (Argentina, Brazil, Paraguay, Uruguay and Venezuela); the Baltic Council of Ministers, an intergovernmental co-operation among Estonia, Latvia and Lithuania, was formed in 1994; and Shanghai Group was founded in 1996 between China, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan (Väyrynen, 2003: 26).

Another transformation of regionalism occurred in relation to the varieties of its focus, influenced by the complexities of new global challenges and crises. Regionalism was established in order to deal with political crises and competition, and then it was used to embrace different issues and agendas such as security, social culture, and economy. The recent headway of regionalism in different places of the world shows how regions try to incorporate the idea of ‘community’, creating a more cohesive regional institutional project. The European Community and ASEAN Community – despite differences in scale and form – are the prominent examples (see Farrell, Hettne, and Van Langenhove, 2005; Acharya, 2013; Baldwin and Low, 2008). Because of such changes, studies and approaches to explain the vibrant progress of regionalism projects are inevitably needed and debated.

Some of the theoretical literature has distinguished between the definition of regionalism and the concept of regionalization (Breslin and Higgott, 2000; Hettne, 2005; Beeson, 2007). Regionalization refers to the increasing process of informal integration among societies within the region which involves social and economic interaction. This process is complex and engages multiple actors such as individuals and groups (Hurrell, 1995b: 39; Hettne, 2005: 545). While regionalism can be
understood as ‘a conscious, coherent and top-down policy of states’, regionalization is considered a spontaneous, unself-conscious, complex, bottom-up and often haphazard process (Payne and Gamble, 1996: 2; Hettne, 2005; Beeson, 2007: 5; Beeson and Stubbs, 2012: 1). Regionalism and regionalization have their own definitions and these two terms are not mutually exclusive concepts. According to Wunderlich (2007: 3), the two concepts tend to complement each other. The formal process of regionalism, for example, provides the infrastructure and can drive the process of societal cohesion, while informal interaction among multiple actors might become sort of a push-element for formal state-oriented regional governance.

This thesis contests this distinction between the formal institution of regionalism rather than the informal process of regionalization. This is because formal regional institutions are not limited to only dealing with institutional arrangements through state policies. They also have very much to do with the complexity of social relations embodied within the state politics as well as the nature of capitalist transformation. That is why the concept of regionalism is not something ‘natural’, it is a political project and in which it is being constructed and constantly reconstructed (see Hurrell, 1995b; Payne and Gamble, 1996; Breslin and Higgott, 2000; Jayasuriya, 2004). The problem with this institutional focus of regionalism lies in its limitation in defining the differences in regional governance or patterns of regionalization in relation to the nature of capitalist transformation. Here regionalization reflects the internationalization of capital accumulation and the promotion of formal regional projects.
Regionalism began to develop importantly at the end of the Second World War. The legitimacy of regional organizations was first acknowledged by the United Nations (UN) in its charter (Fawcett, 2004). Since then, regional initiatives have sprung up in across the globe notably after the end of the Cold War. At this stage, the deepening of European Community (EC), especially during the Cold War, must be noted as a substantial model for the growth of regionalism in many different places, in spite of its differences with other regions in terms of historical background and political structure (Stirk, 1996). In Africa, for instance, the OAU was founded in 1963 followed by the establishment of ASEAN in the South eastern part of Asia in 1967, and then the Andrean Group in 1969, a trade organization in Latin America.

While at the same time, research progressed to explain the rapid development of this regionalism. In a broader context, literature divides the evolution of regional organizations into two waves. The first is termed ‘old regionalism,’ which began at the end of World War II and reached its peak process in 1970s. The second wave marks the advancement of regionalism since the end of the Cold War, and has given rise to the so-called ‘new regionalism’.

The early wave of regionalism had promoted regional cooperation over a range of issues like security, politics, and economy and yet was very much dominated by the European experience (Heywood, 2011: 480). Therefore, the comparative studies of other regions were limited. Issues like economic liberalization and the dynamic of domestic politics were overlooked (Breslin and Higgott, 2000). As Wunderlich (2007) explained, several factors converged to make Europe a model of regional
cooperation. These include the exhaustion of most part of Europe from the war, the dominant role of the US in rebuilding Western Europe, Cold War politics, regional security interdependences, and a general questioning of the role of sovereignty and the state within Europe. Some regional organizations actually emerged during this period from Africa, North America, and Latin America, though they were far less successful. Perhaps ASEAN in the South-eastern part of the globe remains the most notable exception.

The so-called ‘new regionalism’ is the term given to the second wave of regionalism that marked most of regional cooperation across the world in the last three decades (Milner and Mansfield, 1997; Jayasuriya, 2004; Fawcett, 1995; 2005; Hettne, 2005). This new regional governance distinguished by a broader focus of cooperation engages not only state actors. However, it is very much associated with the means of integration of regional economies within the global market mainly through trade liberalization, such as reduction of trade barriers, free flow of capital, as well as integration of large economic production (Mansfield and Milner, 1999). This new wave then recognises the growth of neoliberal economic policies adopted since the end of the Cold War. In other words, the new regionalism saw an increased emphasis on economic cooperation and decreased attention to security and diplomacy. In North America, this new regionalism was driven by NAFTA, while in the Asia-Pacific region it was promoted by the Asia-Pacific Economic Cooperation (APEC).¹ In Southeast Asia, the economic integration was facilitated by the ASEAN Free

¹ APEC is also an example of ‘open regionalism’ that encourages further economic integration and minimizes the impact of national borders and controls. This implies a desire for nondiscriminatory trade practices and a willingness to accept new members, differing sharply from the more closed variety of regionalism that marks Europe and the Americas (see Haggard, 1997; Katzenstein, 1997).
Trade Area (AFTA) and then enhanced through the recent ASEAN Economic Community (AEC).

The massive growth of new regionalism with its economic-orientation during 1990s has raised many questions. Fawcett (1995: 17-30) provides a preliminary explanation of factors that promote such development. She notes that the end of the Cold War has changed the attitudes of states towards international cooperation, especially since the demise of the Soviet Union power. The collapse of the bipolar system also brought greater independence to many nations, most notably in developing countries, providing liberty to local power to conduct the country’s interests. As pointed out by Wyatt-Walter (1995), the changing balance of world’s economic posture, such as through the deepening of EC, impacts the emersion of similar programs like Mercosur, Arab Maghreb Union, the Andean Pact, and ASEAN.

As regionalism has developed in most parts of the globe with diverse features and characteristics, regional initiatives can be divided into the three types of issues that are addressed: political regionalism, security regionalism, and economic regionalism. Nevertheless, these are not strict categories and regional initiatives can be fluid moving between or involved in one or more of the issues. Depending on the circumstances, the traits of most of regional bodies are complex and evolving, and involve themselves in strategic, political and economic matters at the same time (Heywood, 2011: 482-483).
Political and security regionalism significantly developed during the Cold War in order to sustain political alliances and gain powerful voices in international affairs. This kind of regional alliance has emerged on almost every continent. For example, the Council of Europe was created in 1949 with the aim to uphold human rights, democracy, and rule of law among European countries. The Arab League formed in 1945 and was very concerned about issues of independence and sovereignty as well as safeguarding the interests of Arab countries. While the OAU was founded in 1963 to promote self-government, respect for territorial boundaries, and to promote social development throughout the African continent. The origins of ASEAN in Southeast Asian region in 1967 aimed to provide mutual defence against communism. It is essential to note, the Cold War and geopolitics led to particular forms of regional governance which in developing countries reflected the dominance of particular developmental state strategies and associated capitalist interests.

Regionalism with an economic emphasis and character began in the 1950s and 1960s. For example, the European Coal and Steel Community (ECSC) and the European Economic Community (EEC) were formally established in 1951 and 1957 respectively. Yet the end of the Cold War has shown a new development in economic integration in many parts of the world, especially between states within the same geographical region. Cooperation among states in the same geographical region aimed to create greater economic opportunities and to form regional trade blocs. Economic regionalism is the primary form of regional integration since the advent of this so-called ‘new regionalism’ in the early 1990s. Yet, there remains significant variation in the degrees of institutionalization. The EU, for example, has developed
as a full economic union while the Commonwealth of Independent States (CIS) and Mercosur are more of customs unions. NAFTA, AFTA and Gulf Cooperation Council (GCC) were designed as free trade area, while APEC and the rest have no formal trade agreements.

This thesis is more concerned with the economic regional integration projects and the social foundation of their development. Within the study of regionalism, theoretical explanations have tried to address the growing initiative of economic regionalism and its performance. As we shall see in the following section, some believe that the emergence of regional economic institutions is in order to bring about common solutions for collective challenges within the processes of economic development, growth, and prosperity. Nonetheless, the complexity of this economic integration in its current form makes the explanation seem incomplete. Therefore, various approaches emerged in an attempt to explain the fundamental reasons behind the development in the nature, characteristic, and structure of such economic regionalism. The economic regionalism and its contrasting approaches of theorization will be elucidated in the following section along with the perspectives debate.

**Competing theorization for economic regionalism**

As regional economic cooperation has continued to proliferate across continents, numerous analyses with different approaches have emerged trying to decipher some of the fundamental questions: what are the objectives of such regional initiatives; what sort of factors influence the nature of regional economic cooperation; and why
regional economic institution adopt particular forms? The dominant IR frameworks have emphasized the political basis in order to explain this regional cooperation development. However – as demonstrated in this section – the existing frameworks have limitations, especially in identifying the social forces and political coalitions driving the regional integration projects and how these are linked to the transformation in the nature, scale, and forms of capitalist expansion.

**Liberal approach**

The liberal approach to economic regionalism is drawn from two frameworks of literature: (i) functionalism and (ii) neoliberal institutionalism.

First, the functionalism approach is associated with the foundational ideas of David Mitrany (1966). The main argument of this approach is that the nation-states, as presently constituted, are incapable of solving increasingly complex and cross-border economic and social problems. Accordingly, functionalism attempts to explore how regional institutions are developed in order to deal with these common challenges. These regional organizations are designed to pursue functional cooperation in specific technical and non-political sectors (Cai, 2010: 6). Functionalism was also an approach to peace-building rather than a theory. In contrast to federalism, which is more sceptical of the nation state and views regional organization as a political programme, functionalism asks the burning question of which political level various human needs could be best met—claiming the best way was to go beyond the nation state either ‘regional’ or ‘global’. As every issue has an ‘appropriate scale’ at which should be governed, those which are best managed at regional level should be
governed by regional institutions. The same applies to global issues (Söderbaum, 2012: 11).

Neofunctionalism modified functionalism in several important respects and became the most influential approach during the early debate of regionalism, specifically because of its central role in the development of theories on European integration. It expands on the literatures of federalism and functionalism, which have been termed as part of the ‘supranationalist’ perspective (Hurrell, 1995b; Söderbaum, 2012). The primary modification is that neofunctionalism embraces federalist political objective (which is to create a strong regional integration based on voluntarily participation) while maintaining a functionalist incremental strategy. This modification makes neofunctionalism essentially a theory of supranational state-building and not just an approach to the management of international interdependence through a working peace system (Pentland, 1990).

The argument of the neofunctionalist approach can be traced back to the classical texts of Ernst B. Hass (1958) and Leon N. Linberg (1963). They view supranational institutions (regionalism) as essential to solving common problems. The key concept to the theory is ‘spillover’. i.e. the creation and deepening of cooperation in one economic sector drives further integration within and beyond that sector (Rosamond, 2000: 60). A similar argument is expressed by Bela Balassa (1961), suggesting that the free trade agreements would lead to the establishment of a common market, economic community, and even political integration. This logic comes from the analysis that interdependence among states will be more complex and problematic.
Therefore, governments will be forced to expand their cooperation into further areas. This intuitionalist approach argues that integration among nations would become self-sustaining. Furthermore, actors such as pressure groups, business sectors, and political elites, would help deepen the integration through pressing the government for further integration in order to capture greater economic benefits.

The European integration experience has had a strong influence in the work of neofunctionalists. Although they are aware of their own Eurocentrism, they try to examine the ‘background condition’ and ‘spillover’ effects of Europe that can be applied to analysing other cases of regionalism (Haas, 1961; Hettne, 2003). The European Community was often referred to and advocated as the model for regional integration for the rest of the world (Söderbaum, 2012). Yet here lies one of the shortcomings of this approach, the focus was mainly limited to the European context. The logic of the ‘spillover effect’ does not explain regionalism in East Asia. In this dynamic region, regardless of its massive economic interdependence, the formal regional institutionalization has not been shaped very well. Some political, security, and territorial issues amount to unsettled agreements among countries like Japan, China and Korea, as well as some obstacles in territorial and security issues among Southeast Asian countries (Searight, 2009; Katzenstein, 2005; Pempel, 2005; Katzenstein, 1997). In addition, as has been pointed out by Choi (2012) and Wessels (1997), the European case of regionalism itself has not been institutionalized smoothly following the logic of neofunctionalism.
Neofunctionalism has significantly contributed to the study of European regionalism. Nevertheless, it lacks an explanation regarding the fundamental question of regional integration development in the first place. This approach, for instance, focuses on the ongoing role of economic institutions and how they have been influenced by the ‘demand for international regimes’ logic which based on the rational choice of the state (Keohane, 1982). However, the approach has less to say about the social and political sources that drive the economic integration projects. Moreover, the neofunctionalist assumption that as the position of regional institution increases, the role of the state declines, seems contradicted by many cases outside the European Community, such as Mercosur, NAFTA, and AFTA, where the state’s role is still very significant (Hurrell, 1995b: 59-60). In other words, neofunctionalism emphasizes the objectives of economic integration rather than explaining why economic integration takes place, especially with regards to the involvement of multiple non-state actors such as business groups. Although this approach also claims that businesses take part in deepening the integration in order to solve the common matters, it pays less attention to the interests that accompany them, particularly how those interests have strong roots within domestic politics (Breslin and Higgott, 2000: 335).

Second, neoliberal institutionalism (sometimes called institutional neoliberalism), is more optimistic in defining regional economic and political cooperation. The argument of this scholarship is embraced by Robert O. Keohane (1989), Helen Milner (1992), David A. Baldwin (1993a), and Volker Rittberger (1993). Neoliberal institutionalism argues that the growing levels of interdependence among nations
will encourage more cooperative institutions at international level because they generate a solution to collective action problems. As Robert Keohane put it:

Institutionalists do not elevate international regimes to mythical positions of authority over states: on the contrary, such regimes are established by states to achieve their purpose. Facing dilemmas of coordination and collaboration under conditions of interdependence, governments demand international institutions to enable them achieve their interests through limited collective action (Keohane, 1993: 274).

To a certain extent, this notion has similarities to the arguments of neofunctionalism. Nevertheless, the difference is that the state is looked upon here as a valuable and rational actor that pursues its own interest even while regionalism occurs. Regional institutions are needed as they provide benefits in line with state interests. Such benefits are achieved through spaces provided for productive exchanges, specifically through sharing of information, promotion of transparency and monitoring, reduction of transaction costs, as well as the possibility of developing cooperation in certain areas. In other words, effective regional institutions will strengthen the role of the state rather than weaken its authority (Hurrell, 1995b: 62).

While analysing the emergence of regional security cooperation, such as the Commission on Security and Cooperation in Europe (CSCE) among European countries, or ASEAN Regional Forum in Southeast Asia, institutionalists argue that these regional institutions have been initiated and will sustain because they provide benefits to their member states. In terms of economic regionalism, the increasing interstate interdependence among countries in many economic sectors, especially
within the context of economic globalization, will certainly drive the necessity for policy cooperation and coordination. Regional institutions can inevitably fill this role. According to Keohane (1984), the specific case of EU reflects this situation. Nonetheless, some analysts were not sure whether economic regionalism is the solution to common distress or instead becomes a collective action problem itself. This is in relation to the way regional cooperation which requires serious efforts by states to establish formal regional economic institution along with its complex negotiations and challenges (Blyth, 2002; Choi, 2012).

Moreover, the neoliberal institutionalism perspective clarifies very little about how the state’s interests are formed and to be identified, or how they can change over time (Jayasuriya, 2004: 2-3). Economic integration in many regions is sometimes followed by the tendency of protectionism, indicating the persistence of distrust among countries involved. To explain such a situation, it is important to define what sort of interests drive the policies of member governments and how those are related to the formation of regional institutions. The premise of neoliberal institutionalism ignores the elements that shape regional institutions or define state preferences. Importantly, it fails to analyse the social foundations of regional institutions, ignoring different social forces and political alliances, which involve the most internationalized capitalist class and political elites.

**Realist approach**

The realist approach, both classical realism and its more recent neorealism, has different interpretations on the rationalities behind the emergence of economic
regionalism. Both neorealism and classical realism argue that international politics is anarchical and conflictual. Therefore, issues of power and survival are central variables in understanding the process of regional integration (Hurrell, 1995a; Mansfield and Milner, 1997). As a legacy of the Cold War, this framework beholds that the way states survive within the power competition of global politics is essential. The state, through foreign policy, always tries to preserve their ultimate national interest which is survival. Nevertheless, the appearance of peace and cooperation within the conflictual world which was widely seen in the 1950s has become an anomaly which realism is incapable of explaining. In this regards, neorealism explains that regional cooperation (with no difference between political, strategic, and economic regionalism) is defined as a strategy whereby the states situate and maintain their political existence in the international arena. The neorealist approach, in other words, defines economic integration as an instrument to serve the states’ goals as well as to ensure the region’s political position remains important among international power. Hence, nation-states are considered as the primary actors in international system.

Kenneth Waltz (1979) offers a prominent statement on the neorealist construction. The neorealist approach defines both political regionalism and economic regionalisms as responses to external challenges faced by states. According to Walt (1987), the development of regional alignments has similarity with the politics of alliance formation. This concept maintains that cooperation among nations in a particular region has very much to do with the presence of an actual or potential hegemonic power. That is why, the structure of the Cold War period and the tensions
between two superpowers, the US and the Soviet Union, are thought to have impacted greatly on the evolution of regionalism in almost all regions. Accordingly, this approach upholds that the tendency towards regional groupings in different parts of the world is understood as the means to: improve the balance of power ví-s-à-ví-s the dominant or potentially threatening states in the region; or to adjust to the existing superpower (Hurrell, 1995b: 48-50; Väyrynen, 2003).

In analysing European integration, neorealists emphasize the importance of US hegemony. As explained by John Mearsheimer (1990), the integration of Western Europe was encouraged to some degree by US foreign policy. The project of the Marshall Aid from the US government helped the formation of the Organization of European Economic Co-operation (OEEC) as well as the European Payments Union (EPU). In addition, the growing coalition and revival of regional integration in developing countries can follow the logic of the neorealist interpretation of coalitions. Examples include: the formation of ASEAN in Southeast Asian region that was seen as part of the Vietnam conflict; the Gulf Cooperation Council (GCC) in the Middle East forming against Iran; the Southern African Development Community (SADC) in southern part of Africa ví-s-à-ví-s South Africa; as well as the emergence of the Contadora Group, the Rio Group and Mercosur in Latin America as a way to challenge the US power. Although much has changed as a result of the end of the Cold War, it is important to note that neorealist would expect the same pattern to continue. Hence, the new development of economic regionalism such as NAFTA, APEC, and AEC should be determined by this geopolitical pattern.
The neorealist construction emphasizes political survival in the international arena as the main objective of economic integration, which differs from the neoliberal account on the nature of global interdependence. However, neorealists do not properly explore how regional economic institutions are formed through complex negotiations involving economic and political interests at the domestic level. In practice, regionalism in the post-Cold War era is much more multidimensional and overlapping. This is due to contradictions that resulted from the states engagements with numerous multilateral agreements (i.e., Breslin and Higgott, 2000; Beeson, 2005; 2008; 2009b; Rozman, 2012) and overlapping bilateral agreements with markedly different forms and purposes (Wilson, 2012; 2015). In addition, such complexity of regional cooperation also has its roots within the nature of capitalist interests that are involved. In the developing world context, it is the national capitalist interests that become the dominant shaper in this process (e.g., Nesadurai, 2003; Jayasuriya, 2004).

The neorealist emphasis on national interest, which comes from the idea that the state is a ‘black box’ where policies are incorporated purely within the institution and engaged with only the stakeholders, might explain the motives behind regionalism, but not the specific and differentiated forms it takes in various parts of the world (Jayasuriya, 2004: 3). From this point of view, the dynamics of domestic political economy are neglected, as the roles and preferences of various economic and political actors play a part in every state institution. For instance, Linblom (1977) argues the concept of ‘national interest’ is likely to serve the interests of business groups because their structural position gives them a ‘veto’ over government policy,
especially in the economic affairs. Therefore, there are problems in relying on the neorealist approach to provide an explanation of economic regionalism.

**Political economy approach**

The literature within political economy places a larger emphasis on the political and economic sources of the regional institution building. The political economy approach was developed from studies of regional economic cooperation outside of Europe, such as East Asia. This approach addresses the structural economic and political context. Specifically, the approach examines the interests at domestic level that drives the impulse of the forms, instruments and mechanisms of regional governance. Importantly, this approach has been able to uncover the ‘black box’ of the state, something that is missed from both liberal and realist accounts. The studies that utilize a political economy approach can be distinguished in terms of the method of analysis. The analyses cover (i) the way the state responses to the global economic and political competition, (ii) the concerns with the dynamics of domestic politics, and (iii) the relationship between domestic interest and global growth (globalization).

The first set of political economy perspectives identifies regional cooperation as a response to the imperative to create a competitive region, specifically considering the massive progress of the global economy (Grugel and Hout, 1999: 10; Hveem, 2000: 70-74; Mittelman, 2000: 121). Consequently, the positive flow of FDIs will help ensure such competitiveness. In the case of the Southeast Asian region, this growing initiative for economic cooperation in the region has developed as the way to provide the best environment of investment for both domestic and foreign companies (see
Hew and Sen, 2004; Soesastro, 2005; Chia, 2010). The growing competition challenge arises from other emerging economies also having an influence on the strengthening of regional economic cooperation. The formation of regional economic agreements through AFTA and the current AEC project were believed as a means to strengthen ASEAN’s position vis-à-vis China, India, and the established regionalism in Europe and North America (see Severino, 2011; Payne, 2007; Hew and Soesastro, 2003; Wilson, 2000).

This argument, however, can only provide a partial explanation. While the movement of FDI in the region is important for economic development, the analysis must explain how these investments reflect the relationship between global corporations and domestic capitalists. In addition, the analysis should determine how it reflects the complex political process at the state level. In short, it needs to explain how these external processes are mediated through domestic institutions which are shaped by different yet contested social forces and political alliances. Besides, the deepening of economic regionalism is at times followed by contradictory policy on the domestic and foreign investment. The significant enhancement of investment through the global production networks process, which involves global companies and domestic bourgeoisies, is reflected in the social and political contexts within the national state. Hence, it cannot be simply reduced to functional responses to economic developments within the region. Addressing the importance of global business players without examining intersections with domestic capitalists is not very useful.
This sort of response to the global competition was also explained by Baldwin’s ‘domino theory’. He argues that regional trade agreements are a rational response on the part of business groups in one country to their being disadvantaged by preferential arrangements afforded to their competitors from different countries. Further economic negotiations, in this sense, will address some common grounds and benefits (Baldwin, 1993b; 2006). Baldwin suggests that the proliferation of preferential trade agreement (PTA) will ultimately provide a platform for trade liberalization on a broader geographical scale: PTAs generate their own non-tariff-barriers in the form of incompatible rules of origin that will lead businesses that operate increasingly globalized production networks to demand a multilateralization of regional arrangements (Baldwin, 2006).

This domino theory, however, was doubted by Ravenhill arguing that it fails to explain the economic cooperation that initiated in East Asia, especially in the years after the financial crisis. According to Ravenhill (2010: 200), much of the regional agreement explanation lies not in economics but in governments’ political-strategic considerations. The magnitude of PTAs in the region has been driven by a ‘political domino effect’ rather than the economy. The state’s primary concern, in this sense, is its potential exclusion from a new dimension of regional economic diplomacy. For example, the Korean government expressed increasing alarm in the early 1990s for being isolated, as it was the only World Trade Organization (WTO) member besides Mongolia that had not entered into a PTA (Choi and Lee, 2005: 15). With the economy in disarray in the immediate post-Asian financial crisis period, Korea had experienced difficulties in finding potential partners willing to negotiate with it (see
Park and Koo, 2007). With governments unhappy at the prospect of missing out on new diplomatic opportunities, they clamoured to enter agreements. Nevertheless, this argument still has limitation in explaining the ‘black box’ of the state. The state seems to be viewed as a homogeneous actor with its own political interest. How the state’s diplomacy and decision making processes, which are influenced through the contested interests of different social forces at domestic level were still covered. What is also important is that this argument pays less attention to who drives the policy and whose benefited from the regional trade agreement.

The second analysis within the political economy approach emphasizes domestic politics, particularly the shifts in political elite formations and states economic and foreign policy. Economic cooperation in developing countries such as Southeast Asia is believed to represent the interest of elites. According to Bowles and MacLean (1996), the growing concerns of reform-minded domestic business interests, and the prior adoption of neoliberal economic reforms, particularly on removing any kind of market obstacles, have been the impetus of economic integration in Southeast Asia. Furthermore, Stubbs (2000) argues that the idea of economic regionalism is increasing in strength because of the changing views within governments and bureaucracies. This is due to the presence of liberal technocrats, who favour trade liberalization and who were considered more influential than the nationalists. Consequently, the economic policies in some ASEAN member countries such as Indonesia, Thailand, and the Philippines, have changed significantly since the late 1980s: from an inward-looking industrial protectionism in the 1970s to an increasingly outward-oriented economy in the late 1980s (Intal Jr., 1997). According
to Intal, the structural pressure emanating from institutions like WTO/GATT have also influenced domestic elites’ decisions, especially in the adjustment of some trade regulations.

Nonetheless, this explanation seems weak as it does not explicitly explain why and how the changes of the technocratic role and policy within the government happened, and who benefits from it. In this case, the argument still holds that the external pressures from international institutions may influence such changes. However, the explanation ignores the significance of the transformation of domestic social forces in several Southeast Asian countries, especially since the rise of new capitalist class since 1980s onwards. In addition, this analysis does not clarify how those domestic changes have directly impacted on the process of regional economic integration. The factors described could also drive the region’s involvement in other multilateral trade cooperation. In the case of ASEAN, for example, some multilateral trade agreements involving ASEAN such as ASEAN-China FTA, ASEAN-Japan FTA, ASEAN-Korea FTA, or even APEC, are not clearly covered by this argument. Importantly, this argument seems to place regional integration on another spatial scale that exists independently from the national state.

In this domestic political standpoint, Jayasuriya’s notion about ‘regulatory regionalism’ is a worth noting. It is argued that regional governance is about the techniques or strategies of political rule, which is embedded in a deeper domestic structural context (see Jayasuriya, 2003b; 2004; 2008). Furthermore, regional governance is a transformation of the territorial space in which the state operates. In
other words, regional governance works in, and through, the regulatory state (Jayasuriya, 2008: 33). The active role of the national agencies is essential in defining the practices of regional regulation rather than the formal international treaties for its enforcement itself. As a result, the forms and characteristics of the regional economic institution very much rely on the national application or ownership of internationally formulated standards (Jayasuriya, 2008: 22). Nonetheless, the regulatory regionalism analysis needs to be expanded, especially on its limitation in addressing the transformation of capitalist class. This changes the nature, form and scale of capital accumulation linked to the distinct social forces and political alliances that shape regional projects.

The third explanation tries to address the importance of both domestic politics and economic globalization. Nesadurai (2003) proposed the concept of ‘developmental regionalism’ throughout the study of the AFTA agreement between 1998-2001. Unlike the globalization-regionalism model of relationship, this concept identifies domestic politics as an important element, where domestic capital takes an essential role. Domestic capital utilizes the expanded regional market and government protection as a means to raise the ability to compete in the global market. Domestic capitalists benefited from AFTA as the agreement awarded ‘market access and national treatment investment privileges to ASEAN national investors (both state and private investors) ten years ahead of non-ASEAN investors in the ASEAN Investment Area (AIA) Scheme adopted in 1998’ (Nesadurai, 2008: 232). It argues that government and domestic elites, in order to maintain political power, try to manage these domestic interests since they are valuable for the elites. At the same
time, the governments try to improve their appearance in the public eyes through the achievement of regional cooperation.

The concept of developmental regionalism has substantially illustrated the dynamics of domestic political alliances between capitalist and political elites and the relation to the global economy. However, a limitation of this analysis is that the domestic interests are seen to be static and confined to the national level. This notion is also limited by its focus on the role of ‘national capital’ in conditioning regionalism projects. This obscures the role of the internationalization process in constituting transnational or regionalized capitalist interests and forces that in turn underpin regional economic projects. Accordingly, this thesis extends and builds on this work.

**Regional governance and the internationalization of capital: towards a social relations approach**

The previous section has examined the existing literature on regional economic integration and outlined the limitations within the liberal, realist, and political economy approaches. The analysis of the liberal approach, for example, builds around the notion that comes from examining the objectives of regional economic integration. Yet, it fails to consider which social forces and political alliances at the domestic level shape such regional initiatives. On the contrary, the political economy framework argues that regional economic integration is a political endeavour that is embedded in a deeper domestic structural context of coalitions and struggle for resources. However, this analysis has limitations, as domestic interests are defined as static and confined to the national level. Importantly, it conceals the significant of the
internationalization process in constituting transnational or regionalized capitalist interests and forces.

In the existing literature, economic regionalism is viewed as an institutional project which encompasses trade settlements, investment rules, as well as production chains. This body of research has had little engagement with the literature on capitalist transformation especially with regards to the nature of capital expansion. The research offered different interpretations regarding the state concept. As has been discussed in the early debates, the liberal and realist approach to regional economic integration have focused their analysis on the institution and its governance. Liberals and realists neglect the way economic governance is related to the nature of capital accumulation through the power struggle within the state involving competing fractions and social and political forces. Therefore, an emphasis on the concept of the nature of capital accumulation and expansion is essential.

It is noteworthy that within the existing political economy approach the state has been addressed in important ways in its relations to the regional institutional project. Jayasuria (2003b; 2008) asserts that it is impossible to separate the state from regional institutions. It is argued that the strategies of political rule within the state are related to the consolidation of regional governance. In other words, the appearance of regional governance finds expression in various state governance practices. Therefore, regional governance needs to be conceptualised as a political process that contours a regional space within the state (Poulantzas, 1978b). For example, in order to perform, economic governance such as the Economic and
Monetary Union (EMU) of the EU requires the constitution of new regional sites of governance that link the regional and national levels of governance within the state. It involves the restructuring of a national institutions ranging from central banks to the supervision of financial institutions. ‘It is in this sense that sites of governance are established whose spatial frontiers are extended towards regional levels of governance’ (Jayasuriya, 2008: 24).

Nevertheless, this notion with regards to the state and its relation to the regional economic governance has limitations. One limitation is the way state governance is the sources of the competing preferences in the development of the regional institution’s direction. This study also argues that the state and regional governance is impossible to separate. Yet this study will extend the analysis of authors such as Jayasuria (2003b; 2008), Nesadurai (2003) and Jones (2015) within the current political economy framework by emphasizing the broader structural context of regional institutions and state policy. It will address the capital expansion and development throughout the regional integration process. In other words, the state is indeed an expression of power, where contestations and coalitions between different social forces remain. However, it is also part of the wider nature of the internationalization of capital which determines the forms and directions of regional institutional projects.

This study goes beyond the existing literature of regional economic governance in the following ways. First, it emphasizes the internationalization of capital and how it relates to the development of regional economic governance. The forms of regional
institutions are viewed as a process to facilitate the international expansion of capital across the region. The internationalization of capital accumulation has promoted the regionalisation process. In this case, economic regionalism has established foundations for the wider expansion of capital into the international stage; especially through strengthening the flow of commodities, financial capital, and deepening the region’s production base. Such a process of internationalizing capital must be seen in the broader context of the changes in the social relations of capitalist classes and capital accumulation that took place within state political economy.

Second, the emphasis on the internationalization of capital also relates to the role that is played by internationalized fractions of capitalist through political alliances with the state apparatuses as well as other social forces. Such political coalitions have found their expressions within the state institutions and policy making processes. The existing political economy literature has drawn attention to the state concept. Yet, the state has an important role in facilitating the expansion of capital beyond states boundaries, in particular through regional economic institutions. In this sense, the internationalization of capital is viewed as a process that occurs as much on the inside of the state as it does through the external initiatives of the regional economic governance. The process of internationalization of capital is internalised within the state (Jessop, 1990b; Poulantzas, 1978a). Hence, the state, is needed in order to support the accumulation process of the most internationalized fraction of capital into a wider scale. Glassman defines such state’s involvement as the ‘internationalization of the state’, where state apparatus become strongly oriented towards facilitating the internationalization process (Glassman, 1999). The state is important not only in
conjunction to the economic processes of the accumulation, but also to the broad array of social and political activities, since most of these activities are at some points related in crucial ways to the production and reproduction of capital.

Examining the internationalization of capital as the theoretical standpoint allows this study to view the social relations surrounding the regional economic governance in a way that the existing frameworks have not been addressed. In turn, this study unfolds a range of related questions that will be taken up in the coming chapters. As the nature of capital accumulation links to the competing different fractions of capital, the regional economic institution is never a complete project, but rather a continual process of capitalism transformation. This is evident from the new development of regional economic projects in the Southeast Asian region after the 1997 Asian financial crisis. This is especially the case with the rise of international fractions of capital along with their new interests and close nexus with the state. How the internationalization process played out through state politics and capital social relations is important to understanding what possible trajectories regional governance may take.

**Conclusion**

This chapter has outlined the important debates in the economic regionalism literature as well as their limitations for examining the forms, instruments and mechanisms of the regional economic governance. As noted earlier, the liberal, realist and political economy approaches have their differences in defining the concept of the state as well as its socio-political structure. This, in turn, has become
the weakness in explaining the relationship between the processes of economic institutions at the regional level, considering the contestation of power among social forces at the state level. The studies using the political economy approach have significantly addressed how the domestic politics has become essential in shaping any regional integration process. Nevertheless, this notion has limitations in placing the relationship between the regional economic institution and the state into the broader structural context, specifically how it is associated with the international expansion of capital.

This study argues that regional economic governance needs to be explained in the broader dynamics of the internationalization of capital. This is in order to answer the question of how economic projects at regional level have been linked to the coalitions and competitions between different social forces as well as the transformation of the capitalist class. As explained in the next chapter, the key point offered by this study is that the international expansion of capital explains the nexus between the polarizations that surrounds regional economic arrangements. It also confirms the political restructuring of the state as well as the rise of capitalist social forces and interests with regional and transnational ambitions that have emerged in one of the most dynamic regions, Southeast Asia.
3
Regional Economic Governance and the Internationalization of Capital: Theoretical Issue

Introduction

This chapter provides a theoretical framework for analysing the social forces and political coalitions shaping the trajectories of regional economic integration projects, and how it is caused by the capitalist transformation. The key to the theoretical argument here is to explain the form and structure of regional economic integration as the consequence of the internationalization of capital. However, this internationalization process – where the profit-making activities operate beyond territorial boundaries and occur particularly across the region – cannot be understood merely in functional terms. There is nothing inevitable about this regional integration. Rather, it must be defined in terms of a contested and political process which finds its expression through changes or transformation within the state. This transformation in particular has reflected the growing influence of the internationalized (regionalised) fraction of capitalists. Internationalized capitalist class here refers to the bourgeoisies, conglomerates, or big businesses that have an international scale of investment, production and commodity (Bryan, 1987; Glassman, 1999). Importantly, their businesses not only have been largely diversified but also operated across the region.
The previous chapter has demonstrated the weaknesses of International Relations (IR) theory literature, namely liberal, realist, as well as the political economy approach. The social forces and political coalitions driving regional economic integration projects remain concealed. An analysis of the social forces and political coalitions can only be conducted through a theorization of the state and the broader structural context i.e. the transformation of the nature, forms, and scales of capital accumulation. It is the absence of this understanding of the state that is a fundamental problem within the prevailing institutionalist literature on the regional economic integration. While literature with the political economy framework addresses the domestic structural context of coalitions and struggle for resources, this analysis remains confined to the national or domestic level. In particular, it fails to locate the dynamic of changes within the capitalist class as fractions that become more internationalized. Moreover, it does not explain the importance of the power relations in facilitating the international expansion of capital through the initiative of regional economic integration.

The framework developed in this chapter emphasizes that the internationalization process of capital accumulation does not mean that the state becomes less important in the regional economic project development. Rather, the state plays a substantial political and economic role in mediating the process of internationalization. It is noteworthy that the scale of capital expansion is located at the international level, but the process of accumulation is always bound to a specific space and governed within the territorial boundaries of the ‘national state’. In this case, the state plays an enormous role ensuring all the requirements are fulfilled for the capital accumulation
within the state boundaries (Poulantzas, 1974). Hence, instead of being weakened by the process of internationalization of capital through regional economic governance, the role of the state is crucial to the process of capital expansion to a wider scale. In particular, this facilitative role is evident in the operation of multilateral agreements, specifically through regional economic integration initiatives. The agreements smooth the way for complex regulatory processes that enable the vast expansion of capital across the region; notably through the regionalization of trade flows, production networks, and capital investment. Yet, these linkages with the global capitalist economy are mediated through political contestation within the state.

From this perspective, this chapter analyses the emergence of regional economic projects in terms of the relationship between the rise of the internationalized fractions of capital and the internationalization of the circuit of capital in the global economy. Accumulation has been enhanced through the free flow of commodity, investment, and global production networks. In this case, the capitalist class, who control the most sophisticated and large-internationalized business groups, have strong and yet competing interests in pushing the free market oriented policies and projects. Market-driven policies and projects manifest in the form of economic governance at regional level as it helps facilitate and provide foundations for the global expansion of capital. This underlines the crucial significance of the social and political coalitions as well as contestations between the fractions of capitalists, the state apparatuses, as well as other social forces. Strategic economic foreign policies promoting economic liberalization at regional level favours the wider expansion of capital accumulation and has been shaped through state-capital relations.
To explain the social and class relations approach used in this chapter, the first section explains the concept of the internationalization of capital and its social relations. The second part examines the international expansion of capital through regional economic governance as well as the importance of capitalist transformation. The third section elaborates the relationship between the fractions of capitalist and the state politics. This will give an idea of how the social forces and political coalitions represent the process of struggle for capital expansion within the development of regional economic governance.

**The internationalization of capital and regional economic governance**

The starting point to this chapter’s discussion is the concept of the internationalization of capital. This concept has its early foundation in Karl Marx’s (and Engels) works (1965 [1848]; 1973 [1857]; 1976 [1867]) which is concerned with the nature of capital accumulation and its expansion. According to Marx, capitalism always has a tendency to expand its spatial field and operation beyond territorial boundaries and brings larger and larger human social activities into an internationally coordinated market.

In the early stage of capitalism development, as Marx and Engels explained, the internationalization process of capital accumulation was marked by the spatial expansion of capitalist social relations into non-capitalist social formations (Marx and Engels, 1965 [1848]). This internationalization is developed as part of the circulation process of capital. It is argued that a precondition of production based on capital is the production of a constantly widening sphere of circulation and
circulation proceeds in space and time (Marx, 1973 [1857]: 533). On the one hand, capital tries to tear down the spatial barrier and conquer the whole world for its market. On the other hand, it also exerts to eliminate the space and time, reducing the minimum time spent in motion from one place to another. The main concern of Marx here is to unravel the inner dialectic of capitalism considered as a closed system so it does not involve any spatial dimension (Bryan, 1995: 70; Harvey, 2001: 308). Marx made the following prescient remarks:

While capital must on one side strive to tear down every spatial barrier to intercourse, i.e. to exchange, and conquer the whole earth for its market, it strives on the other side to annihilate this space with time, i.e. to reduce to a minimum the time spent in motion from one place to another. The more developed the capital, therefore, the more extensive the market over which it circulates, which forms the spatial orbit of its circulation, the more does it strive simultaneously for an even greater extension of the market and for greater annihilation of space by time (Marx, 1973 [1857]: 539).

Marx’s notion of capitalism development provided significant insights for further analysis of the historical and spatial dynamics of the internationalization of capital. The concept of space here, however, remains problematic. As Harvey (2001: 278) noted, not only is the concept too universalistic, it neglects the importance of territorial differentiation and the politics that lies within the space of capital accumulation and expansion. What has been lacking from Marx’s explanation on the nature and forms of capital expansion is the specific role played by the state, especially how the state becomes the centre of the complex political and social dynamics through which the internationalization of capital is realised (Oguz, 2015: 340). Marx’s analysis of the state is much more focused on the context of
antagonisms among the great powers in attempt to extend their ‘spheres of influence’. The capital expansion is seen as a process by which the state’s intervention takes place, leading to colonial expansion and imperialism (see Pradella, 2013).

In this context, Palloix further developed Marx’s account of the internationalization of capital. According to Palloix (1977a; b), the process of the international expansion of capital means much more than the increasing traversal of capital across nation-state borders. It is a social relation which is expressed through the three interrelated-division of circuits of capital, namely (i) productive circuit (the production of commodities); (ii) commodity circuit (the sale of these commodities); and (iii) money circuit (the accumulation of capital as money). These three steps of circuits of capital have become the primary explanation of the expansion of capital into a global scale.

First, the internationalization of commodity circuit was carried out through the expansion of world trade. Second, the internationalization of the money circuit is in the form of portfolio investments in overseas ventures. Third, the internationalization of the productive circuit developed through the increasing linkages between capitalists in the production networks located outside their countries of origin. As Palloix (1977a: 20) puts it: ‘the central element in this process of transformation, the commodity, is no longer produced in one nation. It is no longer limited in this way. The commodity, or rather the commodity-group, can only be conceptualised, produced, and realised at the level of the world market. This tendency is becoming more and more pronounced.’ It is these three steps that have been organized and
structured at the global context through complex multilateral political and economic agreements and negotiations, including the economic integration projects at regional level.

Such interlocking relationships between different circuits of capital are not simply an economic phenomenon but imply a much broader set of social and political transformations through which capitalist social relations are reproduced. In this sense, the process of spreading capitalist relations, notably throughout the less industrialized capitalist territories, requires a complex struggle to find the appropriate ‘modes of regulation’ for an increasingly internationalized process of accumulation (Jessop, 1990a; b; Overbeek and van der Pijl, 1993). This struggle has been very much influenced by the transformation within the capitalist development which led to the emergence of the internationalized fraction of capitalist class. The power struggles between different classes and forces within specific forms of state are viewed as internal to the process of the international expansion of capital (Bieler and Morton, 2014: 34). Accordingly, the internationalization of capital is ‘a complex and multi-faceted tendency which is not always manifest and never uniform but which is nonetheless regularly expressed in actual development processes’ (Glassman, 1999: 676).

Glassman (1999) put an emphasis on the formation of capitalist class, arguing that the internationalization of capital is developed through a process of internationalization of the classes in capitalist society. Specifically, this means that the capitalist class and urban-industrial workers become more globally omnipresent
In addition, production processes and class relations involving these groups are in the process of actively stretching across international boundaries (Storper and Walker, 1989; Massey, 1995). This can take various forms such as the increased exploitation of a ‘national’ labour forces by ‘international’ capital, the increased coordination of activities between workers of different nationalities (Herod, 1995; 1997) and between internationalized bourgeoisies and business-linked government elites of different nationalities (Shoup and Minter, 1977; Sklar, 1980). Most significantly, it has helped generate a capitalist class whose reproduction is dependent on the circuits of capital beyond national frontiers. It is the presence of these bourgeoisies and the corporate entities associated with it that underpins the alliance of class forces which give shape to the internationalization of capital accumulation process (Glassman, 1999: 676).

These internationalized capitalist fractions have become the motor-force in driving the wider expansion of capital through social political alliances and power contestations. The objective of production, trade, and investment under capitalism is to pursue more profit—and not human happiness or the satisfaction of needs. Therefore, capitalists are forced to compete with one another or face being defeated by a more successful rival. As the competition carried out, the growing scale of production, commodities as well as the flow of capital investment follows. In fact, big businesses are able to engage with large-scale investments, with the international-market, and generally out-perform smaller capitalists. This is because they have better ability to produce cheaper commodities, swamp markets, and engage in price wars. Here, the internationalization of capital has not only rescaled the
territorial constraint of capital accumulation but also amassed the larger amount of wealth in fewer and fewer hands—a feature of capitalism which is described by Marx as the concentration and centralization of capital (Hanieh, 2011: 20).

The importance of the state has become evident within the complexity of social alliances and political struggles of capital expansion. This is in relation to the nature of capital accumulation which requires a specific mode of governance. Capital tends to expand and move at an ever-increasing pace across nation-state borders, and seems to operate at the international scale. Yet, the accumulation and production of value must necessarily take place in territorially bounded and place-specific locations. This demands the national institutions to manage economic policies and ensure the continued maintenance of conditions favourable to capitalist accumulation (e.g., disciplining labour, protecting private property rights, ensuring adequate financial conditions and laws, etc.) (Panitch and Gindin, 2004: 17).

In this case, the framework of the internationalization of capital theorized by Palloix and Glassman above is different from the notion of the ‘transnational capitalist class’ theories (i.e., Cox, 1987; Sklair, 1995; 2001; Robinson, 2004; 2007). The distinction is in the role carried out by the state in the capital expansion processes. Both theories have shared the same notion in addressing the significant implication of the transnational capitalist class to the globalized circuits of production, commodity, and money investment. Nevertheless, the transnational capitalist class theory asserts the decline of state politics while the international expansion of capital accumulation occurs. As argued by Robinson, the state has been substituted by the ‘global’ as a
result of the qualitative changes in capitalism and the new era of economic globalization. What is needed is the so-called transnational state apparatus (TNS) in order to coordinate global capital accumulation and impose its domination at a global level. The TNS is the primary vehicle for ensuring the accumulation needs of ‘globalization’ rather than the nation state. The nation state, accordingly, is ‘no longer the organizing principle of capitalism and the institutional “container” of class development and social life’ (Robinson, 2004: 40).

The weakness of the transnational capitalist class theory lies substantially in the notion that the transnationalization of capital is detached from the specific local process of capital transformation within the national state. On the contrary, the process of the internationalization of capital (as Palloix and Glassman explained and as applied in this chapter) has never weakened the role of the state. Instead, the global expansion of capital requires the close complicity of the state and at the same time continues to strengthen the state formation and restructuring which importantly influence the nature of the state as a locus of political struggle in the accumulation process (Palloix, 1977a; Bryan, 1987; Glassman, 1999; Bieler and Morton, 2014). The precise form and nature of this transnationalisation is shaped by the forms of states and conflicts through which the capitalist social relations are transformed and reproduced.

As argued by Poulantzas (1974), the internationalization of capital neither suppresses nor bypasses the state’s authority and function. The social relation of such international expansion means that the reproduction of capital is not simply located
in the ‘moment’ of the circuit cycle i.e. production, commodity, and money capital, but rather in the ‘reproduction of social classes and of the class struggle’ (1974: 97). The economic functions of the state, furthermore, are in fact the expressions of the state’s overall political role in exploitation process and class domination (Poulantzas, 1974: 81). In conjunction to this, the capitalist state’s functions have been transformed into several strategic policies such as controlling and guaranteeing the private property rights, economic liberalization, economic orchestration, input provision, intervention for social consensus, and the governance of the external relations of a capitalist system (Murray, 1971: 88-93). Accordingly, the functions for further reproduction of international capital are internationalized within the nation-state:

It is impossible to separate the various interventions of the state and their aspects, in such a way as to envisage the possibility of an effective transfer of its “economic functions” to supranational or super-state apparatuses, while the national state would retain only a repressive or ideological role. … at the very most, there is sometimes a delegation in the exercise of these functions. In fact, by looking in this direction, one loses sight of the real tendencies at work: the internalized transformations of the national state itself, aimed at taking charge of the internalization of public functions on capital’s behalf (Poulantzas, 1974: 81).

It is essential to mention that the state’s function in the governance of the external relations of a capitalist system is expressed in dynamic and complex political and social relations that are internalised within the state. The state’s neoliberal economic policies, in this sense, have transformed in line with the internationalization of the state involving multilateral institutions and projects. This is especially in relations to the circuit of capital cycle which requires multilateral forms of economic governance
at global and regional level. Therefore, alongside the internationalization of capital, cross-border political institutions and multilateral economic agreements have arisen to mediate, shape and control the expansion process. In this context, current regional economic governance provides examples of such roles in regulating the international capital accumulation. This internationalization of capital through regionalization of economic governance, furthermore, has been related to the importance of the social relations within the state. This is especially the case for the forms of political coalitions and contestations involving the internationalized fractions of bourgeoisies, state apparatuses, and other social and political forces. This study focuses on the way capital is expanding to an international scale through regional economic integration projects.

**Regional economic governance, internationalized bourgeoisie and the state**

Within the process of the internationalization of capital, the governance and arrangement of economic activities at regional level has become crucial. The importance of regional economic projects is related to the nature of accumulation and expansion which requires localisation and territorialisation of capital within specific geographical spaces (Harvey, 2003: 33; Chacko and Jayasuriya, 2017: 16). It is noteworthy that the scale of capital accumulation and expansion is an unlimited process of space and time. However, the process entails what Hannah Arendt (1968) called as the ‘accumulation of power’. It refers to a political structure – whether state, regional or global institutions – with unlimited power that can regulate and guarantee the process of never-ending capital accumulation, especially with regards to the circuits of capital cycle (Arendt, 1968: 23). In this vantage point, the economic
integration projects at regional level are defined as new spatial fixes for economic regulatory coordination beyond national frontiers. Therefore, the flow of trade, commodity, production and capital investment that transcend national borders can be facilitated and managed through the new regional institutions. In the post-war period, the scale of capital expansion beyond state boundaries was carried out through coercion and hegemony, especially through the roles that were played by powerful countries such as the United States (U.S.) (Harvey, 2003: 35). However, as the U.S. domination declines as well as the emergence of political and economic blocks – specifically in Europe – regional economic integration becomes an important mode within the internationalization of capital.

Indeed, the regulatory geography of capital expansion through regional economic integration project is not something that is absolutely required for every internationalization process. However, without the regional arrangement the international expansion of capital accumulation does potentially face risks. This is in conjunction with the social relations of the internationalization of capital which is reflected by strong competition between different fractions of capitalist classes. Accordingly, the initiatives towards the regional economic integration – which officially promoted through foreign policymaking – is in order to guarantee the economic regulatory process (see Nesadurai, 2003; Hanieh, 2011). In this case, the regional economic governance provides regulatory protection for specific social and class interests in environments (i.e. open international market) that may not recognize or accept their rules and ways of expanding capital accumulation. This is especially the case in the way the international market deals with trades,
commodities, productions, and the interlocking of capital investments. For the state apparatuses, which represent the capitalist interests through political alliances, regional economic institution serves as a formal territorialisation for economic policies, specifically in facilitating the internationalization of capital across the regional market.

The transformation of the capitalist class has become an important factor within the process of the internationalization of capital across the region. This transformation, in which the capitalist classes emerge and become more internationally oriented, has strengthened the impetus of regional economic integration projects in facilitating the broader expansion of capital accumulation. Poulantzas (1978a) provides an important theoretical insight explaining the primacy of the internationalized bourgeoisies in pushing through forms of regional economic cooperation and how it is articulated at the state level. Drawing from the European Union (EU) case, Poulantzas claimed that the impetus for further economic integration in the region has been influenced by the internationalization of capital accumulation. Many European countries were dominated by what he called ‘interior bourgeoisie,’ who have international accumulation interests through regionalization process.² This capitalist class has developed multiple ties of dependence yet conflictual interest to the U.S. capital

² Poulantzas (1978a) developed the concept of ‘interior bourgeoisie’ in order to differentiate it with the ‘national bourgeoisie’ and ‘comprador bourgeoisie’. The interior bourgeoisie is a new form of capitalist class whose reproductive base lies inside the nation state while it also has complicity with foreign capital. This new bourgeoisie is in contrast with national bourgeoisie, a fraction of capital which develops its material basis autonomously in domestic political structure. It has a certain degree of contradictions with foreign capital. Comprador bourgeoisie, on the other hand, is merely a deputy bourgeoisie and as such is entirely dependent on foreign capital. Interior bourgeoisie, therefore, cannot simply be mapped into comprador or national bourgeoisie fractions. While it is inscribed within multiple ties of dependence to international capital (here, Polantzas highlighted the ties between European bourgeoisie with the US capital), this capitalists class also maintains its base of capitalist accumulation both domestically and abroad (see Wissel, 2006: 218-219).
while it preserves its base of accumulation both domestically and abroad (1978a: 72).

The economic integration in the form of European Economic Community (EEC), therefore, was regarded by Poulantzas as a process initiated by the various dependent interior bourgeoisies of Europe, which may at times have conflicted interests with US businesses, but which were always acting and reacting within international field structured by the penetration of the latter (see Sandbeck and Schneider, 2014: 857).

An example of this was seen in the role played by European capitals that had organised themselves as the European Round Table (ERT) of Industrialists (see Van Apeldoorn, 2002). At the time of the crisis of Fordism as well as the external pressure from the US and Japanese competitors and a perceived European economic decline, these prominent capitalist fractions attempted to force the regional economic cooperation for comprehensive deregulation policies. Indeed, in the face of increasing global competition certain European capitals had aimed to promote defensive national oriented strategies to shelter European markets. Yet, the industrial and financial fractions of the ERT were eventually able to set the agenda for the neoliberal single market project of the EU. Their businesses were globally oriented yet they perceived their basis of accumulation to be rooted in the European context. By closely linking to the European Commission (EC), ERT tried to increase the scale of European capitalists expansion in some key industries (Van Apeldoorn, 2002: 80-82).

Another case that illustrates the relationship between increasing regionalized capital and regional economic governance is economic cooperation among the Arab Gulf
countries particularly through the formation of the Gulf Cooperation Council (GCC).
The GCC agreement also denotes the vigorous process of international expansion of
capital (see Hanieh, 2010; 2011; 2016). This regional block consists of six oil-rich
Arab monarchies namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United
Arab Emirates (UAE). Within all these countries large and internationalized capital
groups, who are historically allied to the state and ruling families, have become very
dominant in shaping the Gulf economies. The rise of these bourgeoisies has been
strengthened through the regionalization of economic governance following the
establishment of the GCC in 1981. Liberal economic policies, in this sense,
facilitated the global expansion of the Gulf’s production, commodity, and capital
investment while at the same time consolidated the increasingly pan-Gulf nature of
capital accumulation (Hanieh, 2010: 59).

The important milestone for this process in Gulf region was the signing of the
Economic Agreement between the Gulf Cooperation Council States (EAGCC) in
December 2001. The agreement clearly embraced market oriented policies where the
‘advanced stages of economic integration that would lead to a Common Market and
an Economic and Monetary Union among Member States’ became its central
objective (GCC Secretariat, 2001). It is important to mention that while enhancing
market-oriented mechanism, the EAGCC highlighted the important role of business
groups which mostly linked to the ruling elites. Many of GCC conglomerates
nowadays have strong control over the region’s economy, specifically through
managing strategic industries such as oil, finance and retail. This agreement, hence,
has been shaped at the time of global economic developments in order to enlarge the
accumulation expansion of the GCC capitalists as well as deepen their integration to the global economy (Hanieh, 2010; 2011).

The important role of capitalist class in driving the international expansion of capital through regional economic integration project needs to be defined in the context of the reproduction of capitalist relations within the national state boundaries. The state, in this context, becomes a terrain for the bourgeoisies’ dominance political and economic articulation. Through the forms of socio-political coalitions, the capitalists emerge into dominant social forces within the state. As a result, the state is tasked with maintaining the reproduction of the capitalist relations in their economic, political and ideological aspects in which are internationally oriented. It is within this process that the state appears to have transferred its functions to a supranational-regional institution. According to Poulantzas, this is typical of internalised transformations of the state for the reproduction of capitalism that is internationalized in character. The state authority, therefore, remains the same while its functions become increasingly international oriented (Sandbeck and Schneider, 2014: 857-858). However, this suggests that the regional institution in the form of an economic integration project is not only designed to overcome this apparent paradox and smooth out the complex process of accumulation and expansion. It is also part of the contradictory process (Sandbeck and Schneider, 2014: 858). The section below elaborates on the way the state engages with the capitalist contradiction between distinct fractions of capital.
Fractions of capital and the internationalization of the state

In order to understand the political nature of this transformation processes, it is noteworthy to consider the distinctive and leading role played by internationalizing fractions of capital within the state. The explanation towards the distinctive roles of the capitalist fractions can be referred to the dimension of the internationalization presented by Bryan (1987) which further developed by Glassman (1999). The main idea of this approach lies in the different fractions within the capitalist class. These fractions are constituted by their relations to the circuits of capital such as those identified by Palloix in the previous section. Here the reproduction of capital through three steps of circuits i.e. transformation of capital investment into more production commodities which can be sold into wider market and thus retransformed into money capital, reflects the different yet competing interests of capitalist fractions (cf. Webber and Rigby, 1996).

Bryan (1987) and Glassman (1999) schematically identified four different fractions of capital which go beyond geographic divisions between ‘foreign’ and ‘domestic’ capital. The distinctions between fractions are based on their strengths and weaknesses of scale of capital accumulation within the global market. The first fraction is the ‘international capitalist’, a group that has international scale of investment, production and commodity. This fraction has the capacity to invest substantially both in domestic and foreign markets and can also sell products in both markets. Second is the ‘investment-constrained capitalist’. This fraction has slightly narrower scale compared to that of international capital. Investment-constrained capitalists are only able to invest substantially in the domestic market but who can
successfully sell goods in both domestic and export markets. The thirds fraction is called the ‘market-constrained capitalist’, a group who can invest major amounts of capital domestically and internationally, but they are only able to market the products where they are produced. This often relates to the state policy e.g. trade restrictions. The fourth fraction of capital is referred to as ‘national capitalist’, a fraction that is only able to invest significantly and sell effectively on its own national market.

The important point to these capitalist distinctions is that each fraction has different policy interests with regards to the scale of expansion. The political coalitions between different fractions of capital with the state apparatuses as well as with other social forces, have become imperative in promoting and achieving policy interests (Bryan, 1987: 271). For example, the dominance of import-substitution policies in one country in a particular period of time tends to be identified as a strong presence of national and market-constrained capitalists. This sort of situation, for instance, was evident in some countries in Southeast Asia such as Indonesia, Thailand and the Malaysia during the 1970s until the early 1980s in particular. During this period, many national business players with market-constrained forms of accumulation were newly-emerged through their close links with the ruling government. In this case, the state embraced strategies of import-substitution along with the state’s concession and protection in order to support these capitalists’ operation (e.g., Robison, 1995; 2012; Brown, 2006b; Chang, 2006). By contrast, the substantial shift in the state’s economic policies towards a free-market orientation, especially by undoing many barriers to specific forms of capital movement, is associated with the rise of the international capitalist fraction. In the post-Asian financial crisis (AFC) period,
ASEAN countries initiated substantial neoliberal economic policies including projects at regional level. It is important to put into context that such projects were in relations to the transformation of the capitalist class, specifically with the reorganization and expansion of large international-oriented conglomerates throughout the region.

This power relationships between internationalized fractions of capital and the state, is defined by Glassman (1999) as the ‘internationalization of the state’. It is understood as ‘a process in which the state apparatus becomes increasingly oriented towards facilitating capital accumulation for the most internationalized investors, regardless of their nationality’ (1999: 673). Furthermore, this internationalization of the state is a process within a broader context of the internationalization proclivities which established a set of elite-based transnational alliances. The alliances’ task is to underpin the possibilities for the global expansion of capital accumulation based on the internationalized capitalist interests rather than on national priorities. Glassman’s notion of the internationalization of the state has similarities to what was later termed by Chako and Jayasuriya (2017) as the ‘transnationalised state projects’ and their associated geoeconomic strategies. Chako and Jayasuriya point out that the growing focus of foreign policymaking on economics at regional and global level reflects the fundamental changes related to the transnationalisation of capitalist state-building projects.

It is noteworthy that the role played by the state relating to the pathways of the internationalization of capital has its foundations in the nature of the prior patterns of
state formation that lead to the emergence of the capitalist class and the state-capital relations that follow. As many of these capitalist classes subsequently transform into more internationalized fraction of capital, the political alliances continue and even evolve into the new forms of coalitions within the state-capital relations. These alliances between the internationalized fractions of capitalists and the state takes place in numerous forms. For example, capitalists establish direct links to high-ranking politico-bureaucrats through different political channels. The state-capital relations also manifest in the strong role of business associations. And importantly, as many capitalists are directly and strongly involved in politics, they manage to have direct control over political parties and strategic government bodies.

It should also be noted that the state’s bodies and institutions are not homogeneous entities. Most bureaucratic agencies have links to different social forces and capital interests. However, particular segments within the nation-state apparatus powerfully represent the interests of most internationalized fractions of capital (see Cox, 1981; 1987). These would include agencies such as ministries of finance, ministries of commerce and industry, as well as the president or prime minister’s offices, which are the ‘key points of adjustment of domestic to international economic policy’ (Cox, 1981: 146). Therefore this is a key to the international fractions of capital.

Thus, following the logic of Bryan and Glassman’s concept of internationalized fractions of capital, the most internationalized fractions of capital is likely to have strong links with particular yet strategic sections of the state. This is especially the case for the state entities which play a pivotal role in the global expansion of capital.
e.g. ministries and departments of trade and commerce. This is not to claim that other fractions of capital might have very little role contestations within the state. In fact, they are involved in the coalitions and struggles for control within the state bureaucratic powers which further explain the complexity of power relations within the state level politics. Nevertheless, as these less-internationalized capitalists have more concerns for different economic policies other than deregulations of the circuits of capital, they may attempt to get policies passed through other state agencies (Glassman, 1999: 683).

The nature of this relationship between capital and internationalization is readily evident in the case of the U.S. Indeed, it is this U.S. project that has created the condition around which have emerged varied projects of internationalization of capital across Asia. According to van Apeldoorn and de Graaff (2012: 594), this project was carried out by the U.S. government and to large extent driven by the interests of the internationalized fraction of the U.S. capitals. Such interests have been articulated and effectuated through the state-capital nexus involving the state apparatuses and the corporate elites. This sort of political coalition not only has enabled the domination of the capitalist classes and their worldview over the state apparatuses but it has also given them enormous sway over economic policy formation (Gowan, 2004: 3-4). Arguably, the international expansion of the U.S. capitals for over a century has been facilitated by the U.S. government. This, for example, materialized in the form of the U.S. foreign economic strategies in pushing for further ‘free market’ and ‘freedom of enterprise’ in foreign countries.
The U.S. state-capital relationship and corporate elites successfully secured their interests through state strategic policies. To explain this, LaFeber (1998 [1963]) noted that this influence started earlier with the emergence of a new corporate capitalist class as a hegemonic social force in the decades after the Civil War. The capitalist class established its influence through numerous channels i.e. the corporate-funded think tanks, business associations lobbying and agenda-setting, and campaign finance. Nevertheless, the most crucial trump card of the U.S. bourgeoisies is their personal ties with the state. It is obvious from the U.S. political elite formation, where a large majority of the U.S. cabinet appointees, diplomats, and other senior officials have been recruited from the conglomerate capitalist circle since the rise of industrial capitalism (Domhoff, 2009: 184).

Another example of how the political coalitions between capitalists and the state facilitate the internationalization of capital is shown in the case of Latin American countries such as Mexico, Colombia, Argentina, and Chile. Many large business groups flourished in these countries as a result of the neoliberal restructuring during the 1980s, which was carried out by a military dictatorship and a semi-authoritarian regime (e.g., Schneider, 2004; Fernández Jilberto and Hogenboom, 2007; Teubal, 2007). In 1990s onwards, these capitalists subsequently established their influence over the state mainly through strong business associations which have access to policy making process. Members of conglomerate circles also frequently circulated through top bureaucratic positions in the government. As a result, the interests of the internationalized fractions of capital were realized through the state neoliberal
policies. This is reflected in the government’s economic foreign policy towards promoting and negotiating trade cooperation at regional level (Schneider, 2004: 4-5).

As a consequence of this state-capital relations, as explained above, the nature and direction of the state apparatuses are strategically linked and managed by the capitalist class. However, as the state transformation process is always political and contested, it does not necessarily make the state exclusively indebted to individual narrow conglomerate interests—even if sometimes this might play a role in individual cases. This is because when these government officials and elites assume office they are in a different role in which they no longer directly represent a particular corporation. They might be expected to take a more general and longer-term policy regarding the overall geopolitical interests of the government. However, the worldview of these government elites ‘is likely to be shaped to a very large extent by their social position as (former) members or affiliates of a class conscious corporate elite’ (Van Apeldoorn and De Graaff, 2012: 598)

It is important to emphasize that the internationalization of the state is a process in motion. Hence, this process needs to be defined not solely confined to the forms and functions of the state in generating certain favourable economic policies as many analyses of the state policy have focused on (e.g., Clark and Dear, 1984). The fact that the state apparatus is not internationalized in nature but being internationalized through state restructuring process, for instance, suggests the need to look for a broader picture of the social and class struggle. The internationalization of the state,
accordingly, always reflects the complexity of both alliances and contestations between different fractions of social classes.

**Conclusion**

This chapter has focused on conceptualizing the regional economic governance and the social and political relationship that are embodied. It has been argued that the development of the neoliberal agenda at regional level in the form of economic integration projects is closely related to the broader context of the internationalization of capital. However, this internationalization process of capital accumulation cannot be understood merely in the functional terms. It must be viewed in relations to the contested process within the state politics involving power alliances and struggles between different fractions of capital, state apparatuses and other social and political forces. The framework which is developed in this chapter is concerned with identifying the social forces and political coalitions driving regional integration projects. It is concerned with which social forces within the domestic political economy of states are driving governments to seek regional arrangements for economic governance. It is also concerned with how the emergence, reorganization, and expansion of the capitalist class have conditioned political support for regional economic integration.

The forms and structures of regional economic integration have provided the social foundations for the massive expansion of capital beyond territorial boundaries. This is specifically carried out through the regionalization of the circuits of capital i.e. production networks, commodity cycle, and money capital. Nonetheless, this process
does not mean the state becomes less important in the accumulation process. The capital accumulation is always bound to space and time. The chapter addressed how capital accumulation works within specific territorial boundaries and how the state is needed in order to ensure that all requirements are fulfilled. More importantly, the state has become essential in a way that it serves as a location for the interplay of capital accumulation. In addition, while the nature of capital is always pushing its expansion beyond any boundaries, the state’s strategic neoliberal policies are essential.

This framework has identified that the internationalized fractions of capital have become the dominant forces in driving the process of the international expansion of capital across the region through regional projects of economic integration. This is in relations to the fractions of capital, where the most internationalized division have strong interests in neoliberal projects. In this sense, the interests of this capitalist class have been strongly articulated throughout the political coalitions involving international capitalist fractions, the state apparatuses, as well as other social forces in numerous ways.

Nevertheless, here lies the paradox of regional economic governance in intensifying the process of international expansion of capital accumulation. Although the capitalist fractions have established close links with strategic government agencies, it does not mean that they share the same interests and push for the same economic policy directions. This is because each fraction of capitalist has distinct scales of accumulations and expansion. These conflicts are condensed and internalised within
the state apparatus. These contests within the state-capital alliances hence explain why regional economic governance is shaped in contradictory ways. The next chapter examines the importance of state restructuring process in facilitating the strong drift of the capitalist’s internationalization process as well as illustrates the alliances and contestations involving capitalists and state apparatuses.
4

State Restructuring and the Internationalization of Capital in Southeast Asia

Introduction

This chapter examines the state restructuring of the Association of Southeast Asian Nations (ASEAN) member countries and how it is crucially linked to the emergence of internationally oriented fractions of capital and the process of international expansion that follows. It will look at the case study of Singapore, Malaysia and Thailand. The discussion of these countries provides a broader context of the state restructuring and the internationalization of capital across the Southeast Asian region before looking into a close study of Indonesia which will be explained in separate two chapters. In this chapter it is explained that the way in which the internationalization of capital is linked to the process of state restructuring. State restructuring refers to the manifold ways in which the political and economic structure of the state is adjusted to meet changes in the formations, priorities, and interests of the social forces, specifically the capitalist class. With the transformation of new internationally oriented fractions of capital, the state helps reproduce the social relationships that underpin capitalist expansion beyond territorial frontiers (Jessop, 1995; 2015; Jones, 1997; MacLeod and Goodwin, 1999).

Such a social relations perspective is essential for analysing the crucial alliances between powerful state making institutions and bureaucrats with the internationalized
fractions of capital. These coalitions have underpinned various political projects and sets of policy processes through which particular interests of capitalist fractions come to be seen as more general interests. For example, the notions of international competitiveness by ASEAN through the ASEAN Economic Community (AEC) initiative cannot be separated from the broader context of the capitalist interests. Various schemes within the AEC, such as ASEAN Single Window (ASW) and a free and open investment regime (ASEAN, 2008: 9-11), were parts of the means to link the circuits of capital in facilitating the international expansion of capital accumulation across the region.

A strength of this social relations perspective of the state is that it takes into consideration the competition between different capitalist fractions and other social forces which then affected the forms and structures of regional economic projects. These conflicts have been emphasized by the fact that class relations within the process of internationalization of capital are always complex and multi-faceted. This has resulted from the different scales on which capital operates—national and international and the resultant contests. As Bryan (1987: 264-6) and Glassman (2004: 42) pointed out, different fractions of capital (i.e. international capital, investment-constrained capital, market-constrained capital, and national capital) have distinct degrees and forms of internationalization. Through their political alliances with state apparatuses, these capitalist fractions have prompted for, and benefited from, different kinds of state policies with regards to their scale of expansion. Such contestation has been sharpened by the linkages of those fractions to domestic social forces, and explains the contradictions that still surround the regional trade
governance of ASEAN. This chapter examines the state restructuring and the state-capital relationships as an integral process of the internationalization of capital. Therefore, this chapter substantiates the thesis argument that ASEAN regional economic integration has been shaped as a process of the internationalization of capital and how this plays out within the state.

The chapter is organized as follows. The following section elaborates on the state restructuring process and the emergence of new internationalized fractions of capital. It also addresses the implications of such transformations towards strategic foreign economic policies. The section explains how some ASEAN states have carried out crucial roles in facilitating the internationalization of capital across the region, namely Singapore, Malaysia and Thailand. The next section explains the competitions within the processes of international expansion of capital that involves different fractions of capitalist class, the state apparatuses and other social and political forces. The final section provides conclusion of the chapter.

**State restructuring, international fractions of capital and foreign economic policy**

The development of capitalism in Southeast Asia has been characterized by the close nexus between the state apparatuses and the powerful bourgeoisies. It is important to put into context that these coalitions have been structured within the geopolitical context of the Cold War which influenced the political trajectory of all countries in the region. The state-capital relations were formed through a process of state restructuring within this geopolitical climate where many countries in the region
were ruled by authoritarian regimes. These authoritarian governments built their power by preventing the organization of labour and civil society as well as strong support from western capital investments (i.e., Robison, 1995; 2012; Brown, 2006b; Chang, 2006). In this context, the consolidation of the capitalist class developed due to the close relationship between key bureaucrats in the executive arm of the state and military officers. As a result of the state-capital relations, strategic economic resources have been controlled by the state without significant disruption from any socio-political forces. That is why during the 1970s to 1980s, at the peak period of the Cold War, we see the consolidation of new capitalist class in ASEAN member countries (Robison, 1986; Hewison, 1989; Rodan, 1989).

This sort of capitalist development has generated a symbiotic relationship between political and business interests, affording direct incorporation of key capitalist groups into the state apparatuses particularly with control of those directly related to strategic economic resources (see Rodan, Hewison, and Robison, 2006a; Gomez, 2002b). It is important to emphasize that this political nexus has provided a social and economic structure for the emergence of new transnationally oriented fractions of capital. This has resulted from the strategic state policies in facilitating the integration of domestic capitalists into the global market. In the 1980s and onwards, the global political economy became more transnational and many countries in the region adopted internationalist strategies, especially through export-oriented industrialization (EOI) policies. States began to remove barriers to specific forms of capital movement and facilitated the access for domestic commodities towards larger market.
The emergence of the Southeast Asian capitalist class into the internationalized fraction of capital has become the major cause of foreign economic policies. In this context, market oriented agenda at regional level, specifically in the form of trade governance, is the political process by which the state facilitates the interests of the new fraction towards capital expansion. The new forms of alliances within the state-capital relations are reflected through the creation and expansion of a new regional market space (Carroll, 2012; Carroll and Jarvis, 2014). This is evident through the foreign economic policies of ASEAN member states in supporting the projects of regional economic governance and institutions from the early 1990s until post-Asian financial crisis (AFC). The AEC has been shaped within the framework of facilitating the international expansion of capital throughout the regional market.

The following discussion demonstrates the way states can prompt and facilitate the internationalization of capital across the region, beyond the Indonesian case. The thesis case study of Indonesia demonstrates the social relations of ASEAN economic governance. It is important to consider how similar processes have occurred in other Southeast Asian countries. The subsequent discussion offers a broader context by explaining the cases of Singapore, Malaysia, and Thailand. Each nation has different patterns of capitalist social relations. Yet, most of the ASEAN states have showed similarities in how coalitions between the state and capital shaped foreign economic policies in promoting the regionalization of the circuits of capital. The coalitions usually involve internationally oriented fraction of capital and politico-bureaucrats. In some cases, it can involve the military high ranking officers as well as the royal family. This broad discussion of ASEAN countries provides a general understanding
followed by a more detailed discussion on the Indonesia case study in Chapter 6 and 7. An important insight offered from this discussion is that the transformation of the capitalist class and its various scales of accumulation have been shaped through the state restructuring and have paved the way for new strategic institutional projects at regional level.

**Singapore**

The case of Singapore strongly illustrates how the internationalization of capital has been shaped within the process of state restructuring. The cohesion between the state and capital, especially through the formation of political institutions as well as the state policies, has indeed driven the economic and political governance in Singapore which are neither liberal nor democratic. But most importantly, this alliance has strengthened the particular form of capital accumulation to a global level through state capitalism. This international orientation of capital accumulation is mainly concentrated in, and carried out by, the government-linked companies (GLCs), and has been facilitated by the state especially from the 1980s onwards.

The roots of Singapore’s state capitalism lie in the strategies embraced by the ruling People’s Action Party (PAP) that came to power at the 1959 elections for self-government. There were fractions within the party as well as a polarisation of social and political forces. The PAP leaders were led by Lee Kuan Yew and sought to establish the party’s power base through a merger of state and party. This has resulted in the process of shaping the political economy of Singapore by focusing on the importance of industrialization and foreign investment (Rodan and Hughes, 2014: 83)
Initially, the industrialization programme, led by private capital investment, focused on import-substitution for domestic and larger Malaysian market. However, following the separation from Malaysia in 1965, independent Singapore turned outwards to the global market with the export-oriented industrialization (EOI) strategy (Rodan, 1989).

The PAP government recognized the importance of international capital through promoting the EOI policy. The Economic and Development Board (EDB) established in 1961 was used by the government to enhance the investment drive and successfully attract more Multinational Corporations (MNCs) to invest in Singapore (Okposin, 1999; Yahya, 2005). The international investment was also used by the government’s policy to ensure the appropriate physical, technical and social conditions for industrial production (Tremewan, 1994; Chua, 1997). FDI in Singapore increased significantly as a result of the EOI strategy. For example, in the manufacturing sector, the foreign investment rose from S$157 million in 1965 to S$995 million in 1970, and to S$3054 million in 1974. In this same period, direct manufactured exports from Singapore jumped from a value of S$349 million to S$1523 million, and to S$7821 million by 1974 (Rodan, 2006: 143). The flow of foreign investment into the country had brought benefits for the internationally-oriented domestic capital.

The state-capital coalitions have created an unbalance structural relationship between the state and society. The state uses bureaucratic and administrative techniques to control the distribution of capital. Many Singaporeans were directly or indirectly
dependent on the state for economic and social resources, including housing, employment, business contracts, and access to personal savings. Such a structural relationship indicates two political pictures. First, the vulnerability of social and organizational bases in civil society, especially organized labour, which further limit the possibility of alternative forces that could challenge the PAP’s power (i.e., Tremewan, 1994; Rodan and Jayasuriya, 2007; Rajah, 2012; Barr, 2014). Second, the control over private domestic bourgeoisie development as a matter of political strategy, given suspected links in the early 1960s between elements of this class and the opposition groups (Rodan, 1989: 98). As a result, the domestic bourgeoisie’s economic opportunities have been heavily conditioned by, and dependent on, state capitalism—and most recently through offshore investment strategies by GLCs (Okposin, 1999; Rodan, 2006).

As Singapore’s economy progressed, the nature of the capitalist class became heavily internationally oriented. The GLCs are the main fraction of capitalists. GLCs have broadly proliferated through one of three paths: partnerships with global capital investment; spin-offs from defence industries; as well as delinking regulation from supply in natural monopolies and public utilities (Huat, 2016: 502). The massive transformation of GLCs into international fraction of capital has contributed to the strengthening of Singapore’s foreign economic policy. It facilitates the internationalization of Singapore’s capital, mainly across the regional market (Wong and Ng, 1997: 136). This strategy was also reinforced by the fact that Singapore faced structural limits to the expansion of the manufacturing sector in the mid-1980s as well as the global economic recession in that same period. In conjunction to the
structural limits, Singapore’s (then current) Prime Minister Lee Kuan Yew, urged Singaporean companies to invest in regional ventures. This was a wake-up call for GLCs to spread their wings within the international capital community (Asia Times, 27 July 2002).

To achieve this goal, it was the EDB and the Trade Development Board – now called International Enterprise Singapore or IE Singapore (a statutory board under the Ministry of Trade and Industry) – played a significant role in facilitating the overseas expansion of Singapore-based companies and promoted international trade (see IE Singapore, 2016). In addition, the government also established a sovereign wealth fund through the Government of Singapore Investment Corporation (GIC) in 1981 in order to support the GLCs international expansions and their global profile. More than S$100 billion of taxpayers’ money was invested overseas (GIC, 2014: 33). By 1983, the Singapore government had extensive investment involving fifty-eight companies and S$3 billion paid-up capital as well as S$2 billion worth in joint ventures (Rodan, 2006: 144; 1989: 153-4). By March 2014, Singapore’s largest GLCs, Temasek Holdings boasted an investment portfolio of S$223 billion (Temasek Holdings, 2014: 6). This internationalization of ‘Singapore Inc.’ not only contributed to Singapore’s rapid economic transformation but also strengthened the internationalization of Singapore’s capitalist class.

Singapore’s internationalization policy, especially in regards to the regionalization of its capital, was primarily to compensate for Singapore’s small domestic market of four million people (Boswell and Chase-Dunn, 2000; Yahya, 2005). Therefore, the
internationalization process prompted by the state has paved the way for new economic institutional projects at regional level. Singapore promoted a greater integration with regional economies. One of Singapore’s early symbolic initiatives was the Growth Triangle. The idea was for the Malaysian state of Johor and the nearby Riau Islands of Indonesia to combine with Singapore as a coherent, trans-state economic zone of complementary specialisations (Parsonage, 1992; Smith, 1997).

Furthermore, in the early 1990s, the close regional cooperation between ASEAN member economies was advanced by the ASEAN Free Trade Area (AFTA) initiative, which was strongly supported by Singapore. Singapore’s strong concern for ASEAN’s regional integration has been shaped by the country’s many industries and conglomerates’ capital, which have become part of the extensive regional production networks (Nesadurai, 2003; Tsui-Auch, 2006). During the 1990s, there was an increase in Singapore’s economic integration with the region. Its total direct investment abroad, for instance, rose from S$16.9 billion in 1990 to S$75.8 billion by 1997, approximately half of which went to Asia (Rodan, 2006: 148).

Singapore’s capital expansion throughout the region continued significantly following the establishment of ASEAN’s new regional integration project in the form of the AEC. In fact, Singapore’s government was the initiator of this regional governance which was first proposed during the 8th ASEAN Summit held in Cambodia in November 2002. Regional economic integration provides important scale for Singapore’s foreign economic policy in the post-Asian economic crisis, as
Singapore drives its GLCs to become dominant regional and global players (Tsui-Auch, 2006: 107). As a result of this policy, Singapore’s companies have established their dominant position in the region in terms of its market capitalization. In 2014, *Nikkei Asian Review* listed the top 50 ASEAN companies. Four of Singapore’s companies were in the top five; Singapore Telecommunications (SingTel) was at the top the list, along with Singapore’s three biggest banks, namely DBS Group Holdings, Oversea-Chinese Banking Corporation (OCBC Bank) and United Overseas Bank (UOB) (*Nikkei Asian Review*, 20 November 2014). Singapore’s investment in the ASEAN region increased enormously when the AEC was officially launched at the end of 2015. When the AEC was signed in 2003, Singapore’s direct investment abroad from the corporate sector amounted to S$153 billion. This number went up to S$665 billion in 2015 when the AEC was launched, and the direct investment with ASEAN countries alone came to more than S$122 billion (Departement of Statistics Singapore, 2015).

**Malaysia**

Similarly, the Malaysian case demonstrates how the internationalization of capital has been facilitated by the state through forms of political alliance within state-capital relations. This process is related to the state restructuring since the New Economic Policy (NEP) was introduced in the early 1970s. NEP allowed the state to shape the distribution of wealth into specific groups as well as cultivate the capitalist class. The capital accumulation was driven through the state concessions, or rents, in the form of licenses, contracts, and privatized projects. Funds to acquire these rents

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were secured through favourable loans from banks controlled by the state. Internationalization was boosted by the state, especially since the mid-1980s when Malaysia emphasized the EOI strategy under Prime Minister Mahathir Mohamad. During this period, many domestic conglomerates have been successfully consolidated along with the substantial investment of the state in some strategic corporations (see Milne, 1986).

Contrasting with Singapore, the process of capital accumulation in Malaysia has been associated with the ethnic dissents between three main ethnic groups: the Malays, the Chinese, and the Indians. For many years, the Chinese groups have dominated the economy. Inequitable distribution of wealth among ethnic communities has become major issue in Malaysian politics, especially concerning the indigenous Malays or Bumiputera (literally ‘sons of the soil’). The dissent was the main trigger for racial riots in Kuala Lumpur in 1969 which forced the government to introduce the NEP in 1971 in order to reorganise the wealth distribution. Malaysia’s government was controlled by The United Malays National Organisation (UMNO), the Malay’s main political party, who set the objectives of this new long-term policy (between 1971 and 1990). The principal objective was to achieve interethnic economic parity between the predominantly Bumiputera and the predominantly Chinese non-bumiputera. The objective emphasized strategies on eradicating poverty, irrespective of race, and restructuring society. One of the NEP’s important goals, for instance, was to increase Bumiputera corporate equity ownership

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4 In the late 1960s, for example, the Chinese ethnic groups were the predominant domestic economic force, owning 22.8 percent of total corporate equity in the country; while the Malays owned a mere 1.5 percent, and the Indians 0.9 percent. Foreign firms, then the largest owners of corporate equity in the Malaysian economy, owned 62.1 percent of share capital in private firms operating in the country (Gomez, 2006: 119).
to 30 percent and by reducing the poverty level to 15 percent by 1990 (Gomez, 2006: 121).

The NEP had important implications which allowed the state to take an enormous part in the accumulation of capital. Ethnic Malays, who dominated the government bodies and institutions, benefited from the policy (e.g., Jomo, 1993; 2000; Jesudason, 1997a; b). For example, one of the major policies following from the NEP was privatization. This has provided a vehicle for former state managers and senior bureaucrats to transition to the private sector, and UMNO emerged with indirect control over the corporate sector (Doraisami, 2005: 253). Many privatised projects were awarded to Bumiputera companies whose owners were closely connected to UMNO. This wealth concentration has also been underpinned by the state’s control over banking sector. The state-controlled banks offered a means for individuals who were closely connected to the government to obtained loans to purchase privatised state assets (Gomez and Jomo, 1997). As a result of the policy, the equity held by Bumiputera individuals and government trust agencies increased from 2.4 percent in 1970 to 20.6 percent in 1995 before falling to 19.1 percent in 1999 (Gomez, 2006: 121). Accordingly, the intervention of the state in resource distribution has promoted the rapid rise of ethnic Malay-owned business groups.

Since the mid-1980s, the state began to facilitate the internationalization of capital. This process was part of Mahathir Mohamad’s grand vision for Malaysia to achieve a fully developed nation status by 2020. When Mahathir was appointed Prime Minister in 1981, the wealth concentration to Bumiputera had become very expeditious
Many corporations were either dominated by Malay capitalists or had fallen into the state’s control. For example, by 1976, Chinese-controlled banks, Malayan Banking Berhad (Maybank) and the United Malayan Banking Corporation, had fallen under the state control after they were heavily regulated and stacked by UMNO cronies (Gomez and Jomo, 1999: 60-6). A number of major foreign-owned companies were also acquired by state-linked enterprises. In 1975, for example, Pernas acquired British-owned London Tin (now the Malaysian Mining Corporation), the country’s leading tin mining group. The following year, Pernas secured a major interest in the OCBC-dominated Southeast Asian-based multinational Sime Darby. In 1981, British-owned Guthrie Corporation, the largest plantation company in the country, was taken over by the trust agency PNB, which soon emerged as the country’s largest institutional investor (Gomez, 2009: 357).

Mahathir’s economic policy focussed on industrialisation and the EOI strategy. It was driven by the emergence of new internationally recognised Malay capitalists, known as the ‘Bumiputera Commercial and Industrial Community’ (BCIC). Mahathir promoted the ‘Malaysia Inc.’ model based on the Japanese experience of ‘Japan Inc.’ centred on developing the state. Mahathir’s government decided the direction of the economy, determining the ways the state would intervene to promote domestic industry (see Chee and Gomez, 1994). For example, the state would intervene in the market to alter the incentives available to businesses. Within the bureaucracy, Mahathir stressed the importance of the Ministry of Trade and Industry (MTI), modelled on Japan’s Ministry of International Trade and Industry (MITI), to drive industrialisation (Gomez, 2009: 357). Japan’s MITI’s ‘administrative guidance’
was a means to determine the industrial sectors that private firms should venture into (see Johnson, 1982). Similarly, in Malaysia the industrialisation policy was a continuation of the previous Second and Third Malaysia Plan (1971–1975; 1976–1980), which were in many senses a direct emulation of Japan’s sectoral industrial plans of the 1950s and 1960s (McMillan, 1996; Webster, 2014).

It is worth noting that Malaysian government policy under Mahathir’s administration set the way the state facilitates capital accumulation into a wider scale as well as integration into global capitalism. One of the strategies of internationalization that emerged was the joint ventures between local capitalists and foreign corporations. An important example is demonstrated by the Malaysia heavy industry, especially through Heavy Industries Corporation of Malaysia (HICOM). This state-owned company collaborated primarily with Japanese companies to develop a variety of industries, ranging from steel, iron and cement production to the manufacturing of cars (see Gomez, 2009). In the car sector, the government led the negotiation with the Japanese firm Mitsubishi to establish the joint-venture Perusahaan Otomobil Nasional (Proton), with HICOM holding a controlling interest. Edaran Otomobil Nasional (EON) was established by HICOM in 1985 to handle the sales of one of Proton’s productions.

Following arguments between the Malaysian government and Mitsubishi in regards to the transfer of technology, another joint venture was subsequently formed, involving Japan’s Daihatsu. At the same time, Malaysia’s second national car project was introduced. The joint venture, Perusahaan Otomobil Kedua (Perodua) included
Japan’s Mitsui and the local firm, United Motor Works (UMW), which was by then under state control (Gomez, 2009: 358). In addition, Mahathir encouraged Malaysian automotive conglomerates to establish joint ventures with European manufacturers to produce new models of the national car. One project involved France’s Automobile Citroen and the publicly-listed Diversified Resources (DRB), controlled by the late UMNO-linked Yahaya Ahmad. This venture was successful enough to allow HICOM’s privatisation in 1993, with Yahaya gaining control, providing him with a near monopoly over the production and sale of national car models. Following a major restructuring, EON and Proton came under the control of DRB-Hicom in 1993 (Gomez, 2009).

The internationalization of capital has also been driven by the expansion to a global scale. The government’s foreign economic policy encouraged and facilitated Malaysia’s corporates to broaden their share, specifically in regards to the export of goods, into Asian markets. For example, Mahathir saw the opening up of China’s economy in the early 1990s as potentially lucrative for Malaysian capital. This led to Mahathir’s call for greater business co-operation between Chinese and Malays businesses in Malaysia—something that did not happen earlier following the NEP strategy. In many previous government economic projects as well as joint ventures such as in national car industry (Proton) and the Chinese-controlled manufacturing sectors were being bypassed by Mahathir. Therefore, entering China’s enormous market was a means to further promote the international scale of Malay capitals (Gomez, 2009: 361).
The attempt to broaden the capital scale has encouraged the Malaysian government to further strengthen the liberalization of their trade regime, including the regional economic governance in Asia. In 1990, before the advent of AFTA agreement, Mahathir had proposed a regional free trade block called the East Asia Economic Caucus (EAEC), encompassing ASEAN member states, Japan, China, and South Korea (Akrasanee and Stifel, 1992: 44). The EAEC was considered a counterweight to the emerging regional blocs in Europe and North America. Importantly, it explained the inclination of Malaysia to access a broad export market in the region. It would maintain a strong alliance between Malaysia’s conglomerates and foreign corporations from countries such as Japan and Korea. The EAEC was never officially formed, as a result of Japan’s reluctance and the strong opposition from the US and Australia. Malaysia subsequently showed strong support for AFTA. Although, Malaysia’s policy towards AFTA has been ambivalent, this can be viewed as part of the different fractions of capital within several of Malaysia’s strategic industries, such as motor vehicles, steel, and food processing (see Athukorala, 2003: 31; Nesadurai, 2003: 128).

A lot of the Malaysian capitalist class was affected by the AFC of 1997. The impacts were mainly in relations to the decline of foreign capital flow as well as the challenge from international trade (Brown, 2006b: 129-132). Capitalists were facing the difficulties of recovery in the early years after the crisis. Yet, many of these capitalists – especially the Chinese big businesses – have been able to strongly reorganize their capital. Some of them even emerged into internationally oriented fractions of capital. This capitalist transformation has important implication for
Malaysian foreign economic policy. The transformation facilitates the expansion of capital beyond state boundaries, especially through the government’s strong support towards the new regional integration project (Lee, 2014; Tan, 2015). Accordingly, one of the key underlying factors that motivated Malaysia to support the AEC agreement was to ensure the process of internationalization of capital. Malaysia has a strong concern over competition to attract foreign capitals as well as to access the regional export market (Alavi, 2014: 231).

Regional market access is associated with the Malaysian government strategy to push for the internationalization of Malaysian companies. As the ASEAN economic integration progressed, the international expansion of Malaysian big businesses across the region has been evident. In the banking sector, for instance, Malaysia’s two largest banks, Maybank and CIMB Group Berhad, have emerged among the largest banks in Southeast Asia which operate their businesses across the region. In 2014, they were ranked in the top 25 ASEAN companies by market capitalization (Nikkei Asian Review, 20 November 2014). According to Nazir Razak, chairman of CIMB Group, the expansion of CIMB to almost all ASEAN countries has been substantially facilitated by the AEC project. Although the Group still faces challenges due to the differences in national laws, the ASEAN regional economic governance has enabled CIMB to strengthen its business operations in terms of intra-ASEAN trade and capital investments (Razak, 2016: 37; Tan, 2016).
Comparable to Malaysia and Singapore, the internationalization of capital in Thailand was boosted since the mid-1980s. The state played an important role within this process, especially with the shift of Thailand’s economic policy from import-substitution industrialization (ISI) to EOI. Many of Thailand’s capitalist class were being encouraged to establish alliances with global enterprises in the form of joint venture for a greater stake in the global market. This type of accumulation was shaped through the state restructuring process and the formation of state-capital relations. It began in the late 1950s during the establishment of the military dictatorship following the twin coups in 1957 and 1958 (see Hewison, 1989: ch. 4; 1997; 2000). Thailand demonstrates an accumulation process resulting from three combinations: the model of a military-led administration; political patronage that encircles the royal family; and the country’s strategic geopolitical position in the Cold War context at that time.  

Thailand’s economic growth began when the General Sarit Thanarat government embraced a new economic model which concentrated on the manufacturing sector. The first national development plan (1961-1966) saw a shift to policies that emphasized industrial development with the assistance of the U.S. and the World Bank. Generous incentives were provided for private investment while the government attracted more foreign capital. Although agriculture was not neglected,  

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5 In this case, the government assured political stability for foreign investment which was largely supported by the U.S. government. The U.S. had provided substantial aid even prior to the military coups, mainly for military assistance. This aid increased and broadened after the military came to power with Thailand being the centerpiece in the U.S.’s Cold War strategy in Asia. In addition, Thailand’s membership of the South East Asian Treaty Organization had benefited the ruling elites in their own fight against domestic communist movement, particularly in the poor and rural North East of the country (Girling, 1981: 240).
the contribution of manufacturing significantly rose the country’s economic growth, including the GDP, exports, job creation, and technology import (Hewison, 2006: 83). The government granted tariff protection to develop both domestic and foreign manufacturers which successfully encouraged domestic investment as well as strengthened local finance and banking (Hewison, 1989: 280-281). As a result of this policy, the control of commercial banks was consolidated within fifteen to twenty business families, who maintained a close nexus with the powerful political figures. They were mainly Sino-Thai families who also invested heavily in the expansion of manufacturing. It was their control over the banking sector that enabled them to expand their accumulation in a range of economic sectors (see Hewison, 1989: ch. 8).

It is noteworthy that Thailand’s economic transformation which consolidated the domestic bourgeoisie was underpinned by a remarkable period of uninterrupted growth. For more than three decades, from 1957 to 1996, the authoritarian government maintained economic development without significant interference from political opposition (see Warr and Nidhiprabha, 1996). The military regime adopted a strategy to support capital accumulation which was based on the destruction of opposing domestic social and political forces. Therefore, throughout the industrialization period, there have been massive repressions of workers’ and farmers’ movements, as well as the left political groups (Rodan and Hughes, 2014: 47). Such subjugation has resulted in unequal levels of growth across the country which produced high degrees of disparity between the elite and the majority of the people; between urban and rural areas. Even within rural areas such economic
disparity became evident, where the household incomes of the poorest were heavily dependent upon remittances from the central government (Glassman, 2010).

In the mid-1980s, the economic downturn faced by Thailand encouraged the state to facilitate the internationalization of Thai capitalists. It started with the changes in the government industrialization strategy from ISI to EOI. As the impact of the crisis expanded, technocrats and businesses were pushed to expand their capital accumulation scale. The strategy focused on strengthening the export-oriented industries, giving the limitation of domestic market as well as bringing more foreign direct investment and technology (Hewison, 2006: 85). This strategy has helped the government enable a close nexus between local conglomerates with foreign capitalists in order to strengthen the strategic industries as well as gain benefits from the new international division of labour. Thai strategy in facilitating the international expansion of capital through EOI remained dominant until the end of 1990s, before the Asian economic turmoil.

The economic results of this policy were striking. As Hewison (2006: 86) noted, ‘there was a rapid expansion of exports, from average annual growth rates of 6 per cent in the 1960s and 11 percent in the 1970s, with rates rising to over 16 per cent a year in the 1980s, and remaining above 10 percent through the first half of the 1990s.’ This impressive economic growth was also reflected in the expansion of domestic conglomerates capital into the global market while Thai businesses diversified (i.e., Phongpaichit and Baker, 1996; Jansen, 1990). The international expansion was amplified by the massive joint ventures between local capitalists and
foreign corporations in strategic industries such as automobile, telecommunication and textile (Brown, 2006b: 281-304). As FDI boomed again, the sources of foreign capital also changed. By 1986 Japan had become the leading investor. The levels of net inflows from Japan increased nine-fold between 1987 and 1990 and accounted for about 44 percent of all FDI in Thailand. Japan, along with the U.S. and Hong Kong\(^6\) remained the largest investors throughout the period (Hewison, 2006: 88).

In this regards, an example of the internationalization of capital through joint venture is best shown in the automotive industry, especially the alliance of Thai capitalists with Japanese corporations. Toyota Motor Thailand was the largest Thai specialist automotive corporations, and a joint venture between Toyota Motor and Siam Cement, a conglomerate linked to the royal family. While the group had three subsidiaries producing engines, auto bodies and parts, it also held component-manufacturing firms that produced brake drums and disc brakes (Brown, 2006b: 291). Another example is Siam Motors owned by the Phornprapha family. This company is a joint venture between Phornprapha Group and Nissan Motors which became the major investor by 1984. Nevertheless, following the economic recession in the mid-1980s, restructuring had left Nissan responsible for 25 percent of the assembly operation and global technological costs. This led Siam Motors to establishing nine component firms through joint venture arrangements, with Nissan Japan producing batteries, shock absorbers and engines (Brown, 2006b: 291).

\(^6\) Nearly all Hong Kong FDI during the 1980s was recycled from other countries. Much of it was the United Kingdom and European capital.
The expansion of Thai capital in the automotive sector through joint venture with foreign companies has similarities with the Malaysia case study. Both were Japanese technology transplants. However, the models and paths of the cooperation were very different. The joint ventures in Malaysia between Mitsubishi and Proton (HICOM) as well as between Daihatsu and Perodua were attempts to build a full national automotive capacity under Bumiputera capitalist class. While in the case of Thailand, capital alliances with Toyota and Nissan were shows Thai capital playing the roles of the parts supplier and local assembler of complete knock-down (CKD) for the Japanese products and brands.

This alliance has successfully increased the scale of the Thai capitalists. One of its indications was the massive growing of Thai automotive productions in accessing both ASEAN regional market as well as a broader Asian market. During the 1990s, before the AFC hit the country’s economy, Thailand’s automobile industry was the fastest growing sector in the region, accounting for 40 percent of the total car sales in ASEAN in 1996 (Brown, 2006b: 293). This success was influenced partly by the state policy called the ‘localization policy’ of the mid-1980s when the Board of Investment and the Ministry of Industry promoted the diversification of car models and export expansion. This production growth has also been influenced by the increasing competition in the industry following the economic liberalization of the 1990s which led to the opening of new locations in Thailand and abroad. In response

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7 The localization policy became part of the state strategies to increase the Thai automotive firms’ scale. The important impacts of the policy were: First, it led to local firms producing components as suppliers to multiple assembly firms. Second, from the mid-1980s, Japanese component manufacturers moved to Thailand, establishing joint ventures and technical arrangements, and producing superior components for exports. Hence, by the 1980s, Japan absorbed 90 per cent of automobile sales in Thailand, and a high proportion in Malaysia, Singapore and the Philippines. There had to be a change to local production. The Thai government thus promoted the use of local products, greater technology dispersion and local production for export (Brown, 2006b: 291).
to this, MMC Sittipol, a joint venture automobile firm between the Kanok Lee Isranukul family and Mitsubishi, embarked on the Asian Strategic Car Project in 1993 with Nissan and focused on exports to ASEAN (Brown, 2006b: 292).

This internationalization of capital was also apparent in Thailand’s textile industry. For example, Sukree and Saha Union, two large firms dominating the industry, were linked to Japan’s corporations. Sukree had joint ventures with Shikibo, Nomura Trading and Rhone-Poulenc. Through this alliance both Sukree and Saha Union have successfully increased their investment and technological inputs and came to hold serious international ambitions. It is worth noting that the integration of this industry involving these two conglomerates along with foreign capitals was made feasible by the state support. The state provided finance and tariff protection as well as assisted with capital goods imports. As a result, Sukree had established itself as the dominant player in spinning and garment manufacture by the mid-1980s and emerged as the world’s largest garment producer (see Brown, 2006b: 297-9).

When the 1997 Asian financial turmoil occurred – which began in Thailand – the country’s economic growth was crushed. The situation strengthen the political crisis involving contestations between capitalist classes (Hewison, 2006; McCargo and Pathmanand, 2005). It also demonstrated the way Thailand’s post-crisis economy became more integrated into the global capitalist system. The government’s foreign economic policies provided a channel for domestic capitalist recovery. For instance, the government encouraged the integration process of Thailand’s corporations into regional production networks, while also increasing the flow of foreign capitals.
Thailand’s policy towards ASEAN economic integration was in line with the restructuring policy toward Thai firms after the economic crisis. One of the important elements was *expansion*, where firms were facilitated into joint ventures or strategic alliances with other businesses (Polsiri and Wiwattanakantang, 2006: 173). This policy was an attempt to encourage the Thai export sector through pursuing the larger market in the region as well as attracting more FDIs to the country. It was not a coincidence that in the early 2000s, the direction towards the ASEAN single market was pushed by Singapore Prime Minister Goh Chok Tong and supported by his Thai counterpart, Prime Minister Thaksin Shinawatra (i.e., Glassman, 1999; 2004; Perlez, 2003; Shinawatra, 2003).

Thaksin’s support for the Singapore’s proposal at that time was crucial for the realization of the AEC agreement (Daquila, 2005: 189). But this support also reflected Thailand foreign economic policy outlook under Thaksin, which favours the capitalist interests, specifically towards the regional expansion of capital accumulation. It is noteworthy that Thaksin was important capitalist elite, even before he came to power in 2001 (his party Thai Rak Thai (TRT) won the election by a landslide). His family business ran the telecommunication sector as well as other ventures. And the core of his party included representatives of other conglomerates. He named himself the ‘CEO prime minister’ (e.g., Phongpaichit and Baker, 2004; 2009; Higgins, 2011). Thaksin’s foreign economic policies were perhaps best illustrated by his own words in 1997, ‘a company is a country. A country is a company. They’re the same. The management is the same. It is management by economics’ (Phongpaichit and Baker, 2004: 101).
Internationalization of capital and contestation

The study of ASEAN countries, namely Singapore, Malaysia and Thailand, has shown how the state can play an important role in facilitating the internationalization of capital across the region. The emergence of internationally oriented fractions of capital and political coalitions with the state apparatuses has shaped foreign economic policies in supporting regional economic governance projects. Nevertheless, the transformation of the capitalist class in Southeast Asia also led to a different international scale of accumulation between different fractions of capitalists. This is specifically in relations to the extent of the expansion at regional and global level (i.e. of international capitalist, investment-constrained capitalist, and market-constrained capitalist). These fractions of capital have different policy interests which are associated with their scale of accumulation (Bryan, 1987; Glassman, 1999; 2004). Therefore, the internationalization of capital through the regionalization of the circuits of capital is also realized in the form of the contestation between those different fractions of capitalist classes. The class struggle has been sharpened by the linkages of capitalist fractions to the state apparatuses as well as other domestic social forces. The nature of these contestations affects the forms and negotiations towards the regional economic project of ASEAN.

Firstly, the contestations between different fractions for capital accumulation within the state level have been strengthened since the recovery process after the 1997 Asian economic crisis. This period became important for the state restructuring as well as for the promotion of a neoliberal reform agenda in some ASEAN member countries which engendered the class struggle between capitalists themselves (see
Robison et al., 2000). In Thailand, for instance, the government’s economic reform strategy, with the help of the IMF’s US$17 billion assistance, led to some resistances from domestic businesses. Such reform was misguided and has threatened some domestic capitalists as many bank-based conglomerates have been weakened, while many small businesses were unable to access the banking system (Hewison, 2000).

The Thai government continued to implement the neoliberal reform agenda. The reforms potentially only benefited the foreign capitalists and a few large conglomerates. Some of the domestic capitalist class were forced to take direct control of the state’s executive power, parliament, and ministries. The main political vehicle for these domestic capitalists was the TRT. The TRT was established in 1998 by Thaksin Shinawatra, one of the few local tycoons that significantly rose after the AFC. In the general election of 2001, the TRT secured its electoral victory and brought Thaksin into power (Hewison, 2006). The major media discussion at that time associated the TRT’s triumph with the party’s platform as populist-nationalist party, which campaigned for ‘closed-door’ economic policies (i.e., Hewison, 2005; McCargo and Pathmanand, 2005; Glassman, 2004).

Nevertheless, the TRT platform as a populist-nationalist party did not mean that the party and Thaksin were natural enemies of liberalization economic policies. According to Glassman (2004), although TRT, since coming to power, implemented a small number of nationalist yet populist policies, its intention was never to promote closed-door economic policies. The reasons for this are evident from an examination of the party’s diverse social base. The TRT’s ‘nationalism’ party line was more a
function of the temporary and partial convergence of the scale politics of these
diverse social groups. In other words, the party’s policy was a shared reaction of
opposition to global neoliberalism by different Thai social groups. Some of the
groups involved in supporting TRT were already internationalized in many of their
activities. This was the case for a well-known conglomerate, Charoen Phokphand, as
well as other Thai business elites. The support from these capitalists was a reaction to
the economic crisis which affected Thai capital. Many of the businesses had been re-
scaling their operations in certain areas and attempting to reconsolidate their
positions through concentrating on investments in core businesses while cultivating
crucial forms of state support (Glassman, 2004: 46-48).

Not long after the AFC, Thanksin’s economic policies considerably changed,
especially following the consolidation and reorganization of the capitalist class.
Thailand’s foreign economic policy supported the neoliberal project at the regional
level, specifically through the initiative towards regional economic integration.
Thaksin said that his government is committed to the ASEAN economic integration
project to create an ASEAN Economic Community at the inauguration ceremony of
the ASEAN Business and Investment Summit (ASEAN-BIS) in 2003. To support
this initiative, he emphasized that ‘regional economic integration also requires the
regionalisation of ASEAN businesses. ASEAN private enterprises have to strengthen
their networks across the region. Since markets are becoming regional, business
linkages have to become regional too’ (Shinawatra, 2003).
Secondly, competition occurs at regional level between capitalist classes from different countries, especially on the position of regional economic governance. Many big businesses have taken significant roles in shaping the ASEAN economic integration project. Yet it does not mean all capitalists’ interests are served in the same way and scale through such trade governance. In the case of ASEAN, those who came from the most internationalized fractions of capitalists benefited the most.\(^8\) However, both investment-constrained capitalists and market-constrained capitalists have different ideas on economic integration. The rise of competition among capitalists has been driven by the struggle on how the internationalization of capital accumulation across the region should be performed.

For example, the regulation towards ASEAN Single Aviation Market (ASEAN-SAM) has deepened the dissent among Malaysian and Indonesian capitalists in particular. The Malaysian government has strongly backed the region’s open skies policy as it is home to Tony Fernandes’ AirAsia, the largest low-cost airline in Southeast Asia. It is clear that AirAsia endeavours to become the ASEAN’s ‘flag carrier’ (Ballantyne, 2013). As the aviation integration policy will liberalise the aviation market and connect all ASEAN destinations, it will enhance the regional scale of the Group’s capital (Fernandes, 2016). Meanwhile, Indonesia was reluctant to support the integration policy as the country owns ASEAN’s biggest aviation market. The reluctancy would stem from Garuda Indonesia, the government-owned airline, as well as Lion Air, Indonesian largest low-cost carrier airlines owned by

\(^8\) Interview with Rizal Ramli, Indonesian Coordinating Minister for Economy (2000-2001); Coordinating Minister for Maritime Affairs (2015-2016), Jakarta, 7 April 2015.
Rusdi Kirana, a conglomerate whose position is prominent within Indonesian oligarchy alliance (IndII, 2011).

Indonesia’s position protected the domestic market dominated by the two major airlines. According to data from Centre for Aviation (CAPA), Lion Air still dominates about 40 percent of Indonesia’s domestic aviation market, followed by Garuda with 20 percent (GlobeAsia, 2015b: 45). Although Indonesia confirmed its participation in the open market in April 2016, the commitment was partial. Only five Indonesian airports are allowed to be included in this policy, located in Jakarta, Medan, Surabaya, Denpasar, and Makassar. While this policy will limit the expansion of the regional giant AirAsia into the country, Lion Air Group can try to expand its market into Malaysia and Thailand. For example, Malindo Air was established as a joint venture between National Aerospace and Defence Industries of Malaysia and Lion Air, and Thai Lion Air, which is also a joint venture with a local partner (GlobeAsia, 2015b: 45).

Thirdly, the contestations within the process of internationalization of capital do not just occur between different capitalist classes on both national and regional levels but sometimes between units within the same business group. This has happened due to the different fractions of capital represented by those units. These differences explain why each unit covers different scales of business and pursues distinct economic

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Apart from owning the Lion Air Group, Rusdi Kirana has also managed to establish a high political position. In 2014 he was appointed Vice Chairman of the Partai Kebangkitan Bangsa (PKB), a political party which was founded by the late President Abdurrahman Wahid. In 2015 he was appointed by President Joko Widodo as a member of the Presidential Advisory Council (Dewan Pertimbangan Presiden; WANTIMPRES). In 2017 he was appointed as the Indonesian Ambassador to Malaysia after he requested the position directly from the President (Kompas, 18 May 2017).
policy. For example, Charoen Pokphand Group is Thailand’s largest conglomerate and owned by the Chearavanont family.\textsuperscript{10} A different approach towards regional integration occurs within one of its core businesses in agro-industrial and food, Charoen Pokphand Foods (CPF). The company operates in both the livestock and aquaculture businesses with vertically integrated poultry farms. CPF has established operations, subsidiaries and investment in 14 countries (including in Southeast Asia such as Malaysia, the Philippines, and Indonesia), and export to more than 30 countries (Charoen Pokphand Foods, 2015). Therefore, CPF might appear to be in strong support of the AEC as it provides the larger export markets for the company.

Nevertheless, the resistance to liberalize this sector has come from CPF’s Indonesian subsidiary. Their production of poultry is mainly for domestic consumption as well as outsourced to thousands of small scale farms (Charoen Pokphand Indonesia, 2015). They purchase agricultural inputs from conglomerates like CPF, raise the chickens, and then sell them to the conglomerates to be marketed. For about 90 percent of CPF’s Indonesian subsidiary massive capital accumulation gained from steep mark-ups on inputs, which farmers must pay because they cannot obtain credit to purchase them elsewhere. These profits would be abolished if the Indonesian government dropped import restrictions on farming inputs and chicken meat—a policy which the government remains reluctant to do despite pressure and grievance from other countries (see Hameiri and Jones, 2015; Jones, 2015; Julianto, 2016; Fauzi, 2017).

\textsuperscript{10} The Chearavanont family (consists of four brothers, Jaran, Montri, Sumet and Dhanin Chearavanont) are the richest conglomerates in Thailand, according to Forbes’ \textit{Thailand’s 50 Richest} in 2015. Under the chairman of Dhanin, the Group has reached the top position with a net worth of about US$18.5 billion (see \textit{Forbes}, 2015; Karmali, 2015).
In sum, the process of internationalizing capital through the regionalization of circuits of capital reflects the competition between different capitalists involving other social and political forces. Such contestation is shaped by the fact that business elites in Southeast Asia have been classified into different fractions of capital, which even happen within the same large conglomerate. Conglomerates with large diversified business sectors and internationally oriented lines will seek policies that benefit the way their capital is moving. For instance, they were supporting the liberalization of regional markets for specific profitable sectors. Conversely, other sectors of business which have strong roots in domestic capital accumulation will continue to influence the state to protect their business interests. Such contestations of capitalist fractions have determined the way the ASEAN economic integration is formed and structured. Notwithstanding the ASEAN leaders have shown their commitment to driving the economic cooperation into the Economic Community scheme, we can obviously recognize the conflicting interests that are driving the policy priorities of countries like Singapore, Malaysia, or Thailand. The differences are rooted in the larger context of class struggle between capitalists over the process of expansion into the regional and international scale.

**Conclusion**

The discussion of this chapter has focused on state restructuring in Southeast Asian countries and its significant link to the processes of the internationalization of capital. It provided an overview of how state restructuring, specifically through the alliances between capitalists, state apparatuses as well as other social forces, have played a substantial role in the transformation of capitalist class. More importantly, the
chapter found that there has been an important shift in the process of capitalist relations in Southeast Asia, from the consolidation of capitalists through statist politics to the emergence of new internationally oriented fractions of capital.

The emergence of new internationalized capitalist factions has political implications on state foreign economic policies. One of the important strategic policies, as a result of the new forms of alliance within the state-capital relations, is the state support towards regulatory projects in the form of regional economic governance. The regional economic initiative allows the massive mobility of capital to move into the regional scale and beyond. The movement of capital especially occurs through – as has been discussed in the previous chapter – the regionalization of the circuits of capital (i.e. commodities, financial capital and production networks). Although the national states – which showed from the case studies – have been facilitating the internationalization of capital since 1980s onwards, the rise of the new internationally oriented fractions of capital after the AFC pushed for further integrated regional economic arrangement through foreign economic policies.

However, as different fractions of capitals have dissimilar policy interests, the process of internationalization of capital across the region is also expressed through the contestation between capitalists. In addition, the nature of the struggles involving different fractions of capital and other social forces provides explanations for the contradictions that arise around the ASEAN economic integration project. The way capitalists have defined their interests within the regionalization of capital have
contributed significantly to the form, structure, and characteristic of regional economic governance.

The ASEAN member countries case studies in this chapter demonstrated the crucial role of the state within the process of internationalization of capital. The case studies also provided a broader context for the Indonesian case study which will be explained in Chapter 6 and 7. The Indonesian case study shows the important transformation in the capitalist formation with the emergence of the internationalized fractions of capitalists following the AFC and the fall of Suharto’s authoritarian regime. This capitalist transformation explains the strong orientations of many Indonesian big businesses towards the international expansion of capital across the regional market. Before examining the Indonesian case study, the next chapter will explain the political conjuncture of regional economic governance in the Southeast Asian region, specifically the broader structural context of capital expansion within which regional projects have developed.
This chapter explains the social foundations of regional economic integration of the Association of Southeast Asian Nations (ASEAN), specifically with the recent initiative of the ASEAN Economic Community (AEC). The international political economy (IPE) literature has provided important explanations towards economic regionalism in Southeast Asia which are superior to the prominent neofunctional and liberal perspectives. The IPE approaches mainly focus on two ways of analyses. First, the AEC is seen as a strategy that has been initiated in response to the competition within the global economy, especially with regards to the threat from China and India (i.e., Hew and Soesastro, 2003; Hew and Sen, 2004; Soesastro, 2005; Payne, 2007; Chia, 2010; Severino, 2011). Second, the regional trade governance in ASEAN is defined as a process which has been enhanced through domestic politics. This national state dynamic explanation is embedded in a deeper structural context that includes domestic political coalitions, economic growth strategies, and a set of permissive international conditions (i.e., Nesadurai, 2003; 2012; 2013; Jones, 2015).

Nevertheless, the limitation of this scholarship lies in its focus on the AEC institutions and their governance. It overlooks the significance of the broader
structural dimensions of capitalist transformation within ASEAN member economies that underpin the formation and characteristic of institutional projects. More specifically, the existing accounts on ASEAN economic regionalism fail to locate the way that approaches to regional integration are located in the transformations in the nature, spaces, and forms of capital accumulation. It is these changes in the spaces of accumulation that leads to the emergence of distinctive social forces and interests. These social forces and interest then support strategies of the regional economic integration project. Therefore, some key issues in the region with regards to the resurgence of large conglomerates and their transformation into the international fractions of capital in the post-1997 Asian financial crisis (AFC) have been absent in the existing IPE literature.

This chapter argues that the recent project of ASEAN regional economic integration in the form of the AEC has established foundations for the internationalization of capital across the region. The facilitation of the internationalization process was carried out through strengthening the single market and production networks, the flow of commodity and financial capital, as well as boosting the region’s integration with Asian neighbours and the global economy. In turn, this regional capital accumulation has promoted the regionalization process of economic arrangements. In this context, big businesses have become the motor-force of this regionalization of capital. These business groups – which have substantially emerged into the international fractions of capital – seek to broaden their capital accumulation to a global level and to facilitate and promote their accumulation strategies. Many of these family-based conglomerates now conceive their profit-making activities across
the entire ASEAN economies and beyond, rather than solely within its individual member states. It is noteworthy that such regionalization of capital accumulation represents a new set of social relations creating an interlocking of capitalist networks. These networks are reflected in the patterns of cross-border investment flows, intra-ASEAN trade, joint ventures, mergers and acquisitions, as well as the competitions over other strategic economic resources.

The chapter proceeds as follows. The following two sections provide a background discussion on ASEAN economic cooperation in order to see the root causes of international accumulation of capital. The background includes the historical trajectory of the region’s economic ties since the late 1970s as well as the formation of the ASEAN Free Trade Area (AFTA) agreement during the 1990s. Thirdly, the section draws on the political economy of AEC which further explains how the regional initiative has promoted and facilitated the internationalization of capital across the region. This section will point out how the international fractions within capitalist class in the region become the main social forces in driving the project of regional economic integration. Fourthly, the section will explain the regionalization of capital through the complex alliances between Southeast Asian capitalists. Through the emphasis on the transformation of capital accumulation, this chapter reinforces the thesis’ social relations argument that the regional economic governance of ASEAN has been shaped as a process of, and affected by, the internationalizing of capital accumulation. In turn, this international expansion of capital across the region is reflected through political struggles and coalitions involving different classes and social forces within the state formation.
The genesis for Southeast Asia’s transformation towards regional association, as has been argued by many, was political in nature rather than economic. It is believed to be a ‘top-down’ instead of ‘bottom-up’ political project which has been shaped within the geopolitical context (e.g., Beeson, 2007; 2014; Nesadurai, 2008; Tarling, 2010; Severino, 2011; Pomfret, 2011; 2013). The political dynamic of the region during the independence period was marked by the unresolved disputes among states which were potentially unstable. Issues included territorial disputes and minority conflicts, within the Cold War setting which divided some countries into ideological polarization. The First and Second Indochina Wars which lasted for more than twenty-five years from 1946 until 1975 were considered an example of how Southeast Asia was vulnerable to conflict. Another example was the Indonesia’s Konfrontasi (Confrontation) with Malaysia during 1963-1966—the tension was driven by Indonesia and the Philippines to challenge the legitimacy of a newly independent state of Malaysia (Weatherbee, 2009: 70-74). At the same period, the class of communalism involving power struggle and racial issues following the Malaysian general election of 1964 has resulted in the expulsion of Singapore from Malaysia Federation, leading to the independence of Singapore in 1965 (Rahim, 2009: 29-34).

Although the institutional transformation of the region was a political project as a tool to ensure peace, what this argument ignores is the important process of class and state formation in many Southeast Asian countries during the Cold War time. The class and state formation which happened within the geopolitical and transnational
context have given rise to a specific set of class interests and relationships that shape the direction of the regional political initiative (Glassman and Choi, 2014). In Indonesia, for example, the government policy towards the regional political bloc was in conjunction to the rise of Suharto to power following the fall of the Sukarno’s government in 1966. The New Order regime has not only shown the shift in the government political orientation which became a strong supporter of the United States (U.S.) policy, but more importantly it has helped the emergence of the new capitalist class around the ruling elite (Robison, 1986; Winters, 1996). Similar to Indonesia, the state and class formation in the Philippines significantly took place under the authoritarian government of Ferdinand Marcos (1965-1986). Through crony capitalism, which mostly benefited his family and business cronies, the Philippines strengthened its alliance with the U.S. (see Hutchcroft, 1998; Kang, 2002).

That is why the establishment of ASEAN in 1967 by its five founding members – Indonesia, Malaysia, the Philippines, Singapore and Thailand\(^{11}\) – needs to be defined not only as a political means of building security from inside through collective political contract (Beeson, 2013; Acharya, 2014). It should also be understood within the context of state formation and class struggle. For instance, some consider that ASEAN provided a common front against the Communist regimes of the region during the Cold War (Pomfret, 2013: 26). In this regards, the Communist movement in Southeast Asia has become a serious threat to the emergence of capitalism in several countries as well as to the interests of capitalist class which rise as substantial

\(^{11}\) The ASEAN membership has been expanded to ten members. Following its independence from Britain, Brunei joined the group in 1984. Four countries became members after the end of Cold War, namely Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999.
social forces through the state policies. In Indonesia, it was seen in the anti-
communist policy through the destruction the *Partai Komunis Indonesia* (PKI—
Indonesian Communist Party).

Moreover, the establishment of the regional institution was also an attempt to provide political stability across the region, which is fundamental to the formation of capitalist class interests. Consequently, notwithstanding the ASEAN’s declaration emphasis on economic and social cooperation (ASEAN, 1967), several initiatives conducted until the end of the Cold War, including the Treaty of Amity and Cooperation in Southeast Asia (TAC), a peace treaty that was signed at the First ASEAN Summit in 1976, were reserved for maintaining the political stability and preventing the region from falling into a perpetual conflict (Smith, 1999: 238-239). Unsurprisingly, therefore, ASEAN has been credited as one of the most successful regional organisations in the developing world, praised for its ability to nurture the regional stability (Kivimaki, 2001).

Economic cooperation among the five member countries (it became six after Brunei joined soon after) was not embarked upon until a decade later, when they agreed to sign the Preferential Trading Arrangement (PTA) in 1977. It was ASEAN first significant steps for promoting greater intra-regional trade for the next fifteen years, mainly through the offer of tariff preferences negotiated several times each year (Devan, 1987). Nevertheless, the dissent among its member economies has arisen since the initiation when Indonesia and Malaysia did not fully support the agreement that was strongly proposed by the Philippines and Singapore (Parreñas, 1998: 235).
Several plans have followed the agreement. For example, the ASEAN Industrial Complementation (AIC), a project signed in 1981 that arranged the complementary trade exchanges of specified products which were processed and manufactured in ASEAN countries. In 1982, the ASEAN Industrial Joint Venture (AIJV) scheme was also launched to encourage joint ventures, with a minimum of two ASEAN member participants. However, the agreements had little success in promoting economic integration (see Ooi, 1981: 3-6) demonstrated by the intra-ASEAN trade. For instance, by 1987 the ASEAN PTA products accounted for only 5% of total trade among the group members. The industrial cooperation schemes also produced limited results. At the end of the 1980s, intra-regional trade in ASEAN remained insignificant (Parreñas, 1998: 235).

The failure of these ASEAN’s early initiatives of economic cooperation is not surprising as the foundation explanation towards it lies in the way of class and state formation and the scale of capital accumulation. The social relations analysis has been ignored by the dominant statist scholarships which were very much built around the institutional emphasis. It has been argued that the less successful ASEAN economic cooperation during the 1970s until 1980s, were a result of the weaknesses of political commitment as well as the differences of economic development priorities in each ASEAN country (Ooi, 1981; Chia, 1998). In addition, the low performance of regional cooperation has resulted from; excessive bureaucratic procedures at both regional and national levels; the absence of private-sector involvement in the decision-making process; and the overriding concern of ASEAN governments with the costs associated with increased cooperation (Akrasanee and
Stiefel, 1992: 30). While a lack of political commitment was the proximate cause, what these arguments failed to explain is why political commitment in Southeast Asia was so low in the first place? Even the analysis with emphasis on the ASEAN’s traditional norms, the so-called ‘ASEAN Way’ – where the decision making process of the Association based on discreteness, informality, consensus-building and nonconfrontational bargaining styles – has not provided satisfactory answers (see Acharya, 2001: 64; Beeson, 2009a: 336). This argument ignored the important process of class-and state-formation during the Cold War and how the geopolitics enabled certain kinds of economic strategies and class formation (Stubbs, 2000: 299).

It is noteworthy that the formation of the new capitalist class in some ASEAN countries such as Malaysia, Indonesia, Thailand, and Singapore has been closely linked to the formation of the state (see i.e., Robison, 1986; Hewison, 1989; Rodan, 1989; Gomez and Jomo, 1997). Although the trajectory of such relationships was different in each country, the coalitions between the authoritarian state elites and local businesses have shaped the way capital was accumulated and organised, specifically through the control of the economic resources and many large-strategic projects. The government policies gave capitalists the privilege of accessing such resources. This process explains the economic policies of some countries. For example, in Malaysia and Indonesia, economic policies focus on the domestic market share for production (Stubbs, 2000; 2014). In these cases, the international expansion of capital accumulation was not yet emphasized through regional trade governance. But, there was a focus on enhancing the domestic production base while pursuing financial support from foreign direct investment (FDI). The sale of many Southeast
Asian commodities was largely directed to the developed countries with large consumption such as European and North American countries. Capital accumulation has contributed to shaping political policy related to the region’s economic cooperation.

By the late 1980s, the liberalization among ASEAN member economies progressed very little, yet the region’s economic ties with European and North American economies developed significantly. These two continents provided promising export destinations as many Southeast Asian economies continue to progressively develop through export-oriented industrialization policy (Parreñas, 1998: 235). Nevertheless, the increase of economic regionalism elsewhere, such as the emerging trading blocs like the 1992 European Single Market, the North American Free Trade Area (NAFTA), and emerging low-cost production centres in Eastern Europe, China and Indo-China, had become major source of concerns for ASEAN. The deepening of economic cooperation in ASEAN’s most important trading partners was seen by ASEAN member governments as threatening the interests of their economies, specifically with regards to the capital accumulation of large corporations. In this sense, the market scale for many ASEAN’s commodities might be challenged as well as the future of FDI’s flow to some capitalist class’s industries. In January 1992 at the Fourth ASEAN Summit in Singapore, ASEAN governments then agreed to form the ASEAN Free Trade Area (AFTA) in order to strengthen the trade and investment cooperation in the region (Chia, 1998; 2011).
The post-cold war, class formation and AFTA

The main instrument of AFTA was the Common Effective Preferential Tariff (CEPT). With this scheme, ASEAN member governments were committed to progressively reducing tariffs on intra-ASEAN trade in manufactured goods, processed agricultural products and capital goods to 0 to 5 per cent within fifteen years, starting in January 1993. The agreement also committed to remove all non-tariff barriers, forms of restrictive trade including quotas, embargoes, sanctions, and levies (Stubbs, 2000; Nesadurai, 2003; 2008; Chia, 2011). Three categories were covered in this CEPT scheme:

- The first category was the ‘fast track’ of tariff reductions. Fifteen product groups were put on this category, namely cement, ceramic and glass products, chemicals, copper cathodes, electronics, fertilizer, gems and jewellery, leather products, pharmaceutical, plastics, pulp, rubber products, textiles, vegetable oils, and wooden and rattan furniture. This meant that those items for which the current tariff was under 20 percent would be reduced to 0–5 percent in five years. Those items for which the current tariff was over 20 percent would be reduced to 0–5 percent tariffs by 2003 (Ravenhill, 1995: 858)

- The second category was the ‘normal track’. Most goods were in this category. It was envisaged that ‘normal track’ items with tariff rates above 20 percent would be reduced in three stages so as to reach a level of 0–5 percent by 2008. Those with tariff rates below 20 percent would have their tariffs reduced to 0–5 percent by 2003.
The third category was the ‘exclusion list’ of tariff reductions where governments could avoid liberalisations of a particular industry. This group consists of mainly agricultural products. Moreover, any government could also add items to this list as they saw fit. Member governments could also temporarily exempt products which were thought to be sensitive to the development of domestic industries (Ravenhill, 1995: 857-858; ASEAN Secretariat 1997a: 47; Stubbs, 2000: 304-305). Items from the machinery and electrical appliances sectors, as well as from the vehicle sector, were expected to be put on this list (Baldwin, 1997: 48).

Nevertheless, not too long after it was signed, AFTA faced the same problems as the previous economic agreements. Some ASEAN member governments seemed to be averse to fully implementing the agreement. According to Hurrell (1995b), Payne and Gamble (1996), Nesadurai (2003), and Jayasuriya (2004), the problem faced by regional trade agreement like AFTA was that it was driven largely by political imperatives at the national state rather than economic factors. AFTA was based on the notion that regionalism is part of a political project where the institution is constructed and constantly reconstructed. Furthermore, Nesadurai (2003) emphasises that AFTA was an instrument that helped secure the power of some ASEAN’s political elites, a process that she termed as ‘developmental regionalism’. Arguably, AFTA was adopted so it could help the economic growth of the region. In return it will maintain the support from big business players, as well as guarantee the social stability and political order. Both aspects become ‘the central basis of political legitimacy in the ASEAN states and a key instrument through which governments...
retained political power’ (Nesadurai, 2008: 230). This relates to the development of regionalism in other part of the world, especially the formation of NAFTA, Single European Market, as well as the opening up of China in early 1990s, which could lead to the diversion of FDI from ASEAN (Means, 1995).

Essential to this argument (yet, an oversight by many), is the importance of class-based nature of domestic political regimes and how the process of capital accumulation shapes the forms of regional trade governance like AFTA. The capital accumulation which is supported through coalitions between the capitalist class and the state apparatus has played a substantial part in determining the form of policies engaged to this agreement. The way ASEAN performs AFTA with no strong binding rules and institutions to enforce the liberalization commitments, for instance, was not merely because of the ASEAN’s limited institutional capacity in both managerial and financial resources (Chia, 2011: 54-55). Rather it was very much related to the interests of particular class forces. In other words, regional trade arrangement has been driven to suit the way and scale of capital accumulation.

An example of the strong capitalist interests in the regional trade negotiations is seen in the CEPT scheme. Within CEPT, numerous economic items have to be transferred to the Inclusion List to reduce the tariff. However, some countries failed to do so. Malaysia, in this case, reluctantly included its 218 items in the automotive sector and asked for deferment to 2004 to pre-empt import competition. This is in conjunction with the concerns of the Malaysian government to ensure the future of its national automotive industry which only began in 1983 with the help of Mitsubishi
Corporation of Japan (see Wad and Chandran Govindaraju, 2011). This industry was closely attributed to the state formation lead by the ruling party, United Malays National Organisation (UMNO), in enhancing the Malay capitalist class in Malaysia.

A similar case was carried out by Indonesia and the Philippines. The Indonesian government delayed around 66 items from its agricultural products to be transferred to the Inclusion List, while the Philippines deferred 192 items which were mainly from both its agricultural products and automotive parts (Chia, 2011: 51). For both countries, agriculture industry products were not just commodities, they were also crucial resources for certain class interests. For instance, the reluctance of Indonesia – a country with major production base and market share – was closely associated with the process of capital accumulation of big businesses that seek economic protection from the state intervention through this sector. During the New Order regime, the production in many agriculture sectors, as well as the market share and the capital investment, had been operated by tycoons with strong political patronage with Suharto and other politico-bureaucrats. Some tycoons were even the President’s relations. The capital accumulation from this sector has been generated from the monopoly over the domestic market and investment through government protection and concession. Therefore, reducing a significant number of tariff percentages through AFTA will affect the interests of capitalist class (see Rosser, 2002: 135-6).

Summing up, the explanation of ASEAN economic cooperation until the 1990s, with the formation of AFTA, demonstrates the importance of class arrangements within ASEAN member states. The existing accounts from the political economy literature
have provided valuable analysis of why trade governance such as AFTA was formed. However, a closer examination through assessing the capitalist class transformation explains the form and characteristics of the AFTA regional economic initiative. For instance, why there were three tracks in the AFTA agreement, and why certain industries ended up classified in certain tracks. This section found that class and state formation played an influencing role.

**The ASEAN Economic Community and internationalization of capital**

This section focuses on explaining the AEC agreement. The previous two sections explain that the early forms of Southeast Asia’s economic cooperation, including AFTA, have been very much associated with the emergence of new capitalist class and how their interests were accommodated through state policies. For example, until the end of the 1990s, the capitalist fractions orientated towards the domestic market shaped the way AFTA – along with its regional trade negotiation scheme – was embraced by ASEAN member economies. However, the vast expansion of the capitalist class beyond the state boundaries in the post-Asian economic crisis period led to a further development of economic governance in the region. The AEC as the recent regional economic initiative is defined as the regulatory process to facilitate the capital expansion into regional and global scale.

At the end of 1990s, the implementation and negotiation of AFTA had been affected by the AFC that began in Thailand in mid-1997. This is because the economic conditions of several ASEAN member countries had suffered from the significant reductions in currency value, stock markets, as well as shrinkage in foreign
investments. Most importantly, the crisis had slammed many business players in the region who struggled to prevent collapse months after the crisis (e.g., Robison and Rosser, 2000; Hewison, 2000; Teik, 2000). ASEAN governments, in response to the economic turmoil, had a strong interest in the region’s economic development by initiating the new agreement on regional economic integration.12 This new regional initiative, the so-called ASEAN Economic Community, was signed under the Declaration of the Bali Concord II at the 9th ASEAN Summit, held in Bali (Indonesia), October 2003.13 The initiative became an important action carried out by the ASEAN governments to restore economic stability. It should be noted that liberalising the market, returning the capital flow through investment, as well as creating a stable regional market, have become big businesses’ concerns following the monetary turmoil. This is because market oriented policies at regional level will provide conglomerates – which many of them were hit by the crisis – with a better environment to reorganize their businesses operations.14

ASEAN has embraced neoliberal market policies by initiating the AEC, where principles of an open, outward-looking, inclusive, and market-driven economy is

13 The AEC is among the three pillars of the ASEAN Community 2020 that was signed under the Declaration of the Bali Concord II in order to set a new direction for ASEAN. The other two pillars are namely the ASEAN Political Security Community (APSC) and the ASEAN Socio-Cultural Community (ASCC). The AEC was first proposed at the ASEAN Heads of Government meeting in Phnom Penh in November 2002. It was the continuation of the previous ASEAN Vision 2020, which was declared during the Summit in Kuala Lumpur, December 1997, as well as the recommendations of the High Level Task Force on ASEAN Economic Integration. The Task Force was formed by the ASEAN economic ministers two months before the November 2002 Phnom Penh Summit. Its task is to recommend measures for deepening the ASEAN’s economic integration beyond AFTA. At the ASEAN Summit held in Cebu, Philippines, in January 2007, ASEAN decided to bring forward the landmark by five years to 2015— with a longer timeline of 2018-2020 for CLMV (Cambodia, Laos, Myanmar, and Vietnam) states (see ASEAN Secretariat, 2007).
14 Interview with Gandi Sulistiyanto, Managing Director of Sinar Mas Group, in Jakarta, 28 May 2015.
clearly indicated in the AEC Blueprint that was launched by the ASEAN ten member governments in 2007. This process of deepening economic integration might also be conceived as a strategic response to changes in the world economy and global competitions (see i.e., Hew and Soesastro, 2003; Hew and Sen, 2004; Soesastro, 2005; Payne, 2007; Chia, 2010; Severino, 2011). This strategic response was in the context of transforming ASEAN into ‘a stable, prosperous, and highly competitive region with equitable economic development, and reduced poverty and socio-economic disparities’ (ASEAN Secretariat, 2008: 5).

Nevertheless, an important aspect of the AEC is apparent within the transformations in the nature and forms of capital accumulation. This is in conjunction to the resurgence of the capitalist class throughout Southeast Asia into the international fractions of capital, specifically in the aftermath of the 1997 economic upheaval. The economic crisis has adversely affected capitalists in countries such as Indonesia, Thailand, and Malaysia. But a few years after the crisis many of these capitalists continued to reorganize and enhance their business operations. Some capitalists even rose into strong internationally oriented businesses. In Thailand, for example, big businesses such as Charoen Pokphand (CP Group) had cash flow problems at the beginning of the crisis. However, the CP Group successfully strengthened its business position and expanded its capital after the economic crisis through the political nexus and taking advantage of Thailand’s weakened corporate environment (Hewison, 1999; Phongpaichit and Baker, 2001). A similar case is demonstrated by the Indonesian capitalists such as the Salim Group, a conglomerate that emerged through political patronage with Suharto’s New Order regime. The economic crisis
had forced the Group to sell most of its assets, but then successfully reorganized its business and expanded its capital accumulation beyond Indonesia. After the crisis, Salim mainly focused the businesses within the Asia-Pacific region with the ASEAN market as the capital operations base (see i.e., Dieleman and Sachs, 2008; Borsuk and Chng, 2014; First Pacific, 2015).

It is important to note that the international expansion of these big businesses’ capital has been associated with their control over the interlacing circuits of capital across the Southeast Asian region, namely the production of goods, the sale of the commodities, and the capital investments (see Palloix, 1977b). Therefore, the business groups that transformed into the international capitalist fraction became more focused towards: the export-oriented activities; the expansion of production networks in different places; the engagement with cheap labour policies; as well as strategies of mergers and acquisitions. Therefore, the realization of regional production networks which link all the circuits of capital, along with the socio-political alliances and governance systems to manage them, become the ideal future of the region’s economy.

Consequently, the internationalization of capital across the region means much more than the increase in cross-border flows of money or commodity trade. Indeed, behind these flows lays a social and class relations process that links the capitalist classes in the form of coalitions and contestations involving different social and political forces (i.e., Poulantzas, 1978a; Bryan, 1987; Glassman, 1999). Through such alliances, the expansion of capital benefited from national and regional strategic policies. One of
the important policies was the support for the regulatory projects of the regional economy.

In this case, the significance of the ASEAN regional integration for the capitalist class lies in its role in providing foundations to the process of internationalizing capital. The AEC agreement is an attempt to shift the economic policy from national to the regional level in order to rearrange how wealth and power will be distributed within societies. The AEC agreement not only affects the changes in domestic regulations, which are highly contentious domestically (Gill, 1992; Swyngedouw, 1997), but most importantly, it provides big businesses with a new scale for enriching their capital movements across the region beyond national boundaries. In this sense, the internationalization in the Southeast Asian region has occurred through a process of regionalization. Regional integration has facilitated the internationalization of conglomerates capital through regional space. Although, as we shall see, the struggle between capitalist classes, and the close alliances with the state apparatuses, shape the regional agreement towards favourable directions of certain stakeholders. Yet, this influence leads to a pathway that was not the intended direction when the AEC was signed. Competitions over regulating the wealth accumulation process have always been the main reasons behind the agreement’s dynamic directions.

As an example, the economic crisis affected Singapore’s state-linked large companies to a small degree, but the new regional economic arrangement will help to expand their global ambition—i.e. through foreign acquisitions and shareholding
across Southeast Asia and beyond. Singapore’s government policy aimed ‘to go global’ after the currency crisis (Tsui-Auch, 2006: 107). It was part of the reasons why the AEC was first proposed by Singapore government. Indonesia was usually reluctant to fully agree to AFTA policy in the 1990s. But Indonesia saw the AEC as a new way for big businesses to recover from the AFC. Indeed, many Indonesian companies are listed and based in Singapore as well as linked through production networks in the region.15

The AEC agreement certainly marked an important milestone of ASEAN’s economic cooperation trajectory. The agreement is distinct from the previous AFTA agreement, which was mainly concerned with tariff reduction. The AEC covers larger aspects of production, trade, investment, as well as establishing ASEAN as a single market and production base. The AEC blueprint was finalized and launched by ten ASEAN leaders during the 13th ASEAN Summit in Singapore in 2007. The blueprint outlined four pillars for the ASEAN economic community, which are shown in table 3.1.

15 Interview with Riza Damanik, Executive Director of Indonesia for Global Justice (IGJ), in Jakarta, 03 June 2015.
The four pillars of the AEC have become essential to the international expansion process of Southeast Asian capital which mostly occurs across the region. This is because these strategies are related to the circuits of capital in which many international fractions of capitalists have strong interests. Firstly, pillar 1 aims to establish a ‘single market and production base’, which indicates the importance of the region as a potential location for the realisation of value through strengthening the region’s commodity circuit. Combining ASEAN’s ten member economies would create the seventh-largest economy in the world, with a combined GDP of over US$2.4 trillion in 2015 (ASEAN, 2015d). ASEAN is projected to rank as the fourth-largest economy by 2050. With more than 600 million people, ASEAN not only has a larger population than the European Union or North America, but also becomes one of the world’s fastest-growing markets (Pooittiwong and Ramirez, 2016; ASEAN, 2017). In other words, ASEAN has emerged as one of the potential regions

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<td>1</td>
<td>Single Market and Production Base</td>
<td>Free flow of goods; Free flow of services; Free flow of investment; Frer flow of capital; Free flow of skilled labour; Priority integration sectors; Food, agriculture, and forestry</td>
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<tr>
<td>2</td>
<td>Competitive Economic Region</td>
<td>Competition policy; Consumer protection; Intellectual property rights; Infrastructure development; E-commerce</td>
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<tr>
<td>3</td>
<td>Equitable Economic Development</td>
<td>SME development; Initiative for ASEAN Integration</td>
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<td>4</td>
<td>Integration into Global Economy</td>
<td>Coherent approach toward external economic relations; Enhanced participation in global supply networks</td>
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Source: ASEAN Secretariat (2008)
for market capitalisation. This has become essential for the development of internationalizing capital. ASEAN prioritises maximizing commodities – as mentioned in the first pillar of the AEC Blueprint – such as the free flow of goods, services, and skilled labour in the region. The regional economic regime is expected to increase intra-trade between ASEAN countries as well as connecting the region with global market.

The previous economic cooperation under AFTA allowed ASEAN to reduce tariffs to help the flow of goods. However, the AEC agreement enables the removal of non-tariff barriers as well as facilitating rules such as integrating customs procedures and establishing the ASEAN Single Window (ASW). The ASW is an integrated platform for facilitating trade across the region through faster clearance of cargo and releasing of shipments. The AEC also enhances the CEPT Rules of Origin including its Operational Certification Procedures and harmonises standards and conformance procedure. As a result of these initiatives, the important improvement has been seen in the intra-regional trade. In 2014, the trade among ASEAN member economies accounted for around 24% of the region’s total trade globally, amounting to US$618 billion. This number has increased significantly since the AFC, with an intra-regional trade share percentage of 21%, amounting to US$ 128 billion in 1998 (ADB, 2015) (table 3.2).

It should be noted that facilitating the intra-trade does not mean it will reduce the region’s trade with the rest of the world economy. Instead, through what it called ‘ASEAN Centrality’, ASEAN continues to strengthen its strategy to deepen the
economic relationships, including, but not limited to, its negotiations for free trade (FTAs) and comprehensive economic partnership (CEPs) agreements. ASEAN Centrality refers to the principle that the Southeast Asian grouping of 10 countries should remain at the centre of regional cooperation. Therefore, although ASEAN’s intra-trade has increased through the AEC scheme, the trade with the region’s major economic partners such as China, the U.S., and the European Union continues in a positive trajectory. In this case, ASEAN’s trade with China has shown the most significant progress. In ten years (2004-2014) the ASEAN-China trade percentage increased from 8%, accounting to around US$ 98 billion, to almost 10% with a total of more than US$ 382 billion (ADB, 2015).

Figure 3.2. ASEAN's intra-regional trade share from 1998-2014 (percentage)

![Bar chart showing ASEAN's intra-regional trade share from 1998 to 2014](image)

Source: ADB (2015)

Secondly, the process of internationalization of capital also manifests in the AEC’s productive circuit of capital, specifically in its efforts to strengthen ASEAN as an
integrated investment area and regional production networks. According to the AEC Blueprint, the concept of a ‘single market and production base’ also refers to the region’s commitment to ‘facilitate the development of production networks in the region and enhance ASEAN’s capacity to serve as a global production centre or as a part of the global supply chain’ (ASEAN, 2008: 6). For many large business groups, this initiative has become important for the international expansion of capital accumulation. (i) Not only will this increase the amount of production of both industrial goods and raw materials for export needs, but also, production is designed at the world market level; and (ii) the initiative strengthens the alliances between Southeast Asia’s capitalists class as well as involving capital nexus with multinational enterprises. For the last few decades domestic-owned conglomerates with the support of their MNCs counterparts have contributed in the region’s capital development as well as controlled the regional value chain processes.

Thirdly, through the AEC agreement, the process of financial circuits is organised in order to free the capital mobility across the region and beyond, especially through capital investment. As stated in the AEC Blueprint, ASEAN concerns the investment enhancement as well as greater capital mobility within the region. For example, ASEAN strengthens the investment protection, facilitation and cooperation; promotes ASEAN as an integrated investment and production networks; and promotes the progressive liberalisation of ASEAN member countries’ investment regime. Through the AEC, ASEAN has strongly encouraged and facilitated the inter-

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16 Interview with Suryo Bambang Sulisto, President Commissioner of Bumi Resources, Bakrie Group; Chairman, Indonesian Chamber of Commerce and Industry (KADIN), in Jakarta, 09 April 2015; Interview with Revrisond Baswir, Economist and Commissioner of National Bank of Indonesia (Bank Negara Indonesia), in Jakarta, 25 May 2015.
penetration of capital through joint investment between capitalist classes, both among Southeast Asian businesses and engaging multinational enterprises. At this point, ASEAN believes that a free and open investment regime is the key to enhancing region’s competitiveness in attracting FDI as well as intra-ASEAN investment. Accordingly, the strengthening of this financial circuit through the AEC facilitates the efforts of the international fractions of capitalists to integrate the three stages of the internationalization of capital.

**Regionalization of capital: integration, alliances and joint ventures**

The development of the AEC project within the context of state and class formation emphasizes that the internationalization of capital across the region has been driven by Southeast Asian big businesses. The internationalization process through the regional economic integration initiative is essential for internationally oriented conglomerates as it enables them to have control over the means of regional productions, the trade of commodities, as well as turning the financial capital into large-scale investments. As the objective of these capitalists is the pursuit of profit, many large enterprises are forced to compete while also building coalitions with each other in order to manage the accumulation’s direction. Their strong position within the state-capital relations in domestic structural politics has also empowered many big businesses to shape the conditions for accumulation, both at domestic and regional level. Therefore, through such internationalization, we see an increasing amount of capital which is concentrated in the few hands of capitalists. Marx described it as a process of the concentration and centralisation of capital (Hanieh, 2011: 20).
One of the key features of this internationalization process is the way the ‘regional scale’ becomes a distinctive scale for the international expansion as well as the reorganization and integration of capital. It means that the massive mobility of capital accumulations is elaborated at the regional scale. These tendencies of internationalization are exemplified through capitalist network formation involving numerous large-scale businesses across the Southeast Asian region. The networks relate to inter-penetration of capital, cross-border concentration, personal connection, and even ethnic proximity.

One of the capitalist network examples is the close relationship between ethnic Chinese conglomerates—alliances which Weidenbaum and Hughes (1996b) termed as the ‘Bamboo Networks’. It refers to the complementary business relationship between overseas Chinese businesses throughout Southeast Asia. The close nexus is mostly through tying entrepreneurs, business executives, traders, and financiers together across national boundaries. Despite the long history of the dominance of overseas Chinese business families in many ASEAN countries, this alliance has deepened the control of Chinese conglomerates over important sectors of production, commodity and financial flow. Many of these business groups operate dozens and dozens—sometimes hundreds—of interlocking businesses in four, five or more countries. Furthermore, not only have these enterprises become the key economic factors in the region’s economic development; they also have the ability to avoid dealing with government regulations and restrictions because of their connections with different social and political forces. Such connections have helped their ability
to shift money, people and resources from one country to another (see Weidenbaum and Hughes, 1996b; a; Weidenbaum, 1998).

More importantly, these capitalist networks have internationalized capital. They have unleashed the interlocking of capital through joint ventures, mergers, and acquisitions that link the diverse parts of Southeast Asian capitalists at both regional and global level. For example, the internationalization of capital through joint ventures has been expressed enormously in the palm oil industry—one of the most important sectors of ASEAN’s productivity circuit. The largest production from this industry is currently controlled by capital alliances involving conglomerates across the region. For example, the Singapore-based Wilmar International is the largest palm oil producer in the world. The company was founded and pioneered by both Martua Sitorus, one of Indonesia’s richest people, and Kuok Khoon Hong, Singapore capitalist and nephew of Malaysian billionaire Robert Kwok (Profundo, 2007; UNCTAD, 2009). The Group globally trades palm oil from the 240,956 hectare (ha) plantations. 69% of the plantations are located in Indonesia, 24% in East Malaysia and 7% in Africa (Wilmar, 2015: 32). The capital accumulation of Wilmar has extensively deepened through joint ventures which not only enhance the company’s investment but also help the company integrate into the global distribution networks.

In December 2006, Wilmar International announced an ambitious plan to take-over and merge with Malaysia’s Kuok Group-related companies, namely Kuok Oils and Grains Pte Ltd, PGEO Group Sdn Bhd and PPB Oil Palms Berhad. The movement included restructuring to acquire the edible oils, grains and related businesses of
Wilmar Holdings Pte Ltd (much of which are joint ventures with Archer Daniels Midland Company (ADM), an American global food processing and commodities trading corporation). Wilmar transformed into the largest integrated agribusiness group in Asia, with a total value of US$4.40 billion (Wilmar, 2015: 37). In addition to becoming the largest palm oil producer, Wilmar also emerged as the largest trader of lauric oils; the largest edible oil refiner in the world (61 refineries with a total annual capacity of 15.0 million tonnes); one of the largest palm biodiesel manufacturers; and the largest trader and processor of edible oils and oilseeds and other agricultural products in China (Jafri, 2006; Profundo, 2007: 5; Wilmar, 2015: 8).

Wilmar’s expansion in the palm oil industry was aided by its political nexus with the state apparatuses. This is evident in the company’s attempts to increase the land access in their domestic country, i.e. in Kalimantan, Indonesia, despite a clear restriction from the government. According to the Indonesian Basic Agrarian Law No. 5 of 1960, the right of cultivation is restricted for foreign investors. However, Wilmar was granted large access to land for operations through joint ventures with Indonesian-based partners, and with support from political elites, especially the local government (Zakaria, Theile, and Khaimur, 2007; Anderson, 2013). Aggressive land explorations from Wilmar and several other conglomerates has become a source of criticism as it was strongly believed to be responsible for deforestation. In 2015, the Indonesian Green Institute estimated that 12 million hectares of Indonesia’s forests have become oil palm plantations due to the massive operations of palm oil tycoons. It is estimated that Indonesia has lost about 40 percent of its forests, including the
national forests, protected forests, and even areas protected by Indonesia’s forest moratorium policy (Kompas, 11 September 2015; 19 September 2015a; b). Large palm oil producers continue to receive protection from political elites. For example, Luhut Panjaitan, Indonesian Coordinating Minister for Maritime Affairs and former Trade Minister, has clearly threatened anyone who disrupts the expansion of the palm oil industry in Indonesia (Safaat, 2015).

The internationalization of capital also occurs through the interlocking of domestic conglomerates with MNCs’ foreign capital. Such capital alliances create a pressure to deepen economic integration, especially in terms of seeking larger and unified markets for creating the production base, circulation and investment. One example is in the automotive industry. The biggest investment in this sector comes from global producers such as Toyota, Honda, and Suzuki (Japan), General Motors, Ford (U.S.), and Hyundai (South Korea). Thailand and Indonesia have become the largest producer and market of ASEAN automotive industry, despite investors’ efforts from MNCs as well as domestic big businesses who saw the potential in some countries such as Vietnam (see Wad, 2009; Natsuda and Thoburn, 2013; Kobayashi, Jin, and Schroeder, 2015). The success of capital accumulation, in this case, has also been contributed by local conglomerates that – through coalitions – significantly operate the production and distribution in the ASEAN market. The ASEAN’s automotive industry is integrated into the global production networks through foreign capital. This has strengthened the region as a production and investment base, but also invigorated the production value which is then sold back into the regional and global market. It is worth noting, Malaysia’s automotive industry was one of the AFTA
sticking points, as Malaysia was disinclined to liberalise the automotive sector. At that time, Malaysia was pursuing their ‘national car’ project through Proton.

The advanced process of the internationalization of capital was demonstrated in the financial circuit, specifically in the banking sector where many banks have developed into some of the leading companies in ASEAN. In the list of the top 100 ASEAN companies in 2014, issued by Nikkei Asian Review magazine, finance dominates the top 20 companies with 9 from the banking sector (Nikkei Asian Review, 20 November 2014). Most of the banks in the top position were based in Singapore (DBS Group Holding and Oversea-Chinese Banking Corporation), Indonesia (Bank Central Asia and Bank Mandiri), and Malaysia (Malayan Banking – Maybank). Cross-border expansion of the financial circuit has further increased the capital accumulation in the banking sector since the AFC. The process of banking integration is carried out through the ASEAN Banking Integration Framework (ABIF) which was signed under the umbrella of the AEC’s ASEAN Framework Agreement on Services (AFAS). The ABIF aims to remove restrictions on ASEAN financial institutions by allowing banks that have acquired ‘Qualified ASEAN Bank’ (QAB) status to operate freely in each other’s countries and receive equal treatment as local banks (Yahya, 2015; Amianti, 2015; Almekinders et al., 2015). This enables several large banks – which are controlled by conglomerates – to operate with an influx of foreign capital institutions, such as banks from China and Japan.

It is noteworthy that the capitalist networks do not only manifest in the form of the interlocking of capital and other business operations, but also in the nature of social
relations. These capitalist networks have been surrounded by social forces that support the process of internationalization of capital, ranging from the corporate elites and bureaucrats, the dominant political parties, to technocrats and intellectuals. One of the most important implications of the political alliance is the form of conglomerates power in shaping the conditions for international expansion through promoting regional trade governance. Among these conditions is the policy towards capital coordination and allocation, commodity distribution, as well as organisation of production. The role of big businesses has been established through their nexus with politico-bureaucrats at the state level, but also through the direct involvement of many capitalists at the regional level of ASEAN. For example, the strong involvement of conglomerates has been carried out through business associations such as the ASEAN Chamber of Commerce and Industry (ASEAN-CCI) and the ASEAN Business Advisory Council (ASEAN-BAC). This association has become a political vehicle for strengthening the alliances between Southeast Asian capitalists with strong access to the regional decision making policies.

The ASEAN-CCI was founded in 1972 at the ASEAN’s foreign ministers meeting. It is a state-sponsored organization to carry out the business interests in coordination with ASEAN decision-making bodies (Young, 1986: 689; Urgel, 1994: 24). The organization was also part of ASEAN’s efforts to enhance foreign investor trust as well as to promote economic interactions with Western industrialised countries at that time (Rüland, 2014). In its early years, ASEAN-CCI’s economic and political role (e.g. in driving the economic liberalization) was limited as the organization statue was obligated to be closely aligned with ASEAN objectives (Urgel, 1994: 41).
Importantly, it was also aligned to capitalist interests that were carried out through the import-substitution policies which were still adopted by some ASEAN countries such as Indonesia, Thailand, and the Philippines until 1970s (Lim, 2009a: 157; Rasiah and Yun, 2009: 110).

However, since the second half of the 1980s, ASEAN-CCI has become an advocate of economic liberalisation and institutional reforms geared towards deepening the ASEAN integration efforts (Yoshimatsu, 2002). For example, this business association established the Group of Fourteen in 1986 with the endorsement of the ASEAN Foreign Ministers (Soesastro, 2003: 12). This group tried to provide policy preference to the ASEAN leaders for deeper market integration, especially through its recommendation report entitled ‘ASEAN: The Way Forward’. This report contains a wide range of recommendations such as the improvement of the existing Preferential Trade Arrangement and ASEAN Industrial Joint Venture, and the standstill and rollback of non-tariff barriers.

In the early 1990s, the ASEAN-CCI was involved in promoting the region’s initiative to establish AFTA. The council meeting and the meetings of the Working Group on Industrial Cooperation (WGIC) produced a wide range of recommendations on AFTA’s implementation. The recommendations included the schedule of tariff reduction, the establishment of a dispute settlement arbitration body, and the harmonisation of customs valuation. These suggestions were then conveyed to the senior economic officials meeting (SEOM), and were incorporated into the initial designs of AFTA (Yoshimatsu, 2007: 233). In the late of 1990s,
ASEAN-CCI took part in guiding the form of ASEAN’s grand vision which was known as the ‘ASEAN Vision 2020’, launched in December 1997. The vision became the foundation for establishing the ASEAN Economic Community under the broad umbrella of the ASEAN Community (ASEAN, 1997b). This vision revamped the ASEAN-CCI Vision 2020 which was formulated two months earlier in October. Through this vision, the ASEAN-CCI emphasized that the businesses circles will serve as the engine of the region’s economic growth (Bowles and MacLean, 1996: 339; Yoshimatsu, 2007: 233).

Similar to the ASEAN-CCI, the ASEAN-BAC is also a state-sponsored association which launched by ASEAN leaders in 2003. ASEAN-BAC has become a new corporate networks among large conglomerates for maintaining the capitalists’ enlargement in terms of productivity and competitiveness (Yoshimatsu, 2007: 235). The ASEAN-BAC council was expected to provide ASEAN leaders with requests from and preferences of the private sector regarding ASEAN’s future direction, especially in reference towards economic integration. According to the ASEAN Secretariat, the ASEAN-BAC takes ‘the lead in coordinating inputs from established business councils and entities in their interactions with various ASEAN sectoral groups’ (ASEAN t, 2015a: 32). As Rüland (2016: 5) argues, the initiative for establishing the new business networks coincides with ASEAN’s new regional economic initiative which was signed and launched in that same year at the Bali Summit. Parts from personally hand-picked by ASEAN leaders, the ASEAN-BAC’s council members are very much representing the capitalist networks, including foreign firms, which have roots with the government circles.
The ASEAN-BAC statutory mentions that the council consists of 30 members, comprising of three from each member country, one of which must be appointed from and represent the small and medium-sized enterprises (SMEs). Yet, none of the existing members are connected with the SMEs. For example, all three current Indonesian ASEAN-BAC members are the CEOs of large corporations with global interests and close ties to the political elites. They are namely (a) Soebronto Laras, the Chairman of Indomobil Group, Salim Group, and linked to the another ASEAN-BAC member from the Philippines through their connection with the Salim Group, Manuel V. Pangilinan, the co-founder of First Pacific. (b) Anangga W. Roosdiono, a Co-Founder and Managing Partner of Roosdiono & Partners, and (c) Prijono Sugiarto, the President Director PT Astra International Tbk. Previous member such as Tonny Sumartono was professionally affiliated with the Astra International conglomerate, and married to Indonesian Minister of Finance, Sri Mulyani Indrawati. With such profiles, ASEAN-BAC has strongly maintained privileged access to high-levels of ASEAN officials and member government’s elites (see ASEAN-BAC, 2016).

**Conclusion**

This chapter has explained that the ASEAN regional economic integration has been shaped within the context of state and class formation in Southeast Asian countries which led to the internationalization of capital. As many capitalists were transformed into the international fraction of capitalists following the Asian economic crisis, regional trade governance has become important for the accumulation and wider expansion of wealth beyond national boundaries. In other words, the AEC agreement
has provided the institutional foundations for the massive expansion of capital into the international stage. It is, for example, carried out through regulating the process of trade commodities, production base, as well as the interlocking of financial investment across the region. In the aftermath of the 1997 financial upheaval – which slammed most of the region’s economies – we see not only the resurgence of Southeast Asian capitalist class, but also the concentration of accumulation among big businesses through regional and global alliances involving capital and the state.

Furthermore, the state-capital relations within the internationalization of capital accumulation have shaped the direction of the AEC itself. The AEC, therefore, would not be merely understood as purely neoliberal project of ASEAN governments, which push towards an open market as argued by orthodox economies. Similarly, protectionist and some political economists believe that the AEC is an ambitious project carried out by ten ASEAN countries, with a strong tendency from some members pursuing protectionism policies. The AEC, in effect, is determined by the process of internationalization of big businesses capital. The internationalization process, as a result, influences the nature of the AEC making it neither liberal nor protectionist. The AEC is designed to enhance the capitalists’ accumulation through internationalizing capital across the region.

The internationalization process is essential for big businesses as an enabler for businesses to control the means of productions, trade of commodities, as well as turning financial capital into large-scale investments. This is possible through capital inter-penetration, cross-border concentration and alliance, which link to the diverse
parts of the region’s capitalists. Strong coalitions of state-capital have been established at the domestic structural politics level. Big businesses have been empowered to shape the conditions for accumulation and expansion processes, specifically through regulating regional trade arrangements. The internationalization of capital has strengthened the formation of capitalist networks. The internationalisation of capital also explains the rise of competition between different fractions of capital as a result of struggles on how the capital accumulation should be organized and performed.
6

The Politics of Indonesian Conglomerates: Capital Expansion and Regional Alliance

Introduction

The ASEAN Secretariat 2015 Investment Report pointed out that joint ventures, mergers and acquisitions involving Southeast Asian companies have become a major indicator of the region’s cross-border capital expansion and industry consolidation in recent years (ASEAN, 2015c: 30-32). The total value of mergers and acquisitions rose to US$68.4 billion in 2014, a 12 percent increase from the previous year. This number exceeded that of Japan for the first time, which came to US$64.7 billion (Darmayana and Meryana, 2015; Ito, 2015). Indonesian conglomerates played a part in these movements, such as the Salim Group acquisitions. Salim owned Indofood Sukses Makmur, Indonesia’s largest food producer, which acquired Danone Dairy Indonesia, a local unit of the French food giant, for US$20.5 million deal. Indofood also increased its investment in Asahi Indofood Beverage Makmur (AIBM), a joint venture company with Japan-based Asahi Group Holdings Southeast Asia Ltd. (Asahi), for US$7.4 million (First Pacific, 2014: 27; 195; Ito, 2015; The Jakarta Post, 10 April 2015). This merger and acquisition not only indicates the expansion of Indonesian (and Southeast Asian) big businesses, but also signifies a broader context of the capitalist transformation into internationalized fractions of capital.
The expansion of Indonesian capitalists beyond national frontiers is not a new phenomenon. It has increased since the 1980s onwards, specifically through concessions and protections policy provided by Suharto’s New Order regime (e.g., Robison, 1986; Sato, 1994; Brown, 2006a). Nevertheless, the international expansion of capital in the post-1997-1998 Asian financial crisis (AFC) has transformed many Indonesian bourgeoisies into internationally oriented fractions of capital due to two reasons. First, the internationalization of capital has been focused mostly on the Southeast Asian regional market. The expansion is linked to the regionalization of the circuits of capital (i.e. commodities, money capital and production networks) through regional economic governance. Second, the rise of the new internationalized fractions of capital took place within the new electoral system, marking the reorganization of the capitalist class and the emersion of many businesses into dominant political forces (e.g., Rosser, 2002; Fukuoka, 2012; Winters, 2013; Hadiz and Robison, 2014).

This chapter focuses on the international expansion of Indonesian capitalists across the region as a way of understanding the social forces and their coalitions in conditioning the political support for the regional economic integration project. The chapter moves beyond the methodological nationalism of existing literature on Indonesian capitalist formation which tends to emphasize their position within domestic political and economic structures (i.e., Robison, 1986; MacIntyre, 1990; Robison and Hadiz, 2004; Brown, 2006b; Chua, 2008). It is argued here that Indonesian capitalists have continued to emerge into international fractions of capital, which are linked to the circuits of capital beyond the nation state. Such a
transformation denotes a shift from capitalists which are only interested in protecting domestic markets, to those with an interest in the unrestricted regional economy, especially through the project of ASEAN economic integration. In this context, regional trade governance is viewed as a new spatial fix for economic regulatory coordination beyond state territories (Harvey, 2003: 33; Chacko and Jayasuriya, 2017: 16). It is noteworthy that the regionalization of these capitalists has been facilitated by the state, specifically through foreign economic policies that support regional economic initiative as well as economic liberalization packages. The strong role played by the state has been made possible through the new forms of coalitions within the state-capital relations involving bourgeoisies, political elites and other social forces.

The chapter is structured as follows: the following section outlines the transformation of Indonesian big businesses after the AFC and Suharto’s fall, and how big businesses have emerged into internationally oriented fractions of capital. The section also explains the reformulation of new oligarchic structures following reformasi (reformation) movement. The second section discusses the new ambitions of conglomerates in the regional and global context. In the third section, the chapter examines how capitalist interests towards the regionalization process have been facilitated by the state power, in particular through the strong and direct engagement of capitalists in the political arena as well as through business associations.
The emergence of internationalized capital in the post-Asian crisis

The years 1997 and 1998, marked by the financial crisis and followed by the demise of Suharto’s authoritarian regime, were very significant in reappraising the political economy of contemporary Indonesia. More specifically, this period importantly defines the dynamics and transformations of the Indonesian capitalist class (i.e. conglomerates, big businesses, bourgeoisies). As many of these capitalists were consolidated during the New Order ruling government through patronage relations, they were struck by the crisis. Not to mention by the fall of their patron (Brown, 2004; Sato, 2004; Chua, 2007). Their economic and political powers became more delicate by the neoliberal policy reforms imposed under the 1998 International Monetary Fund (IMF) rescue package. This reform package abolished special privileges for Suharto’s capitalist cronies as well as restricted the extent to which the politico-bureaucrats could continue to protect the conglomerates interests (Schwarz, 1999: 5; Rosser, 2002: 172). Nevertheless, the new political system formed after the crisis, especially with the strengthening of the populist electoral democracy, has allowed the formation of a new pattern of oligarchic alliances between capitalist class, political elites, as well as numerous social forces. These new forms of political coalition substantially contributed to the emergence of the new internationally oriented fractions of capital which have strong ambitions for regional and international accumulation (e.g., Hadiz, 2003; Dieleman and Sachs, 2008; Chua, 2009; Fukuoka, 2012; Aspinall, 2013).

The economic crisis that erupted in Indonesia was part of a sequence of AFC events that began in Thailand with the monetary decay of Thai baht in July 1997. Within
weeks of the Thai baht collapse the Indonesian rupiah followed suit. Within months, rupiah lost around 80 percent of its value in relation to the U.S. dollar (Beeson and Rosser, 1998: 2). The collapse of the value of the currencies within the region, such as the South Korean won, Philippine peso, and Malaysian ringgit, was the most dramatic indication of the crisis. The crisis was also marked by the quick outflow of capital from the region, which was in part caused by the decline in investor confidence and outright panic (e.g., Matsumoto, 2006: 6; Freedman, 2005; Fane and McLeod, 1999). As a consequence, inflation skyrocketed in some Asian countries. The worst of it was suffered by the Indonesian economy where inflation reached 78.15 percent on November 1998 (Inflation.eu, 1998). Domestic and international efforts were conducted to restore stability. For example, the IMF provided a rescue package of more than US$100 billion. Nevertheless, the crisis remained with persisting strength throughout 1998 and into 1999 (Winters, 2000: 38).

In Indonesia, the impact of the AFC was unquestionably enormous, not only in the economic sector but also because the economic crisis led to a deeper social and political crisis. Adding fuel to fire, the economic downturn furthered the widespread social unrest against the political regime and led to demands for President Suharto to step down. The movement spread from city to city in Java. The elimination of fuel subsidies as part of the IMF stabilisation programme and the immediate increase in price of petrol on 1 April 1998 led to outbreaks in many other cities outside of Java such as Medan. As a result, the social unrest got out of control, even military power, which had been an effective resource for Suharto in disciplining politics, could not

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quell it. The climax of the situation was Suharto’s resignation from the presidency on 21 May 1998, after being in power for 32 years (see Vatikiotis, 1998; Aspinall, 2005; Fukuoka, 2015). As part of the network of political patronage of the New Order regime, conglomerates were among the groups who suffered most profoundly from the economic and political crisis—experiencing a dramatic downfall.

Big conglomerates suffered financially due to soaring debt as a result of the way they had conducted their business operations over the years, relying on the government protection and concessions. One of the advantages of their political connections to Suharto was their direct access to resources and to lucrative projects (Robison, 1986; Chua, 2008). The conglomerates became dependant on short term foreign debt because of the high domestic interest rates. This pattern was not only seen in Indonesian companies but also in corporate entities of other Southeast Asian countries and South Korea. Data shows the extent to which foreign debt became essential in the expansion of conglomerates. In only the eight years from 1989 to 1997, the private sector debt in Indonesia rose more than six times, from US$12.4 billion to US$80.1 billion, thereby surpassing public sector debt (see Nasution, 2001: 27). Most of these liabilities were unhedged and denominated in U.S. dollars, thus making the Indonesian corporate sector very much vulnerable to depreciations of the rupiah. As the value of rupiah fell drastically in 1997-1998, these companies found it difficult to pay back their foreign debt because the majority of their income was in local currency. In the first half of 1998, most of Indonesia’s large enterprises were practically bankrupt (Robison and Rosser, 2000: 171).
The severe deterioration of these conglomerates was illustrated when the government introduced the restructuring policies over the corporate and banking sector targeting the heavily indebted business groups. Such policies were carried out through the newly created Indonesian Bank Restructuring Agency (IBRA). IBRA was established by the government on 27 January 1998 as a consequence of agreements made to obtain IMF assistance after the crisis. One of IBRA’s important roles was to oversee the ailing (but still viable) banks and to restructure the corporate sector. These restructuring policies can be seen as a process of dismantling the ownership structure of many capitalist’s big companies that had emerged during the Suharto regime. The ownership structure of these corporate and banking sectors had become inter-twined as they linked the large business groups under the control family ownership and their partners. During the restructuring process, many conglomerates were forced to sell some of their assets and were forced to close, nationalize or recapitalize their banks (e.g., Bennett, 1999; Rosser, 2002; 2003; Brown, 2004; Sato, 2004).

What made this crisis more severe for most conglomerates was the implications towards the dissolution of the oligarchy formation, especially after the ousting of Suharto. For conglomerates, the fall of the New Order was obviously a threat that might end the patronage system and political protection. Suharto, who gave great access of resources to his closest friends, no longer held presidency. The predatory system which benefits big business through corruption, collusion, and nepotism, was being threatened by the transition to the new electoral political system. While many conglomerates desperately tried to restore their business assets following the
A few years after the crisis, many capitalists have successfully adjusted to the new ways of political struggle to ensure access to economic resources, mainly by forming the new and complex political coalitions. The political alliances of capitalists have been expressed in various ways. For example, capitalists’ have been directly involved in the political process by controlling political parties or establishing a new party with their capital support; or through strong coalitions with the parliament; penetrating government bureaucracy; as well as setting up strong links with domestic executive leaders at the provincial and district levels—something which never occurred during the previous New Order period. Accordingly, the Indonesian electoral system has provided new modes and pathways for capitalists to shape politics and to influence policy in their own interests. In other words, the new system has been marked by the substantial role of the tycoons, whether it is tangible or intangible (i.e., Chua, 2008; Hadiz, 2010; Fukuoka, 2012; 2013; Winters, 2013).
Many capitalists have direct control over political parties through their strategic position, whether as the chairman or on the executive committee. Aburizal Bakrie, the chairman of Bakrie Group, is one of the prominent examples. His capital power has allowed him to secure a position as the chairman in the Party of the Functional Groups (Golkar) from 2009-2014. Golkar was previously led by Jusuf Kalla, another prominent business figure whose family business runs the Kalla Group. The same pathway was also exhibited by Hatta Rajasa in the National Mandate Party (PAN) and Prabowo Subianto in the Great Indonesia Movement Party (Gerindra). Hatta Rajasa, who owns an oil and gas company, the Arthindo Group, led the PAN party from 2010-2015. Prabowo Subianto established Gerindra as a new political party in 2008. The party has been extensively funded through his family company, Nusantara Group, which engages in energy, plantation, mining and forestry businesses (Pambudi, 2009: 94; Aditjondro, 2010: 46; Jong and Widhiarto, 2014; Kontan, 07 March 2016). During the 2014 presidential election, the role and influence of the capitalists have become salient. The two presidential candidates, Prabowo Subianto and Joko Widodo, were very much representing the business fractions. Prabowo ran for office along with Hatta Rajasa as the candidate for vice president. While Joko Widodo paired with Jusuf Kalla. It is noteworthy that numerous other big conglomerates were very prominent in financially supporting the two candidates (see Winters, 2013; Hadiz and Robison, 2014).  

As the political alliances within the state-capital relations became more prominent in the new electoral system, the capitalists have a strong capacity to shape – directly or

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18 Interview with Sukaardi Rinakit, Senior Researcher Soegeng Sarjadi Syndicate, in Jakarta, 4 March 2015. Rinakit was also a campaign manager for Joko Widodo during a 2014 presidential campaign.
indirectly – strategic economic policies. Unsurprisingly, therefore, some of the key owners and controllers of pre-crisis capitalists have managed to survive from adversity and reorganize their capital to be ranked in top positions among business groups. In 2015 *GlobeAsia* magazine listed the top 150 richest conglomerate owners in Indonesia (*GlobeAsia*, 2015a: 32-34). Although there were new faces, the composition of the dominant conglomerates has not changed much since a similar list was compiled by *Warta Ekonomi* newsmagazine more than two decades ago. Prominent on the *GlobeAsia* list are Robert Budi Hartono and Michael Bambang Hartono who own clove cigarettes producer Djarum and Bank Central Asia, Indonesia’s largest private bank, which used to be owned by the Salim family. Other conglomerate owners on the list include Eka Tjipta Widjaja, the founder of the Sinar Mas Group; Anthoni Salim, the current chairman of the Salim Group; Mochtar Riady, the chairman of Lippo Group; Peter Sondakh, the head of Rajawali Group; Sukanto Tanoto, who owns the Raja Garuda Mas Group, a holding company including businesses in paper, palm oil, construction, and energy; as well as Martua Sitorus, a tycoon whom with Singaporean conglomerate, William Khong Hong, owned Wilmar International, one of Asia’s leading agribusiness groups.

However, these figures do not indicate the extent these business groups have grown their interests beyond the national market after the AFC. Numbers of them have emerged into some of the most aggressive companies in Southeast Asia. The capitalists have a strong political influence within a restructured state apparatus along with their capitalist networks, which has facilitated new forms and strategies of

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19 In the issues dated 11 February 1991, 27 April 1992, and 3 May 1993, *Warta Ekonomi* ranked the two hundred largest groups in Indonesia by size, which show the dominant position of these conglomerates. See Chua (2007), Habir (1999) and Sato (1993).
accumulation at the international scale. Take the example of the Raja Garuda Mas Group (renamed Royal Golden Eagle (RGE) Group in 2009). This group, not only managed to survive the economic crisis but also successfully grew larger, diversified, and – most importantly – internationalized. Founded by Sukanto Tanoto in 1973, the Group was initially involved in manufacturing plywood panels. The Group then diversified into palm oil in 1979 as well as pulp and paper in 1983 which was operated by the Groups’ Asian Agri and Indorayon respectively. The Group’s pulp and paper operations became more integrated by the establishment of Asia Pacific Resources International Holdings Ltd (APRIL) in 1994. Yet, most of its businesses were based in Indonesia (Ratnasari and Soesetiyo, 2012). The financial turmoil in 1997 has a significant impact to the Group’s business operations (see Harper, 2006: 3; Sato, 2004: 30).

After the AFC, while moving its base to Singapore in order to mitigate the effects of a global travel ban at the time, Tanoto’s business has emerged into internationally oriented capital. The RGE Group business expansion was carried out through a new acquisitions and joint ventures strategy. Most of its joint ventures were with Chinese capitals. The strategy was to help the Group’s business diversification and importantly in expanding into a larger Asia pacific market, particularly Southeast Asia and to some extent China (RGE, 2016). In addition to the pulp and paper and palm oil industry which has substantially developed after the AFC, RGE also expanded its business interests in the specialty cellulose, viscose staple fibre, and energy resources development. These new lines of business mostly operate outside the Indonesia market, notably in China, the Philippines and Brazil (Alim and
Muhanda, 2013). The Group’s operation in the viscose staple fibre started in 2002 by establishing Sateri International in China (Sateri, 2016: 4). The following year, RGE expanded into energy resources with the establishment of Pacific Oil & Gas. The company’s operations have been developed through joint venture with Jiangsu Guoxin Investment Group and China state-owned company, PetroChina (RGE, 2016).

Another prominent example is the Salim Group, which used to be the closest ally of Suharto through its founder Liem Sioe Liong. From the 1980s to 1990s, the Salim Group evolved into the largest Indonesian business with operations abroad, establishing headquarters in Hong Kong and Singapore. However, the currency crisis hit the Group, forcing major restructuring including selling assets to repay central bank loans and external debts (Sato, 2004; Brown, 2004; Dieleman, 2007). The management control of the Salim Group passed to Sioe Liong’s children before he died in 2012. Anthony Salim, the youngest son, who now leads the entire family business, commented on the Salim Group’s success by saying that ‘my father would never [have thought] Salim would be what it is today’ (Suzuki and Suzuki, 2015). The group’s business diversification, especially in the post-economic crisis, is perhaps the largest and the most sophisticated compared to other conglomerates. Through its investment vehicles, the Hong Kong-based First Pacific and Singapore-based QAF, the family controls many companies and unrelated business sectors in the Asia Pacific region (see First Pacific, 2014; Borsuk and Chng, 2014: 436). As a result, more than 60 percent of the Group’s revenues are from business operations outside the Indonesian market. The Salim Group overseas revenues accounted for
only 30 percent before the crisis (Dieleman and Sachs, 2008: 166; First Pacific, 2016: 4).\(^\text{20}\)

Dielman (2007) and Hanani (2006) argue the Indonesian big businesses increasing focus towards international business after the AFC is related to corporate reform in management structures. The Salim Group, for instance, hired professionals to take over several top management positions while the ultimate control remained within the family hands. This strategy successfully helped the survival of the Group during the crisis and also assisted the succession process in the family business. With the presence of professionals, the second and the third generation of the family were able to learn how to run internationalized companies.\(^\text{21}\) Indeed, the argument is valuable for understanding some of the changes in the company’s internal management. The hiring of professional managers explains how the firms restructured the management, but not why they did it.

Hence, the post-AFC period has delineated the transformation of the Indonesian capitalist class through the new forms of political alliances within the state-capital relations. The alliances became a major illustration of the country’s new electoral system. More importantly, the transformation of Indonesian capitalists has been marked by a strong orientation of many big businesses to expand their capital

\(^{20}\) Much detail of the Salim Group business expansion will be explained in Chapter 7.

\(^{21}\) Most current Indonesian conglomerates are preparing for the succession to the next generation within the family. For example, take the case of William Soeryadjaya’s business. Soeryadjaya was the founder of Astra International, after the family lost Astra, the family business was recovered through Saratoga Capital, which was run by his son Edwin Soryadjaya (co-founder with Sandiaga Uno). William Soeryadjaya’s grandson, Michael William Soeryadjaya has already reached the top management level in the business. Similarly, Lippo Group of Mocttar Riady is in the hands of the second generation led by James Riady. The third generation, Mochtar Riady’s grandson, John Riady, is in the top level of the company’s management.
accumulation beyond the Indonesian market. According to the report by consulting firm Bain & Company (2014: 4), Indonesia’s large corporations have benefited by their geographic expansion process to the international scale. An important implication of this international orientation is the endeavour to facilitate the capitalist expansion through regulatory economic projects at the regional level. The following section will further elaborate on the international expansion of Indonesian capitalists across the region and its relations to the support the regional economic governance.

The internationalized big business: regional expansion and global ambition

While the process of the internationalization of Indonesian capitalists started in the 1980s onwards, there has been an acceleration of this process in the post-AFC period. It is noteworthy that the internationalization process of capital accumulation is evident at the regional level. Through large amount of investments, acquisitions and joint ventures, these capitalists have secured substantial control over some strategic companies in Southeast Asia. As their circuits of capital became more regionally interconnected, the capital expansion of numerous Indonesian capitalists also became profound across the region.

An illustration is provided by the Lippo Group. Since the AFC, the Group has been growing rapidly and strengthening its focus on the Asia Pacific region, specifically Southeast Asia. The Group was founded by Mochtar Riady, and now it is run by his sons, James Riady and Singapore-based Stephen Riady. The Group was originally known as a family company which was mostly engaged in banking (through Lippo Bank) and real estate. Lippo’s significant expansion in the mid-1990s benefited from
its capitalist networks and political connections to politico-bureaucrats (Mackie, 2003: 111; Aspinall, 2005: 152; Brown, 2006a: 973). The political connections helped accelerate the Group’s earlier internationalization, especially in the US and China’s market. Controversially, Lippo political funded the U.S. former president, Bill Clinton, who was personally known by James Riady. In 2002, the Lippo Group was the largest donor in Clinton’s presidential campaign. The Group continued to provide huge amounts of money, amounting to nearly US$1 million, to Clinton’s 1996 re-election campaign. Subsequently, Lippo’s donations became a national scandal, as the donations had been raised illegally from non-U.S. residents. Moreover, questions were raised suggesting that the funds might influence Washington’s Indonesia policies (Mydans, 1996; Richburg, 1996; Rimmer and Dick, 2009: 216). However, the Asian crisis and the depreciation of Indonesian rupiah at the end of 1990s greatly impacted the Group’s debt and cash flow. Lippo was forced to reorganize its assets and sell some of its important companies, including its Indonesian banking services and other offshore businesses (Rimmer and Dick, 2009: 217).

After the Asian crisis, Lippo has managed to reorganize its capital through mergers, acquisitions and joint ventures. In this context, the Group’s political connection remains significant, specifically through funding to some politicians and the Group’s direct connections to bureaucrats (O’Rourke, 2002: 290; Chua, 2009: 219). Resulting from the financial impacts of the AFC, Lippo Bank was transformed into CIMB Niaga Bank following a merger with Malaysia’s CIMB Group in 2008. Currently CIMB Niaga is the fifth largest bank in Indonesia by assets (Diela, 2016; Mahpar,
In 2010 Lippo acquired 60 percent stake in the Jakarta-based lender, Nationalnobu Bank, to enhance its banking operation (Chanjaroen, 2016). In 2004 the Group’s real estate business was consolidated into Lippo Karawaci to form the largest property company in Indonesia (Lippo Karawaci, 2008). Although there has been a gradual diversification of its real estate development to other cities such as Makassar (South Sulawesi), Malang (East Java) and Medan (North Sumatera), Jakarta is still the main focus (Rimmer and Dick, 2009: 218). That is why, soon after Lippo Karawaci was consolidated, the Group continues to enhance its political links. For example, since 2005 Lippo has included prominent politicians, former military generals, and former Governor of Jakarta into its company’s Board of Commissioners, namely: Theo L. Sambuaga (Golkar Party); Agum Gumelar (former military general); Tanri Abeng (former Minister of State Owned Enterprises); Muladi (former Minister of Judiciary); Surjadi Soedirdja (former Governor of Jakarta); and Sutiyoso (former Governor of Jakarta) (Lippo Karawaci, 2005; 2010; 2015).

Now Lippo has successfully expanded and diversified into five major sectors and estimated to have over US$22 billion in assets and employ around 35,000 people (Suzuki, 2015a). In addition to its financial services and real estate development, Lippo has substantial businesses in the manufacturing industry such as electronic products, automotive parts, cement and household appliances. The Group also developed strategic investments and services which include information technology, media holdings, supermarket chains, department stores, entertainment businesses, schools and universities (Lippo Limmited, 2016).
It is worth noting that Lippo’s development after the Asian crisis has been marked by the strong ambition for international expansion, specifically in Asia. Many of its business expansions were carried out under joint ventures with Southeast Asian capitalists as well as enterprises from Hong Kong, China, Japan and the U.S. It started by developing Singapore as a second offshore base and reducing its equity exposure to the Indonesian economy. In 1999 the Group took control of the Auric Pacific Group Ltd, a Singapore incorporated investment holding company with interests in wholesale food distribution, manufacturing and retailing. Now Auric’s businesses extended to a wider range of branded supermarkets, restaurants as well as food court management in Singapore, Malaysia, Hong Kong, and China (Rimmer and Dick, 2009: 218).

To reinforce its real estate expansion under Lippo Karawaci, in 2005 the Group collaborated with state-owned China Resources Group (CRG) which bought a 15.44 percent stake in Lippo Karawaci. In 2006, Lippo Karawaci’s assets were reportedly US$1.3 billion in Indonesia and US$1 billion offshore. In that same year, the Lippo Group acquired a majority share in Singapore’s property company, Overseas Union Enterprise (OUE), with Malaysian tycoon Ananda Krishnan for US$626.2 million (Azhar, 2006; Rimmer and Dick, 2009: 218). In 2012, the OUE launched a $10 billion-plus takeover bid for Singaporean conglomerate Fraser and Neave (Karmali, 2012). Since then, the Group’s investments in real estate have grown not only in Southeast Asia but also extended to Hong Kong, mainland China as well as Korea (Lippo Limited, 2016: 6-7). While in technology business, the Group has teamed up

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22 Lippo Group also had a partnership with Malaysian tycoon Ananda Krishnan in the media business. Yet the two parted ways due to management disputes. The legal battle between them continues (see Suzuki, 2015a).
with Mitsubishi’s Mitsui & Co., in Indonesian Internet businesses. They jointly launched the country’s first fourth-generation high-speed network in 2013 and built a large data centre (Suzuki, 2015a). In 2015, Lippo backed Venturra Capital, a new US$150 million venture capital fund to invest in Southeast Asian technology companies (Chilkoti, 2016b; Bisara, 2015). Asia and especially Southeast Asia has been experiencing economic development growth and investment (UNCTAD, 2015: 41). Therefore, the Lippo Group realises the importance of making the company into a strong regional and global player—a strategy which is also shared by many other Indonesian conglomerates (see table 6.1).
<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Owner</th>
<th>Core Business</th>
<th>Net Worth (US$)</th>
<th>Capital Expansion</th>
<th>Major Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Djarum</td>
<td>Robert Hartono and Michael Hartono</td>
<td>Cigarettes, Banking, Industry, Palm plantation, Property, E-commerce, Media, Utilities</td>
<td>15.4 billion</td>
<td>Southeast Asia, Japan, China, Australia, Middle East, Netherlands, Russia, US, and Canada</td>
<td>Export Acquisition Investment</td>
</tr>
<tr>
<td>2</td>
<td>Sinar Mas</td>
<td>Eka Tjijpta Widjaja</td>
<td>Palm plantation, Pulp and Paper, Property, Agribusiness, Financial, Energy, Infrastructure, Telecommunication</td>
<td>12.6 billion</td>
<td>Southeast Asia, China, Hong Kong, Japan, UK, Europe</td>
<td>Export Joint Venture</td>
</tr>
<tr>
<td>3</td>
<td>Salim</td>
<td>Anthoni Salmi</td>
<td>Food, Infrastructure, Telecommunication, Oil and Gas, Automotive, Property, Banking</td>
<td>10.5 billion</td>
<td>Southeast Asia, China, Japan, Australia, New Zealand, Papua New Guinea, Fiji, UK, Europe</td>
<td>Export Joint Venture Acquisition Investment</td>
</tr>
<tr>
<td>4</td>
<td>Gudang Garam</td>
<td>Susilo Wonowidjo</td>
<td>Cigarettes, Plantation, Property, Paper</td>
<td>8.0 billion</td>
<td>Southeast Asia, China and Japan</td>
<td>Export Investment</td>
</tr>
<tr>
<td>5</td>
<td>CT Corp</td>
<td>Chairul Tanjung</td>
<td>Media, Banking, Lifestyle &amp; Entertainment, Retail, Natural Resources</td>
<td>4.8 billion</td>
<td>Indonesia</td>
<td>Investment Acquisition</td>
</tr>
<tr>
<td>6</td>
<td>Sampoerna Strategic</td>
<td>Putera Sampoerna</td>
<td>Agribusiness, Finance, Telecommunication, Property, Timber, Cigarettes</td>
<td>2.8 billion</td>
<td>Southeast Asia</td>
<td>Export Acquisition Investment</td>
</tr>
<tr>
<td>7</td>
<td>Rajawali</td>
<td>Peter Sondakh</td>
<td>Plantation (Palm Oil, Sugar, Rubber and Corn), Energy, Hotels, Transportation</td>
<td>2.6 billion</td>
<td>Southeast Asia, Australia, UK, Turkey, Morocco</td>
<td>Export Joint Venture Acquisition</td>
</tr>
<tr>
<td>8</td>
<td>Lippo</td>
<td>Mochtar Riady</td>
<td>Property, Banking, Retail, E-commerce, Media, Infrastructure</td>
<td>2.5 billion</td>
<td>Southeast Asia, China, Hong Kong, Australia</td>
<td>Joint Venture Acquisition Investment</td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>Leader</td>
<td>Industry, Industry, Industry</td>
<td>Value (billion)</td>
<td>Region/Regions</td>
<td>Type</td>
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<tr>
<td>9</td>
<td>Wilmar International</td>
<td>Martua Sitorus</td>
<td>Plantation (Palm Oil and Sugar), Food</td>
<td>2.4</td>
<td>Southeast Asia, China, India, Australia, New Zealand, Nigeria, Switzerland</td>
<td>Export Joint Venture Acquisition</td>
</tr>
<tr>
<td>10</td>
<td>Royal Golden Eagle</td>
<td>Sukanto Tanoto</td>
<td>Plantation, Energy, Pulp and Paper</td>
<td>2.4</td>
<td>Southeast Asia, China, Brazil</td>
<td>Export Joint Venture Acquisition</td>
</tr>
<tr>
<td>11</td>
<td>Indorama</td>
<td>Sri Prakash Lohia</td>
<td>Textile, Garment</td>
<td>2.4</td>
<td>Southeast Asia, Sri Lanka, India, Turkey, South Africa, Nigeria</td>
<td>Export Acquisition</td>
</tr>
<tr>
<td>12</td>
<td>Wings</td>
<td>Eddy William Katuari</td>
<td>Consumer Goods, Property</td>
<td>2.3</td>
<td>Southeast Asia, Australia, Africa, Middle East</td>
<td>Export Acquisition Investment</td>
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<tr>
<td>13</td>
<td>Triputra, Adaro</td>
<td>Theodore Rachmat</td>
<td>Mining, Agribusiness (Palm Oil and Rubber), Manufacturing, Services</td>
<td>2.0</td>
<td>Southeast Asia, Japan, Germany, Hungary</td>
<td>Joint Venture Investment Export</td>
</tr>
<tr>
<td>14</td>
<td>Saratoga</td>
<td>Edwin Soeryadjaya</td>
<td>Coal Mining, Palm Oil, Airline, Private Equity</td>
<td>1.9</td>
<td>Southeast Asia</td>
<td>Investment Joint Venture Acquisition</td>
</tr>
<tr>
<td>15</td>
<td>Central Cipta Murdaya</td>
<td>Murdaya Poo</td>
<td>Property, Industry, Power Plants, Palm Oil, Consumer Goods</td>
<td>1.9</td>
<td>Southeast Asia</td>
<td>Joint Venture Investment</td>
</tr>
<tr>
<td>16</td>
<td>Lion Air Group</td>
<td>Rusdi Kirana</td>
<td>Airline</td>
<td>1.8</td>
<td>Southeast Asia, China</td>
<td>Joint Venture Investment</td>
</tr>
<tr>
<td>17</td>
<td>Mayapada</td>
<td>Tahir</td>
<td>Retail, Property, Banking, Duty-free, Healthcare</td>
<td>1.8</td>
<td>Southeast Asia</td>
<td>Joint Venture Acquisition</td>
</tr>
<tr>
<td>18</td>
<td>Gajah Tunggal</td>
<td>Sjamsul Nursalim</td>
<td>Tires, Retail, Property</td>
<td>1.8</td>
<td>Southeast Asia, North America, Europe</td>
<td>Export Acquisition Joint Venture</td>
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<tr>
<td>19</td>
<td>Elang Mahkota</td>
<td>Eddy Kusnadi Sariaatmadja</td>
<td>Media, Telecommunication,</td>
<td>1.7</td>
<td>Southeast Asia</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>No.</td>
<td>Company Name (if applicable)</td>
<td>Individual Name</td>
<td>Industry (Case)</td>
<td>Amount</td>
<td>Region</td>
<td>Type of Investment</td>
</tr>
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<tr>
<td>20</td>
<td>Sumber Affaria Trijaya</td>
<td>Djoko Susanto</td>
<td>Retail, Minimart, Food</td>
<td>1.7 billion</td>
<td>Indonesia</td>
<td>Joint Venture Investment</td>
</tr>
<tr>
<td>21</td>
<td>MNC (Media Nusantara Citra)</td>
<td>Hary Tanoesoedibjo</td>
<td>Media, Financial Services, Property</td>
<td>1.6 billion</td>
<td>Indonesia</td>
<td>Acquisition Joint Venture Investment</td>
</tr>
<tr>
<td>22</td>
<td>Harita Group</td>
<td>Lim H.W. Sarwono</td>
<td>Mining (Nickel, Timber, Coal), Palm Oil</td>
<td>1.6 billion</td>
<td>Southeast Asia</td>
<td>Joint Venture Investment</td>
</tr>
<tr>
<td>23</td>
<td>Bosowa Corporation</td>
<td>Aksa Mahmud</td>
<td>Cement, Infrastructure, Trading, Energy, Banking, Automotive, Property</td>
<td>1.5 billion</td>
<td>Indonesia</td>
<td>Joint Venture Investment</td>
</tr>
<tr>
<td>24</td>
<td>Ciputra</td>
<td>Ciputra</td>
<td>Property, Media</td>
<td>1.5 billion</td>
<td>Southeast Asia, China</td>
<td>Investment</td>
</tr>
<tr>
<td>25</td>
<td>Tempo Group</td>
<td>Kartini Muljadi</td>
<td>Pharmaceuticals, Cosmetics, Property, Infrastructure</td>
<td>1.5 billion</td>
<td>Southeast Asia</td>
<td>Joint Venture Investment</td>
</tr>
<tr>
<td>26</td>
<td>Gunung Sewu</td>
<td>Husodo Angkosubroto</td>
<td>Agribusiness, Property, Life Insurance, Coal</td>
<td>1.4 billion</td>
<td>Indonesia</td>
<td>Acquisition Investment</td>
</tr>
<tr>
<td>27</td>
<td>AKR Corporindo</td>
<td>Haryanto Adikoesoemo</td>
<td>Oil Trading, Distribution, Chemical, Property</td>
<td>1.4 billion</td>
<td>Indonesia, China</td>
<td>Investment Joint Venture</td>
</tr>
<tr>
<td>28</td>
<td>Charoen Pokphand Indonesia</td>
<td>Benjamin Jiaravanon</td>
<td>Animal Feed, Consumer Goods</td>
<td>1.3 billion</td>
<td>Indonesia</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>29</td>
<td>Bayan Resources</td>
<td>Dato Low Tuck Kwong</td>
<td>Property, Oil and Gas, Coal, Power Plants</td>
<td>1.2 billion</td>
<td>Southeast Asia</td>
<td>Investment Joint Venture Export</td>
</tr>
<tr>
<td>30</td>
<td>TNT Group</td>
<td>Garibaldi Thohir</td>
<td>Energy, Mining, Multi-finance, Property, Media, Automotive, Food, Sports Clubs</td>
<td>1.2 billion</td>
<td>Southeast Asia, Europe, US</td>
<td>Investment Acquisition Joint Venture</td>
</tr>
</tbody>
</table>

Source: *GlobeAsia*, (2015a); *Forbes*, (2015); and other sources from corporates annual reports.
The story of Lippo Group illustrates the important changes that taking place within Indonesian conglomerates, especially on how their activities have been diversified beyond national market to the regional and global levels (e.g., Carney and Dieleman, 2011; Sambodo, 2017). In a broader context, the international expansion of Indonesian capitalists is best expressed in the aggregate data of Indonesia’s outward foreign direct investment (OFDI) that indicated in Figure 6.1. OFDI is financial activities that carried out by Indonesia’s based companies outside the country, either through mergers and acquisitions or greenfield investment. Greenfield is defined as new investment projects and expansion of existing projects. During the period 2004-2014, OFDI has increased significantly from US$3,408 million to about US$7,077 million. Although the outward investment was decreased in 2009 following the global financial crisis, the number has been significantly moving up and reached its peak in 2011 for about US$7,713.

Figure 6.1. Indonesia’s Outward FDI Flow from 2004-2014 (in million US$)

Source: UNCTAD database
The growing regionalization of the spaces of capital accumulation has important implication towards the governance of economic activities at regional level. It has led to the promotion of political projects that favour certain forms of regional economic integration, which are distinct from the protectionist programs directed at consolidating national markets. It indicates the shift in the Indonesian capitalists’ responses and orientations towards the regional economic projects of ASEAN from the 1990s to the post Asian crisis. As pointed out by Bowles and MacLean (1996), when the ASEAN Free Trade Area (AFTA) was initiated in the early 1990s to increase intra-regional economic cooperation, the general response from the representatives of business interests at the ASEAN level seemed positive. However, compared to other capitalists, Indonesian businesses were ‘the most protectionist of the ASEAN countries, having the most to lose by opening up its vast market to others and the least to gain from reciprocal measures’ (Bowles and MacLean, 1996: 338).

Needless to say, with the current project of the ASEAN Economic Community (AEC), it does not necessarily mean that there will be no more such protectionist movement by Indonesian capitalists. The protectionist movement will remain in particular sectors of businesses. The reason is because different fractions of capitalists (i.e. international capital, investment-constrained capital, market-constrained capital, and national capital) have distinct degrees and forms of regional expansion. For example, the protectionist response will potentially emerge from the less internationalized businesses, some state-owned enterprises, and even from business groups with large and diversified units. Nevertheless, many Indonesian
conglomerates have expressed their strong interests in the region’s new economic liberalization as part of their internationalization of capital strategies. They are concerned with the neoliberal policy reforms with regards to the circuits of capital i.e. commodity, production, and investment. Sandiaga Uno, co-founder of Saratoga Capital and the vice governor-elect who won the Jakarta governor election in 2017, believes that the AEC is an important opportunity for Indonesian business players to strengthen their access to other ASEAN economies.\textsuperscript{23} This sort of outlook was also shared by Lippo Group’s CEO James Riady. Speaking in October 2016 during the World Economic Forum in Hanoi, Vietnam, he stated:

As the region seeks to deepen its ties under the ASEAN Economic Community [AEC] it will capture an even larger share of global trade and raise its economic profile… As a group, Lippo has been at the heart of contributing to the growth of the digital economy in ASEAN. We have invested in education, healthcare, media, broadband and providing high quality homes to a rapidly expanding middle class (\textit{Jakarta Globe}, 26 Oktober 2016a).

There is some scepticism from economic analysts and media reporters about Indonesian competitiveness within the AEC. As a response, Jusuf Kalla, a prominent business figure who emerged as vice-president in 2014 (after a previous stint in 2004-2009), claimed that Indonesian businesses are among the most prepared for regional economic expansion and Indonesia will certainly benefited from the new agreement (\textit{Bisnis Indonesia}, 10 August 2015; \textit{Kompas}, 28 April 2015c). Kalla’s statement was precisely addressed to the large and internationalized conglomerates rather than Indonesian business in general as many business people, including small

\textsuperscript{23} Interview in Jakarta, 20 March 2015.
and medium enterprises (SMEs), have lack of awareness about the regional initiative.\textsuperscript{24} For internationalized business interests, regional economic integration with a single market and regional production networks certainly means greater and more profitable return on capital.\textsuperscript{25}

The reasons are as follows: First, for many Indonesian conglomerates, regional economic governance is important in relations to foreign direct investment (FDI). Large flow of investments will favour their business operations to remain foremost in the domestic market as well as being competitive in global economy. As has been illustrated earlier, among the most important sources of financial support for big businesses in Indonesia during the New Order was foreign debts. After the crisis, maintaining such a source was a difficult task for many capitalists as economic crisis and political turmoil had tarnished the image of Indonesia. FDI is expected to increase significantly through regional economic governance, as the initiative will attract more foreign investors from both intra-ASEAN countries and those out of the region. Gandi Sulistiyanto, managing director of Sinar Mas Group, stated the post-crisis period was the most difficult times for the Group to restore the company’s finances. Many investors are still worried about the investment environment. He believed that regulating the regional economy soon after the crisis, especially liberalizing the investment policy, was very rewarding in restoring the Indonesian good image so it can benefit many conglomerates, including Sinar Mas.\textsuperscript{26}

\textsuperscript{24} Interview with Lim Hong Hin in Jakarta, 06 March 2015; Interview with Rahmat Pramono, Indonesian Ambassador/Permanent Representative to ASEAN, in Jakarta, 23 March 2015.  
\textsuperscript{25} Interview with Riza Damanik, Executive Director of Indonesia for Global Justice (IGJ), in Jakarta, 03 June 2015.  
\textsuperscript{26} Interview in Jakarta, 28 May 2015.
Through the AEC project, ASEAN works ‘toward building a collective identity as a single investment destination’ (ASEAN, 2015d: 13). As the ASEAN Comprehensive Investment Agreement (ACIA) entered into force in 2012, ASEAN expressed its commitments to liberalise, facilitate, promote, and protect cross-border investment. Following this neoliberal investment policy, there has been a considerable increase in capital investment flowing to ASEAN countries, from only US$31 billion in 1999 to more than US$136 billion in 2014, making ASEAN the largest FDI recipient in the developing world (ASEAN, 2015c: 4). In this case, Indonesia has received significant growth in FDI. The United Nations Conference on Trade and Development (UNCTAD), provided a global investments report in 2015 (UNCTAD, 2015). According to the report, Singapore remained the dominant recipient of FDI in the region followed by Indonesia. Yet, the inflow to Indonesia rose by 20 percent to about US$23 billion, which is the highest growth among ASEAN countries. Ten years before, the FDI stood at only about $8 billion. The increase was driven by a significant rise in equity investment, particularly in the third quarter of 2015. According to data from the Indonesia Investment Coordinating Board, the most important targeted industries were mining; food; transportation and telecommunications; metal, machinery and electronics; and chemical and pharmaceutical. The largest investing countries were Singapore, Japan, the Netherlands, the United States and the United Kingdom (UNCTAD, 2015: 41).

Second, ASEAN economic integration provides essential scale for the internationalization of Indonesian capitalists across the region, specifically through interlocking investments, acquisitions, and joint ventures. In this context, the AEC
scheme puts emphasize on joint ventures and close cooperation between companies. The corporate transformation through close cooperation is considered by ASEAN as one of the key actions within the AEC (ASEAN, 2008: 30; 2015d: 21). Mergers and joint ventures strategies of Indonesian capitalists are carried out not only with ASEAN-based ventures but also with global corporations which mostly come from Japan, Korea, China, and the U.S. For example, private conglomerates in the manufacturing industries have established investments and alliances with Japanese companies for many years (i.e., Yamashita, 1991; Sato, 1998; Syamwil and Tanimura, 2000). In the case of the automotive sector, business groups like Astra International and Indomobil have taken part in cooperation with Honda, Toyota and Suzuki to operate the brands in their home country. While some businesses in the agriculture and plantation sectors such as palm oil, pulp and paper have also been supported by investment from China (Dewi, 2013: 166). Joint venture are also developed through the conglomerates foreign-listed management holdings. Singapore-based investment vehicles such as Golden-Agri Resources, Royal Golden Eagle International, and Wilmar International, which control many businesses in Indonesia and in other Southeast Asian countries, from paper, palm oil, foods, and coal, are owned by Indonesian conglomerates namely the Widjaja family, the Tanoto family and Martua Sitorus respectively.

Third, the ASEAN economic integration is important for expanding the commodity market share, specifically for internationally oriented large-scale businesses. The AEC has crucially eliminated intra-regional tariffs and integrated customs procedures through the ASEAN Single Window (ASW). As the ASEAN Trade in Goods
Agreement (ATIGA) entered into force in 2010, ASEAN has removed its tariffs for about 95.99 percent on average; 99.2 percent for ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand); and 90.86 percent for CLMV (Cambodia, Lao PDR, Myanmar and Vietnam) (ASEAN, 2015d: 10).

According to Darmayana and Meryana (2015: 20), ‘in 2013, intra-ASEAN trade amounted to USD 608.6 billion, accounting for 24.2 percent of total trade of the region, compared with USD 458.1 billion in 2008 when the AEC Blueprint was first implemented’. With the consolidation of ASEAN into a single market, the region becomes more attractive to big businesses especially in enlarging their market share.

In this context, though the total trade of Indonesia with all ten ASEAN countries is still less than the country’s trade with three major economies: Japan, China and the U.S., the amount is still significant (see table 6.2.).

Liberalization will favour big businesses both regionally and globally regarding the commodity market share. The idea of a single market in the region helps internationalized conglomerates which operate their businesses in several Southeast Asian countries through joint ventures and investment. Trade activities will likely favour their businesses as their products are no longer based on domestic operation.

For many years, much intra-ASEAN trade was driven by intra-firm trade among large businesses, including MNCs, which established alliances with domestic business groups (Lim, 2009b: 316). In other words the difference between export and import will be less relevant as they benefits from both activities. It should also be noted that ASEAN has a market potential of 640 million people of which 40 percent are in Indonesia. With a combined Gross Domestic Product (GDP) of US$2.57
trillion in 2014, the 10 member states of ASEAN collectively comprise the seventh-largest economy in the world. By 2050, the region is projected to rank as the fourth-largest economy (ASEAN, 2015b; HV, Thompson, and Tonby, 2014). In addition, the region’s middle class is set to grow more than double to 163 million by 2030 (Darmayana and Meryana, 2015).

Subronto Laras, President Commissioner of Indomobil, the Salim Group’s automotive company, for instance, said that their share of the Indonesian domestic market is still far behind Astra International, which has established joint ventures with Honda, Toyota and Isuzu. Therefore, in expanding the sale and production for their best brands, like Suzuki, Nissan and Mazda, Indomobil is eager to broaden its operation into other ASEAN markets such as Vietnam. This competitive strategy is important for Indomobil, given the fact that the automotive industry is growing significantly in the region. In 2016, from January to September, the auto sales grew

Table 6.2. Indonesian Trade by Trading Partners, 2010-2014 (in billion US$)

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<td>16.9</td>
<td>33.7</td>
<td>19.4</td>
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<td>20.4</td>
<td>22.9</td>
<td>26.2</td>
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<tr>
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<td>20.2</td>
<td>18.4</td>
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<td>17.1</td>
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<td>The United States</td>
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<td>16.4</td>
<td>10.8</td>
<td>14.8</td>
</tr>
<tr>
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<td>7.7</td>
<td>16.3</td>
<td>12.9</td>
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<td>Malaysia</td>
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<td>8.6</td>
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</tr>
<tr>
<td>Taiwan</td>
<td>4.8</td>
<td>-</td>
<td>6.5</td>
<td>-</td>
<td>6.2</td>
</tr>
<tr>
<td>Australia</td>
<td>4.2</td>
<td>4.9</td>
<td>5.5</td>
<td>5.1</td>
<td>4.9</td>
</tr>
<tr>
<td>ASEAN (ten member countries)</td>
<td>33.3</td>
<td>38.9</td>
<td>42.0</td>
<td>51.2</td>
<td>41.8</td>
</tr>
</tbody>
</table>


27 Interview in Jakarta, 17 March 2015.
around 4 percent in six key Southeast Asian markets (i.e. Indonesia, Thailand, Malaysia, Philippines, Vietnam, and Singapore). In Vietnam itself, the sales rose 24 percent in September (Kyozuka, 2016a; b; Kompas, 29 August 2016; 6 November 2016).

In the global context, the AEC project will help big businesses to compete in the international market, especially in particular sectors which have strong challenge from other regional economic alliances such as from European Union and NAFTA. Some Indonesian products, such as crude palm oil (CPO), have had difficult competition in accessing many European countries with so many negative campaigns on the Indonesian palm industries in particular (e.g., Neslen, 2017; Ribka, 2017; Sukmana, 2017). Fadhil Hasan, an executive director of Indonesian Palm Oil Association or better known as GAPKI (Gabungan Pengusaha Kelapa Sawit Indonesia), said that Indonesian CPO and its derivate productions have faced a hard challenge in European countries. The European Union, for example, created some regulation barriers like antidumping duties for biodiesel that imported from Indonesia and Argentina. Therefore, according to Hasan, ASEAN economic integration will enhance many industries, such as CPO, in competing in the global market, for example by labelling some domestic products as ASEAN products.28

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28 Interview in Jakarta, 18 May 2015.
Conglomerates and the state: economic projects and internationalized fractions of capital

The previous section has explained the strong ambition of Indonesian capitalists for the international expansion across the region. This regionalization of capital has led to the capitalists support for the political project at regional level, specifically in the form of ASEAN economic integration. This section will elaborate on the way Indonesian big business interests were facilitated through the state power. This use of state power is reflected within the foreign economic policies and various state economic projects which are linked to the project of regional economic governance. The role of the capitalists is embodied through the new forms of alliances within the state-capital relationship, specifically with the advent of electoral democracy following the reformasi movement (reformation) which brought Suharto’s authoritarian government to an end.

Indonesian conglomerates have benefited from democratization after the fall of the New Order regime in 1998. As some observers pointed out, the new political system has led to the ascendance of capitalists in the political arena (i.e., Chua, 2008; Fukuoka, 2012). The expansion of electoral politics, the reformulation of political parties, as well as the rise of parliament power, have enabled business elites not only to form new oligarchic alliances but also to dominate the influence over domestic political institutions. A growing number of entrepreneurs turned-politicians, for example, ‘have captured the power of office, taking over positions which had previously held by bureaucratic elites’ (Fukuoka, 2012: 80-81). Consequently, there has been an increasing involvement of capitalists in the policy decision making
through the representative institutions which favours their economic interests. In Jessop’s terms, this strategy was called the ‘strategic selectivity’ (Jessop, 1999). The state and political restructuring have allowed conglomerates to shift the balance of political forces in their direction.

The capitalists’ interests towards economic liberalization at regional scale, specifically through ASEAN regional economic governance, have been activated at least through two main ways: (i) through links and support for key politicians and bureaucrats within key state economic agencies; and (ii) through the influence of business association.

**From bureaucrats to politico-business**

The new electoral system has become a fertile terrain for the strong and complex political coalitions between capitalist classes, political elites, and other social forces (e.g., Rosser, 2002; Robison and Hadiz, 2004; Hadiz, 2010; Winters, 2013). During the New Order regime, many conglomerates relied on their proximity to Suharto and military high-ranking officers for economic concessions and protectionist policies. Now their influence over strategic policies is carried out through enormous funding to political parties. Given the soaring costs of political campaign, political parties become reliant on the personal wealth of their leaders or business associates. Funding also flows directly to politicians’ pocket who are running for office (Buehler and Tan, 2007; Mietzner, 2007; Aspinall and Sukmajati, 2016). In addition, conglomerates continue to place political figures or government insiders in the company boards to secure political backing. Besides the case of Lippo Group
explained in the previous section, another example is shown by the CT Corp which owned by Chairul Tanjung. The Group was reported to appoint former chief of State Intelligence Agency, A.M. Hendropriyono, and former Police chief, Suroyo Bimantoro, as commissioners (Carney and Hamilton-Hart, 2015: 141).

But perhaps more striking is the direct involvement of the bourgeoisies in the political parties and parliament. Some strategic positions such as executive board of the party have been held by businesses. Some of the newly formed political parties were even initiated by conglomerates themselves. NasDem (*Nasional Demokrat*), for example, was established by Surya Paloh, a media conglomerate, who owns media holding Metro TV and Media Indonesia. Hary Tanoesoedibjo also established his own political party, Perindo party (*Persatuan Indonesia*), after conflicted with Surya Paloh in NasDem as well as with Wiranto in Hanura (*Hati Nurani Rakyat*) in competition to become the party’s leader. Hary Tanoesoedibjo’s decision to set up his own party was motivated by his disappointment of some political parties’ efforts in favouring his interests. He previously spent billions of rupiah to support some politicians. Rather than providing further funding, he decided to use his funds to establish his own vehicle. Hary Tanoesoedibjo wanted to directly secure the future interests of his businesses through his own party.29

The prominent involvements of capitalists in the political parties have become evident in the composition of the parliament or *Dewan Perwakilan Rakyat* (DPR). The posture of the 2004-2009 parliament members, for instance, reflected the

29 Interview with Nezar Patria, Vice Editor in Chief of CNN Indonesia, in Jakarta, 21 April 2015. Nezar Patria was told about this story by a senior staff in one of Hary Tanoesoedibjo’s media companies.
dominant position of entrepreneurs-turned-politicians. In the Golkar faction, the proportion of entrepreneurs was 54.3 percent, while 57.2 percent was in the Indonesian Democratic Party of Struggle (PDI-P), 42.1 percent in the United Development Party (PPP), 49.1 percent in the National Awakening Party (PKB), and 55.6 per cent in the National Mandate Party (PAN). (Kompas, 22 December 2004; Kompas, 04 December 2005; Morishita, 2007).

The strong role played out by the capitalists within the Indonesian political structure has enabled them to strategically access or lobby government bodies to shape economic policies. They were able to determine who will be appointed in the bureaucratic institutions: from economic advisors to the ministerial level. Some capitalists were even directly engaged by scoring high positions within the bureaucracy. For example, Chris Kanter, chairman of Sigma Sembada Group, served as the senior advisor to the Minister of Trade. Sofjan Wanandi, chairman of Santini Group (previously as Gemala Group), became the economic advisor to the Vice President Jusuf Kalla. Rusdi Kirana, the CEO of Lion Air Group, and Jan Darmadi, owner of numerous property companies, were appointed as the member of the Presidential Advisory Council (Dewan Pertimbangan Presiden, WANTIMPRES) in the Joko Widodo administration.

Three ministry agencies have played key roles in promoting free market oriented agendas in both national and regional levels, especially towards the ASEAN economic integration project. The agencies are: Coordinating Ministry for Economic

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30 Interview with Halida Miljani, Advisor to Indonesian Minister of Trade for International Cooperation (2002-2012), in Jakarta, 1 June 2015.
Affairs; Ministry of Trade; and Investment Coordinating Board (BKPM). For the last decade, many of the ministers of those agencies have been held by capitalists or those who were associated with big businesses. Among the notable figures holding the position of Coordinating Minister for Economic Affairs were Aburizal Bakrie (Bakrie Group), Hatta Rajasa (Arthindo Grup), and Chairul Tanjung (CT Corp). Meanwhile, from 2004 until 2017 there were six people being designated as Minister of Trade, namely Mari Elka Pangestu (2004-2011), Gita Wirjawan (2011-2014), Muhammad Lutfi (2014), Rachmat Gobel (2014-2015), Thomas Lembong (2015-2016), and Enggartiasto Lukita (2016-present). All six have been associated with businesses. Gita Wirjawan, is the co-founder of Ancora Capital Management (Asia), a private equity firm which has interests in the natural resources and the infrastructure sectors in Indonesia, Hong Kong, and Australia. Muhammad Lutfi is the co-founder of the Mahaka Group (with Erick Thohir) which operates in the mining, finance and media. Rachmat Gobel is the chairman of the Panasonic Gobel Group which is made up mainly of electronic companies. Thomas Lembong, who is currently appointed as the chairman of BKPM, is the CEO of Quvat Capital which has investments in the entertainment business, marine logistics, and finance. While Enggartiasto Lukita owned several real estate companies. Although Mari Elka Pangestu was well known as a technocrat, she has developed a close ally with conglomerates given her background. She was as a senior researcher at the Centre for Strategic and International Studies (CSIS), Jakarta, a think-tank linked to the conglomerate Sofjan Wanandi. Her family, the Jusuf Panglaykim (Pangestu) family, also run a business in the banking sector (Suryadinata, 1995: 130).

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31 Interview with Chris Kanter in Jakarta, 13 March 2015.
The dominant position of capitalists in the political structure, including in several strategic government bodies, has a direct impact on the Indonesian economic policy outlook, including the policy towards the regional economic integration project of ASEAN. Among the valuable resources that are accessed by the capitalists — especially those within the international fractions of capital — is the direct involvement in the international and regional economic negotiation. It has been regulated in the President Decree (Keppres) No. 6/2013, that the negotiation for international trade is led by economic ministers such as the Coordinating Minister for the Economy, Minister of Trade as well as the Minister of Industry (Keppres, 2013). This Keppres is a revision on the previous decree where the negotiations were led by the Minister of Foreign Affairs. The new decree also regulates the engagement of advisors from those important ministers—which mostly came from the conglomerates circle. Dewi Fortuna Anwar, an advisor to the Indonesian Vice President, is also actively involved in many international consultations. She said that the decree was issued as a response to the requests from businesses to ensure the negotiations involved the business communities.\(^{32}\) It should be noted that for many years the internationally oriented businesses and neoliberal technocrats, who are predominantly located in economic ministries, have become the leading forces in promoting regional economic integration (Jones, 2015: 6).

The outcome of the capitalist role has been demonstrated through economic foreign policy, regional negotiations, as well as economic policy at the domestic level. In this context, Indonesia has shown a strong support and taken important role in shaping

\(^{32}\) Interview in Jakarta, 04 May 2015.
the ASEAN economic integration market as it will provide the foundations for the expansion of Indonesian businesses. Mari Elka Pangestu was the longest serving Minister of Trade and has been involved in most of the AEC negotiations since its inception. She emphasized that:

The AEC and AEC Blueprint should have a full support from all stake holders; government, private sectors, and civil society. Indonesian laws, regulations, development plan need to be reviewed in line with the blue print and these will help to improve certainty for the business sector. Indonesia should start ‘Think ASEAN’ and accepts ASEAN as a big family. Business sector should utilize ASEAN market as a stepping stones to global market (Pangestu, 2009: 31).

A national state level example of Indonesian strategic policy to support the ASEAN regional economic governance was introduced three years after the AEC Blueprint was launched. The new policy was termed ‘The Masterplan for the Acceleration and Expansion of Economic Development of Indonesia 2011-2025’ (Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia 2011-2025, MP3EI). It was an initial step to engage with the global economic architecture and the new AEC project. The policy was officially embarked by then president Soesilo Bambang Yudoyono (SBY) during the Limited Cabinet Meeting on 30 December 2010 (Coordinating Ministry For Economic Affairs, 2011: 11). To reinforce the MP3EI policy, the president introduced the Presidential Instruction (Inpres) No. 11/2011 for coordination among bureaucratic agencies as well as with businesses in regards to the Indonesian commitments towards the AEC.
It is noteworthy that the making of MP3EI indicates how such policy has been configured through political process involving particular actors and interests, specifically the internationally oriented fractions of capital. The policy was the result of input from big businesses, especially through the involvement of the National Economic Committee (*Komite Ekonomi Nasional*, KEN). KEN is a government body that was formed by Yudoyono. Unsurprisingly, Chairul Tanjung became the head of KEN given his close political alliance with SBY. The discussion which helped developed the concept of MP3EI involved the CEO from a number of conglomerates, such as Lippo’s James Riady, who was also appointed as a member of KEN. KEN was later rebranded as the National Economic and Industrial Committee (*Komite Ekonomi dan Industri Nasional*, KEIN) under President Joko Widodo. Soetrisno Bachir, a conglomerate and former Chairman of the PAN Party, was appointed as Chairman of KEIN since 2016. KEIN’s committee members consisted of technocrats and business elites such as: Hariyadi Sukamdani, a veteran businessman with experience in hotels, textiles and media industries whom was also the Chairman of the Indonesian Employers Association (*Asosiasi Pengusaha Indonesia*, APINDO); Eddy Kusnadi Sariaatmadja, one of Indonesia’s richest media moguls through his Elang Mahkota Teknonolgi; Sudhamek who runs one of the Indonesia’s top food and beverage manufacturers, GarudaFood; and Johnny Darmawan of Astra International (*Kompas*, 20 January 2016; *Jakarta Globe*, 20 January 2016).

The MP3EI set some policy priorities for Indonesia with regards to the AEC. It emphasized the interconnection between liberalization of investment and the Indonesian integration to the regional supply chain. To support the regional supply
chain, the government facilitated the national connectivity with ASEAN connectivity. For example, the government optimized the operation of the National Single Window (NSW) system at international hubs, ports and airports through the implementation of an integrated management logistic system. The NSW will connect the national supply chain with ASEAN and global supply chain at international ports (Coordinating Ministry For Economic Affairs, 2011: 38). To support the regional connectivity, the Indonesian government also created a policy reform in the shipping processes through a ‘one stop’ approval system. It reduced the waiting time to process the shipping containers in ports. Indonesian shipping processes has been known to take several days, which is longer than any other country in the region (Roughneen, 2015).

Indonesia prioritised to increase the number of foreign investments and capital flow. Through MP3EI, the government pushed for further liberalization. It followed the regional investment regime under the ASEAN Comprehensive Investment Agreement (ACIA), which was proposed and signed in 2009 when Mari Elka Pangestu served as Indonesian Minister of Trade. The ACIA attempts to bolster the attractiveness of ASEAN as a single investment destination by establishing a free, open, transparent and integrated investment regime for domestic and international investors. For businesses, especially the internationalized fractions of capital, the agreement is beneficial as it covers at least five important regulations: (i) progressive investment liberalization; (ii) non-discrimination policy; (iii) transparency principle; (iv) investor protections; and (v) investor-state dispute settlement. An important aspects in investment liberalization is that ASEAN member countries are pushed to
promote intra-ASEAN capital expansion through joint investment, regional production networks, as well as corporate expansion. In addition, the ACIA provides enhanced protection to investors and their investments including for the movement or transfer of capital throughout the region (see ASEAN, 2009).

Since MP3EI was launched, the Indonesian government has undertaken a series of policy reform packages to attract more foreign capitals. The government provides incentives such as production costs, tax cuts, tariffs, export procedures, licensing and permits, land procurements, and investment protection.\footnote{Interview with A. Tony Prasetyantyono, economist from Gadjah Mada University, in Jakarta 27 April 2015; Metta Dharmasaputra, Editor in Chief, KATADATA Business News and Research Portal, in Jakarta, 10 May 2015.} For example in 2015, ahead of the AEC set to become effective on January 1, 2016, the government reduced excessive and overlapping regulations to reduce the slow process of capital expansion. Business set-up used to involve 13 procedures which could take up to 47 days, yet it now only has 7 requirements achievable within 10 days. 5 categories of business licenses were reduced to 3 categories. In addition, a one-stop shop for licensing was created for foreign capital which brought together representatives from 22 different ministries and institutions to create a centralised system at BKPM (Chilkoti, 2015).

A year later, the government announced a ‘Big Bang’ liberalization package which overhauled the so-called ‘negative investment list’, also known as Daftar Negatif Investasi (DNI)— which were highly sensitive sectors in which foreign capital was limited. The new regulation removed a total of 35 industries from the list, including tourism businesses, transportation companies, toll roads, restaurants, hospitals, and
movie theatres. It also facilitated the foreign ownership for maritime cargo handling at ports, several airport services and internet provisions (Amindoni and Hermansyah, 2016; Chilkoti, 2016a; Roughneen, 2016b). According to the then Trade Minister, Tom Lembong, the new revision on the DNI policy represented the country’s largest opening to international capital in 10 years. He emphasized that ‘more international investment will bring more capital, more world-class expertise, more technologies to Indonesia. Domestic players must seize those opportunities’ (Owen and Nangoy, 2016). As a result of the liberalization packages, Indonesian market climate has gained more trust from transnational capital (Diela, 2017; Jennings, 2017). In the World Investment Report 2017 issued by the United Nations on Trade and Development (UNCTAD), Indonesia was ranked fourth for the favourite investment destinations for multinational enterprises (UNCTAD, 2017: 9). This was reinforced by another survey from the Economist Corporate Network (ECN) which graded Indonesia as Southeast Asia’s top place for investment (The Economist Corporate Network, 2017: 20).

**The influence of business association**

The state-capital relations in the post-authoritarian period have become more important through the influence of business associations. The two leading associations through which capitalists were able to actively engage in the policy making processes were namely the Chamber of Commerce and Industries or **Kamar Dagang dan Industri Indonesia** (Kadin) and the Indonesian Employers Association or **Asosiasi Pengusaha Indonesia** (Apindo). Kadin and Apindo have been linked to
each other as numbers of capitalists served as executive members simultaneously in the two associations.

The establishment of Kadin in 1968 was legitimized by the government and it became the only business representation that participated in the policy making. During Soeharto’s New Order, its role ‘was nothing more than a tool of the state in justifying business-related policies’ (Hartono, 2011: 36). The government controlled Kadin through the leadership selection process as well as determining the organisation’s policy. However, following the 1998 political reform, Kadin reshaped itself as the place for capitalist class political articulation. For example, the Chairman of Kadin liaised with strong political and business alliances. 34 Although for a long time Kadin was irrelevant to the policy-making processes, now the organisation is actively taking part in economic decision making (The Jakarta Post, 1 December 2005; Kontan, 19 October 2015; Republika, 25 November 2015).

Kadin’s involvement in the policy making process has been driven by capitalist interests, specifically the internationalized fractions of capital. There are around 200 business associations registered with Kadin, including small and medium-sized enterprises (SMEs). But the policy direction and the lobby strategy has been dominated by conglomerates (Salim, 2014; Rüland, 2016). In this context, most of Kadin’s top leaders are business elite figures, specifically those who were from conglomerates within the internationalized fractions of capital. For instance, top conglomerate officials such as Robert Budi Hartono, Anthoni Salim, Sofjan

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34 Interview with Anton J. Supit, President Commissioner of Sierad Group, in Jakarta, 22 May 2015.
Wanandi, and Sukanto Tanoto have been Kadin advisors. While other prominent figures such as James Riady and Franky Widjaja are both appointed as Kadin’s Deputy Chairmen. These figures also served as Apindo’s executive members. Previously – especially during the 1970s and 1980s – Kadin was considered the vehicle for *pribumi* businesses to compete with the Chinese, yet the development in the post-authoritarian period has shown the alliances among some of the *pribumi* and Chinese capitalists in the organisation.

Kadin and Apindo have become strong supporters for the economic liberalization at the ASEAN regional level (e.g., *Tempo*, 10 June 2013; Natahadibrata, 2015; Kadin, 2016). Both Kadin and Apindo official statements generally back the government policy towards the regional economic integration, including the recent AEC project. General Chairman of Apindo, Hariyadi B. Sukamdani stated that the implementation of the AEC definitely offers great benefits for Indonesian business expansion as they have a relatively high comparative competitiveness within the ASEAN market (Sukamdani, 2016). In fact, both associations have been directly involved with the AEC development since its inception as well as with the Indonesian government related policy.

For example, on the 1st September 2014 the government decided to form the National Committee on the Preparation Implementation of the AEC by issuing a Presidential Decree (Keppres) No. 37/2014. According to the Director General for ASEAN Cooperation, I Gusti Agung Wesaka Puja, the main objective of this committee is to coordinate the Indonesian preparations towards the AEC, ranging
from the coordination of accelerated competitiveness, overcoming obstacles and problems, to socialization (Wibowo, 2014). The committee was chaired by the Coordinating Minister for Economic Affairs directly with the support of Minister of Foreign Affairs and Ministry of Trade. The chairmen of Kadin and Apindo served as the deputy chair and secretary respectively in the committee.

At regional level, Kadin’s policy engagement benefited from its networks with two state-sponsored organizations: the ASEAN Chamber of Commerce and Industry (ASEAN-CCI) and the ASEAN Business Advisory Council (ASEAN-BAC). Both became the official link between ASEAN governments and businesses. According to the ASEAN Secretariat, ASEAN-CCI and ASEAN-BAC played a major role in shaping the ASEAN economic cooperation programs (ASEAN, 1997a; 2015a). One of the important roles of ASEAN-CCI is to prepare major reports on ASEAN cooperation and provide a number of essential recommendations for consideration by ASEAN leaders. ASEAN-CCI has been able to provide the mechanism for private business to actively participate in the design and implementation of ASEAN cooperation schemes in various sectors (ASEAN, 1997a: 121). The ASEAN-BAC provided ASEAN leaders with the requests and preferences of the business sector with regards to ASEAN’s future direction towards economic integration. The ASEAN-BAC takes ‘the lead in coordinating inputs from established business councils and entities in their interactions with various ASEAN sectoral groups’ (ASEAN t, 2015a: 32).
In March 2015, Kadin and ASEAN-BAC, along with the Business and Industry Advisory Committee (BIAC) to the Organisation for Economic Co-operation and Development (OECD), presented sets of recommendation to ASEAN policymakers aiming to enhance economic integration in Southeast Asia. The recommendations were a result of the OECD Southeast Asia Regional Business Meeting held in Jakarta. The recommendations emphasized five steps for a closer integration: (i) reducing remaining barriers to trade and investment across a number of sectors while simultaneously undertaking reforms to tackle structural adjustment costs; (ii) a close cooperation between government and business sector to review the priority integration sector (PIS) list in the post-AEC agenda; (iii) mobilizing capital investment in infrastructure for a better intra-ASEAN connectivity; (iv) improving policies, programmes, and instruments that support the development of the business sector and economic restructuring; and (v) strengthening skills and entrepreneurship and facilitate the movement of skilled labour (BIAC, 2015: 3-7).

This section has explained that through the new forms of alliance within the state-capital relations, the internationalized fractions of capital have been strategically involved in defining the Indonesian policies towards the ASEAN economic integration project. Consequently, the fractions of capital affect the country’s economic focus within the AEC framework as well as substantially influencing the way regional regulatory policy is being adapted at the state level.
Conclusion

As this chapter has explained, the transformation of Indonesian capitalists has been marked by the rise of big businesses with significant international orientation. Those internationalized fractions of capital have not only successfully restored their position after the Asian crisis but also emerged among the most aggressive holding companies in the Southeast Asian region. The internationalizing process started in the pre-crisis period, yet the capital accumulation at that time was very much supported by market protection policies from the ruling elite. The new electoral democracy system, as well as corporate restructuring, has provided a new scale for further capital expansion. There has been a shift in the fractions of capital, from business groups only interested in protecting domestic markets, to those with an interest in the unrestricted regional economy.

The rise of these internationalized big businesses has been indicated by, for example, the massive expansion of capital through joint ventures, acquisitions, and investments in diversified sectors across the region. Furthermore, the process of international expansion requires substantial investment as well as access to the global market. Hence, the transformation of capitalist fractions has led to a strong support towards regulatory economic policy at regional level to facilitate the wider accumulation process. In this context, the ASEAN economic integration project provides significant foundations in regionalizing the circuits of capital which benefit the internationalized businesses. It integrates the commodity cycle and coordinates the regional production chain. The regional initiative also increases the flow of capital investment throughout the region.
The chapter has emphasized that the internationalized capitalist expansion across the region is crystallized within the state through various political projects. Specifically, it is reflected through foreign economic policies and liberalization packages that support the ASEAN economic governance. The direction of such policies resulted from the new forms of coalitions between capitalist fractions, political elites, as well as other social forces. The political nexus has enabled big businesses to support the regional economic project through links and support for key politico-bureaucrats within the key state economic agencies. Following the new electoral democracy, many Indonesian capitalists have emerged into important political actors with significant roles in the policy making process. In addition, conglomerate interests have been carried out through the influence of business associations such as Kadin and Apindo. These two prominent associations have strong connections to both domestic political actors as well as regional capitalist networks. The next chapter will focus on the case study of the Salim Group, one of the top Indonesian conglomerates with strong internationalization of capital.
7

The Social Relations of Capital Expansion:
The Case of the Salim Group

Introduction

This chapter examines the international expansion of capital and the way it structured the political support for regional economic governance in Southeast Asia through the case study of the Salim Group—Indonesia’s largest and most prominent conglomerate. As argued in previous chapter, the transformation of internationally oriented capitalists in the post-Asian financial crisis (AFC) was a major factor that underpinned regional integration project. The political support – the alliances and coalitions – for such regional initiative was played out within the institutions of the state. In the case of Indonesia, the new forms of political alliance in the period after democratisation have enabled the internationalized fractions of capital to establish themselves into important political actors with substantial power over strategic economic policies (e.g., Robison and Hadiz, 2004; Fukuoka, 2012; Winters, 2013). The Salim Group was selected for in-depth study due to its increasingly internationalized economic activity and the way this activity promoted the regional economic project through political coalitions within the state-capital relations. The emergence of Salim into a major political and economic actor provides a window into the structural architecture of the internationalization of key Indonesian capitalist grouping across the Southeast Asian region.
The Salim conglomerate originated and developed in a close relationship to the New Order ruling government, prospering from the protection and economic concessions available. In these circumstances it is not surprising that the Group faced huge deprivation by the coming of the AFC in 1997 as well as the fall of Suharto in 1998 (e.g., Sato, 2004; Brown, 2006b; Chua, 2007). Nevertheless, years after the economic and political turmoil, Salim had successfully reorganized its business operations. Not only has the Group managed to regain some of its businesses that it previously sold and handed over to the state as result of the post-crisis restructuring policy, but more crucially Salim successfully expanded its capital beyond Indonesia, namely throughout the Asia Pacific region with strong operations in Southeast Asia (i.e., Dieleman and Sachs, 2008; Dumlao, 2012; Lubis, 2014; Suzuki, 2015b). The history of the Salim Group crystallises the change in the nature of capital accumulation from its protective shell under Suharto, to its increasingly internationalized character over the last two decades. It represents the fundamental transformation from ‘national capital’ to a more internationally oriented fraction of capital linked to international and regional circuits of capital.

This chapter argues that the emergence of the Salim Group as internationally oriented corporate group is a part of broader story about the fundamental restructuring of the capitalist class. It is this internationally oriented fraction of capital that has supported and reinforced the project of regional economic integration. First, the enormous expansion of Salim’s capital – mainly through merger, acquisitions and joint ventures – in Southeast Asian economies such as the Philippines, Singapore and Malaysia, has increased the Group’s interests towards
market liberalization of the Association of Southeast Asian Nations (ASEAN) (Dumlao, 2012; Lubis, 2014; Suzuki and Suzuki, 2015; Thompson, 2016). In this case, the way circuits of capital i.e. production, commodity, and investment between ASEAN member countries were governed within the context of regional economic initiatives was important to further facilitate the Group’s internationalization strategy by extending the value chains across Southeast Asia. For Indonesian big business with large and internationalized fractions of capital, the new economic governance at regional level provides important institutional foundations for the wider expansion and accumulation process, particularly after the Asian crisis.

Second, Salim’s political role in shaping the regional economic integration project has been enhanced through the process of state restructuring and transformation that allowed it to play a key role within the state institutions. Salim’s alliances with state apparatuses and other class forces in Indonesia’s new electoral system have enabled the Group’s internationalization structured the government position with respect to the ASEAN Economic Community (AEC). Along with its capital expansion in the region Salim’s political coalitions has also been extended to other Southeast Asian countries which in turn strengthened the way Salim operated its business expansion (Carney, Dieleman, and Sachs, 2008; Tiglao, 2015a; 2016a; Venzon, 2015). It is worth noting that the expansion of Salim’s political alliances and capital operations has been benefited by the Group’s strong capitalist networks in Southeast Asia, specifically the overseas Chinese bourgeoisies (Weidenbaum and Hughes, 1996b; Weidenbaum, 1998; Haley, Haley, and Tan, 2009; Roughneen, 2016a).
The chapter proceeds as follows. The first section examines the consolidation of the Salim Group during the New Order authoritarian government. It shows how the connection with the ruling elite not only helped the Group’s expansion into different business sectors but also became an important part in incubating its future internationalization. The second part of the chapter explores the Group’s internationalization since the 1980s onwards and after the AFC. The section indicates that the international expansion strategy in the post-Asian crisis has shaped the current trajectory of Salim’s business empire. It unfolds the Group’s capital expansion on the Southeast Asian region has implications towards its interests in supporting the regional economic integration project, capitalizing its strong networks with other capitalist classes in the region—especially the overseas Chinese businesses. The third section explains the specific political and economic structure that underpins the internationalization strategy and shows how Salim’s expansion across the region was facilitated through a particular state and capital alliance.

**The Salim Group: the genesis of conglomerate**

The formation of Indonesia’s capitalist class cannot be separated from a broader social relations process within the state. Specifically, it is formed through political coalitions with the state apparatuses and other social and political forces (e.g., Robison, 1986; Brown, 2006b). The Salim Group is a prominent example. Its origin as a conglomerate was closely linked to the political structure created during the New Order Indonesia. The development of its circuits of capital has been facilitated through several state policies and concessions which enhanced Salim’s capital accumulation into strategic economic sectors. Such power relations have crucially
helped the rise of Salim family business into one of the largest business groups not only in Indonesia but also in the southern-part of the world.

The Salim Group was founded by Liem Sioe Liong, a man who was born on July 16, 1916 in Fuqing, Fujian province in southeastern China. He was the second son of a rice-farmer and left China for the Dutch East Indies in 1938 (Sato, 1993: 408). Liem Sioe Liong arrived in the Central Java’s kretex (clove cigarette) manufacturing town of Kudus in 1936 to joint his elder brother, Liem Sioe Hie, in a peanut oil trading business. He subsequently expanded into the clove trade as a supplier for local kretex factories. In 1945 the nationalists declared independence of the new state called Indonesia. At that time, Liem Sioe Liong’s enterprises had expanded considerably because he was able to establish close connections with the Republican forces as a supplier of foodstuffs, clothing and medicines, and, according to one report, arms (Robison, 1986: 296).

Liem’s association with the military’s Diponegoro Divison in Central Java grew out of these activities and continued into the 1950s when Suharto was commander. In addition to his trading activities in this period, Liem expanded into manufacturing (textile, soap, nails, bicycle parts) and successfully established himself as a supplier to the Indonesian Army. In the early 1950s he entered the banking sector by establishing Bank Windu Kencana in 1954 and purchased the Bank Central Asia in

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35 Liem later changed his name to the Indonesian-sounding Soedono Salim in the 1960s, following the example of many Chinese Indonesians. The Javanese meaning of this name is the following: soe = good; dono = capital; sa = three (referring to three brothers) and lim refers to Liem. To an extent, it has similar Javanese meaning to Suharto’s name. During the 1960s, there was a lot of pressure on the Chinese to integrate into Indonesian society and adopt Indonesian names (Elson, 2001; Dieleman, 2007).
1957. When Suharto became Indonesian president in 1965, Liem already presided over an established and varied business group and had an association with dominant Diponegoro Division and Suharto himself (Robison, 1986: 297). After Suharto came to power, Liem’s business began to expand into large corporations. By the early 1980s the Salim Group had become the largest business group in Indonesia (Sato, 1993).

**Political and economic alliance**

The rise of Liem’s business into large conglomerate has resulted from his close relationship with the established New Order regime. His personal connections with Suharto provided ways to obtain economic benefits, especially through concessions, licenses, and state protections. It is noteworthy that by the time president Suharto took power in March 1967, the Indonesian economy was facing difficult conditions, with hyper-inflation and a huge state debt burden (Booth, 1998). In order to create a more favourable and stable business environment, a new economic policy was introduced which emphasized import substitution industrialization (ISI). Similar policy was common throughout Southeast Asia, where governments tended to encourage foreign direct investment (FDI) inflows while restrict national market to protect and nurture domestic capitalists. This economic policy allowed Liem’s business Group to gain a substantial advantage (Robison, 1986: 297; Dieleman, 2007: 46).

Liem’s alliance with Suharto materialized into economic concessions granted for Liem’s businesses by the state, especially on export licences and import monopolies.
For example, through its P.T. Mega, Salim Group has a monopoly over the cloves business. In 1968, P.T. Mega was one of the two companies allowed to import cloves by the government. According to Robison (1986), the licence and numerous facilities received by Liem’s companies were directly related to his relationship with Suharto. This political alliance also helped Salim Group’s expansion into manufacturing sectors. In 1970, for instance, P.T. Bogasari received a monopoly on milling in the western region of Indonesia from Bulog, the state logistics company (Sato, 1993).

Through his political alliance with Suharto, Liem had been able to maintain his business relationship with the military high officials, especially Kostrad (Elson, 2001: 192). During the New Order, the army not only became the leading political force but also active in business which provided its elites with additional funds. These activities were very substantial for the army. The most important example of its business activity was shown in the case of Pertamina, the state-owned oil and natural gas company, which was headed by army officers. The company became the profit centre for the army. Other institutions like Bulog and Berdikari also provided the army with funds from economic activities. The army’s ‘fundraising’ activities were more centralised by the end of the 1960s by the establishment of registered companies owned and controlled by the army. ‘Most of these military sponsored enterprises were in fact operated by Chinese businessmen, with the military partners ensuring that the necessary licenses and “facilities” were available and providing “protection” when illegal activities were involved’ (Crouch, 1978: 284).

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36 Liem’s political alliance with Suharto was manifested in the form of business partnerships between the two families. Many of Suharto’s family members were often appointed as board members in Liem’s companies e.g. Sudwikatmono, the president’s step-brother, served as the president director Bogasari, while Suharto’s children, Sigit Harjojudanto and Siti Hardiyanti Rukmana were board members of Bank Central Asia.
Suharto and his cronies played a leading role in many of army’s business activities. For its business purposes, one of the army strategies was using the special foundations (yayasan) to engage with one of Liem’s companies. For instance, Yayasan Dharma Putra Kostrad, which was established in 1964 by Suharto, was the co-owner of Bank Windu Kencana with Liem (see Crouch, 1978). Another example is the Yayasan Harapan Kita which was chaired by Suharto’s wife. This ‘charitable’ foundation was linked to Liem’s P.T. Bogasari. As a result of this alliance, Harapan Kita and Dharma Putra received for about 26 percent of Bogasari’s profits (see Robison, 1986). Liem’s nexus with Suharto and several military elites have certainly strengthened the Salim Group’s position within the Indonesian economic and political structure, especially throughout the 1970s and 1980s.

Liem’s political and economic alliance was bolstered through partnerships with different capitalists, either with domestic businesses (private and state-owned companies) or international investors. In this expansion, the Salim Group was supported by the so-called ‘Liem investors’, a close friend of Liem, namely Djuhar Sutanto, who came from Fujian; Ibrahim Risjad, from Aceh; and Sudwikatmono, a cousin of Suharto. Together with Liem, they are also often called the Gang of Four. All of the Liem investors had close ties with Suharto (Dieleman, 2007: 47). Through this web of political alliances the Salim Group was able to develop business alliances with other domestic private and public capitals including the state-owned Krakatu Steel, the Ciputra (Metropolitan) property construction manufacturing group, the Sukamdani’s Sahid group, and National Motors, which was formerly
owned by the Lubis family. Liem had significantly expanded his network of partnerships by the end of the 1960s (Robison, 1986: 301).

In addition, an alliance with foreign capitals through joint ventures and equity capital was crucial for the development of Salim Group. Its expansion into numerous sectors of business required the injection of substantial financial loans from foreign capital—a strategy which during the 1997 economic crisis had become a burden for the Salim Group as well as for other business conglomerates. Many of Salim’s businesses have been linked to international and regional partners, from its larger industrial ventures such as the initial cement plant and the auto engine plant, to sectors like construction, finance, and property. The Salim family had also benefited from its Chinese networks in the region as well as around Asia. In fact, such networks helped Salim’s expansion into capital intensive manufacturing. For example, Salim received financial support for its cement factories construction from Bangkok Bank which was founded by Chin Sophonpanic, a prominent Thai-Chinese businessman, as well as support from the Chien Tai Cement Company of Taiwan (Sato, 1993: 418; Dieleman, 2007: 50).

**Business expansion at domestic market**

Liem’s businesses started to expand significantly since the late 1960s, specifically after Suharto came to power. The expansion of the Salim Group’s capital into various business lines benefited from Liem’s personal connection with the president. As a result of such political and economic alliance, the Salim Group’s affiliated companies had grown significantly from only 3 companies in 1957 to 54 companies
in the early 1980s covering six fields: trading; manufacturing; automobile; property and construction; finance; timber and logging; and miscellaneous (table 7.1). By 1985, the Group emerged as the largest conglomerate in Indonesia, with annual group sales estimated to be over US$900 million and 225 separate companies affiliated with the Group. In 1989 the number of Salim’s affiliated companies then rose to 350. This number grew to 427 companies in the early 1990s, just a few years before the advent of the Asian economic crisis, signifying that Salim became much more complex as a conglomerate (figure 7.1).

Liem’s expansion into the manufacturing industry from 1968 to the mid-1970s was crucial for the development of his business empire. First, it revealed a shift in Liem’s family capital activities from trading and banking to manufacturing. For example, in 1969, the group’s business fell into the four sectors: textiles, flour milling, trading, and finance. Second, it also signifies the first stage in the formation of Liem’s businesses as a business group, which were later known as the Salim Group. The group made its most spectacular advances in the manufacturing sector. In the late 1960s and the early 1970s, Salim’s general activities in manufacturing, especially in textiles, experienced healthy growth supported by government contracts for supply. By 1979 P.T. Tarumatex had an authorized capital of IDR 4 billion (US$6,400,000 approximately at 1979 exchange rates) and loans of IDR 9.6 billion from the government banks (Robison, 1986: 303).
Table 7.1. Salim Group Companies in the early 1980s

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<tr>
<th>Trade</th>
<th>Manufacture</th>
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<td>P.T. Waringin</td>
<td>P.T. Multiatex (Textiles)</td>
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<tr>
<td>P.T. Waringin Kencana</td>
<td>P.T. Indah Kencana (Nails)</td>
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<td>P.T. Permanent</td>
<td>P.T. Indara Mas (Bicycle Tires)</td>
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<td>P.T. Mega (Clove Imports)</td>
<td>Rubber Refineries</td>
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<td>P.T. Arimono</td>
<td>P.T. Tarumatex (Textiles)</td>
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<td>P.T. Hanurata</td>
<td>P.T. Pangan Sari Utama (Food Processing)</td>
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<td><strong>Property &amp; Construction</strong></td>
<td>P.T. Bogasari (Flour Milling)</td>
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<td>P.T. Metropolitan Kencana</td>
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<tr>
<td>P.T. Wisma Metropolitan</td>
<td>P.T. Distinct Indonesia Cement Enterprise</td>
</tr>
<tr>
<td>P.T. Metropolitan Devt.</td>
<td>P.T. Perkasa Cement</td>
</tr>
<tr>
<td>P.T. Jakarta Land</td>
<td>P.T. Perkasa Indah Cement Putih</td>
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<tr>
<td>P.T. Green Land</td>
<td>P.T. Perkasa Into Abadi Cement</td>
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<tr>
<td>P.T. Jaya Bali</td>
<td>P.T. Tridaya Manunggal Perkasa</td>
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<tr>
<td>P.T. Jaya Mandarin Agung (Mandarin Hotel)</td>
<td>P.T. Krakatau Cold Rolling Mill</td>
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<tr>
<td>P.T. Agung Utama</td>
<td><strong>Finance</strong></td>
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<td>P.T. Perwick Agung</td>
<td>Bank Windu Kencana</td>
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<tr>
<td>P.T. Asia Nusantara</td>
<td>Bank Central Asia</td>
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<tr>
<td>P.T. Kabele Asia Nusantara</td>
<td>P.T. Multifinance Corporation</td>
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<tr>
<td>P.T. Central Sari Int. Builders</td>
<td>Central Antar Jasa (Insurance Broking)</td>
</tr>
<tr>
<td>P.T. Nugraha Kencana Jaya</td>
<td>Metropolitan Leasing</td>
</tr>
<tr>
<td>P.T. Cahaya Tugu Kencana</td>
<td>P.T. Asuransi Central Asia</td>
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<tr>
<td>P.T. Central Salim Builders</td>
<td>P.T. Asswansi Java Central Asia Raya</td>
</tr>
<tr>
<td><strong>Logging, Timber &amp; Miscellaneous</strong></td>
<td><strong>Automobile</strong></td>
</tr>
<tr>
<td>P.T. Kayu Lapis (Plywood)</td>
<td>P.T. National Motors (Hino, Mazda Sole Agents)</td>
</tr>
<tr>
<td>P.T. Dono Indah (Logging)</td>
<td>P.T. Unicor Prima (Hino &amp; Mazda Assemblers)</td>
</tr>
<tr>
<td>P.T. Overseas Timber Products Corporation (Logging)</td>
<td>P.T. Ind Mobile Utama</td>
</tr>
<tr>
<td>Indaco Ltd. (Tin Mining)</td>
<td><strong>Suzuki Sole Agent &amp; Assemblers</strong></td>
</tr>
<tr>
<td><strong>Source:</strong> Robison (1986: 298-300)</td>
<td>P.T. Central Sole Agency (Volvo)</td>
</tr>
<tr>
<td><strong>Indaco Ltd. (Tin Mining)</strong></td>
<td>P.T. Salim Jaya (Volvo Assemblers)</td>
</tr>
<tr>
<td><strong>Indaco Ltd. (Tin Mining)</strong></td>
<td>P.T. Harapan Mobil Nusantara (Ford Distributors)</td>
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<tr>
<td><strong>Indaco Ltd. (Tin Mining)</strong></td>
<td>P.T. Indoheru (Suzuki Motorcycle Assemblers)</td>
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Source: Robison (1986: 298-300)
Nevertheless, it was flour milling and cement which became the key for the Group’s manufacturing empire. Liem’s operation into these sectors received direct support from the state. In 1969, the government decided to establish a flour milling capacity in Indonesian and licensed two companies namely P.T. Prima (Singapore owned) and P.T. Bogasari to begin the milling operations. Bogasari was given the milling rights for the western part of Indonesia including Java and Sumatra which accounted for about 80 percent of the domestic demand for wheat flour. Bogasari also received a direct loan from the central bank, which was quite rare except for certain state-owned corporations. By 1983, Bogasari had secured effective control of the US$400 million per year Indonesian flour market (Robison, 1986: 303). This monopoly had been made possible by the use of state power to determine the allocation of licenses, and by Liem’s connection with Suharto and the military political faction. It should also

be noted that the monopoly was in conjunction with the New Order’s import substitution policy.\textsuperscript{37}

In the cement industry, Salim Group’s operations have been developed through state protection. Salim’s production demand was generated by the state’s extensive investments in infrastructure, resources and industrial projects through the developing budget. Liem’s interests in this sector were mainly carried out though P.T. Indocement, which operates five cement companies. Indocement ownership was divided: 45 percent by the Liem family; 45 percent by the Djuhar family; 5 percent by Sudwikatmono; and 5 percent by Risjad. The Salim Group had managed to secure its domination over the domestic market through its alliance with state power. By 1983, the Group’s cement companies became the largest domestic producers having the greatest total productive capacity (Robison, 1986: 304).

Another example of Liem’s family businesses, which has undergone an important capital expansion was in the banking sector. The main vehicle of the Salim Group in this sector was the Bank Central Asia (BCA) established in 1957. BCA experienced no major capital growth until Liem appointed Mochtar Riady as president in 1975. Riady was associated with the Panin Bank prior joining BCA. The new management under Mochtar Riady,\textsuperscript{38} had brought important changes and fortunes (Sato, 1993:

\textsuperscript{37} By the 1970s it was widely known that Liem’s alliance with Suharto granted him numerous economic privileges from the state. He was deemed a \textit{Cukong}, a term used for Indonesian-Chinese businessmen associated with political figures. The press frequently referred to the Salim Group as part of the ‘Cendana Trust’. Cendana was the name of the Jakarta street in which Suharto and his family resided (Sato, 1993: 415; Dieleman, 2007: 51).

\textsuperscript{38} Mochtar Riady later resigned from his position and started his owned business. Through the years his family business, Lippo Group, has emerged into one of the largest conglomerates in Indonesia. Lippo’s numerous business operations, especially in the real estate, have cooperated with the Salim Group.
The ownership of BCA was distributed among the Liem family (24 percent), Suharto family through Sigit Harjojudanto and Siti Hardiyanti Rukmana (32 percent), and Mochtar Riady (17.5 percent). The increase in BCA’s revenues was an important part in incubating the Group’s future international expansion which will be explained in the next section. BCA expanded rapidly and became the largest private domestically owned bank in the mid-1980s, as it was integrated in the largest Indonesian conglomerate through the permissive international strategies of Salim’s circuits of capital in the 1970s and 1980s (Robison, 1986: 307).

**Salim’s internationalization of capital**

The current trajectory of the Salim Group’s business operation is very much characterized by a strong internationalization of capital. Salim’s expansion to the international scale started in the 1980s onwards. Yet it was only after the Asian crisis and the demise of Suharto’s New Order regime that the Group carried out a serious internationalization strategy. The Asian crisis crashed the value of Salim’s assets causing the Group to realise the importance of international expansion to secure the Group’s future capital accumulation. The heavy dependence on national markets and on the political patronage with Suharto brought too much risk (Dieleman and Sachs, 2008; Borsuk and Chng, 2014; Suzuki, 2015b).

Salim’s internationalization of capital after the Asian crisis was slightly different from before the crisis. The internationalization strategy is now focused on the regional expansion in the Asia-Pacific where Southeast Asia serves as the centre of operations. The ASEAN economy, specifically with the increasing means towards
regional economic integration, was viewed by the Group as a crucial market beyond Indonesia—capitalizing from the region’s growing demand as well as its potential to be a manufacturing hub. That is why Salim has strong interests towards promoting the regional economic project in the first place (Dumlao, 2012; Lubis, 2014; Suzuki and Suzuki, 2015; Thompson, 2016). In addition, the Salim’s expansion into the region benefits from its strong regional capitalist networks, especially with the overseas Chinese business networks (OCBN) (Weidenbaum and Hughes, 1996b; Weidenbaum, 1998; Haley, Haley, and Tan, 2009; Roughneen, 2016a). This regional expansion has affected not only the Group’s current business empire but also its strategy in underpinning the projects of regional economic governance.

**Early movement and economic crisis disruption**

The Salim Group’s expansion into the international market started in the late 1970s by commencing activities abroad and bringing FDI to Indonesian (Dieleman and Sachs, 2008: 162). The internationalization process increased substantially in the 1980s onwards, owing to the Group establishing First Pacific in 1981, a holding company based in Hong Kong and listed on the Hong Kong Stock Exchange. On its formation, the ownership of the company was divided: 30 percent owned by Liem; 30 percent by Djuhar Sutanto; 10 percent by Anthoni Salim (Liem’s son); 10 percent by Tedy Djuhar; 10 percent by Sudwikatmono; and 10 percent by Risjad.

Soon after its inception, First Pacific started to develop its investments portfolio into various businesses and industries in Asia. The offshore corporate structure was built around two pillars: trade and finance. For example, First Pacific began to acquire
other companies, among which was the Dutch trading firm, Hagemeyer, in 1983. Hagemeyer was already active in exporting Indonesian coffee and other primary products to Europe and the U.S. First Pacific also expanded its finance sector by acquiring California Bank, Hibernia, through its US$133 million funding (Robison, 1986: 308).

In addition, the Salim Group’s expansion beyond Indonesia was carried out through KMP in 1983. KMP was a Singapore-based holding company, which was owned by the Liem family. KMP had controlled a number of Singapore-based companies specifically those operating in food, property, and real estate (Dieleman and Sachs, 2008: 163). China had opened up its huge market for foreign investment during this period. Liem started investing in Fuqing, his home town, together with Djuhar Sutanto. With a group called Yuan Hong they invested in flour milling, a nearby port, and an industrial park (Dieleman, 2007: 54).

The Group’s international expansion strategy in the earlier period was influenced by potential risks associated with Indonesian domestic politics. A regime change could easily involve confiscation of property or capital, as the Group heavily relied on patronage relations with Suharto. Hence, it was rather sensible that Salim attempted to moderate these risks by investing abroad (Robison, 1986: 310; Dieleman and Sachs, 2008: 163). It is important to put into context that Salim’s internationalization was facilitated by the state through export-oriented industrialisation (EOI) policy which allowed domestic capitalists to take advantage of export activities. For example, a number of Salim internationalizing companies such as in the food
industry, were formed in response to the government policy. Furthermore, the establishment of the offshore companies such as First Pacific and KMP was in part to strengthen the Group’s trading operations in Indonesia.

As a result of this early internationalization, by the mid-1990s almost 30 percent of the Salim Group’s assets were outside Indonesia (figure 7.2). Prior to the mid-1980s most assets were located in Indonesia. Despite the significant increase in Salim’s foreign operations, the company was dependant on the Indonesian market during that period. Some of its business operations were still having scale difficulties, deciding or balancing between the international market or for domestic demands. For example, the Indonesian government tried to promote EOI policy rather than ISI for domestic consumption since the mid-1980s, yet the Salim Group set up some export businesses (e.g. shoes) but mostly stuck to their domestic business model (Dieleman, 2007: 55).

Figure 7.2. Salim Group Compositions of Sales According to Origin 1995-1996

![Pie chart showing sales composition]

Source: Dieleman and Sachs (2008: 166)
At the end of the 1990s, the Salim Group’s business expansion into international markets was significantly hampered by the coming of the AFC. The Asian crisis slammed most Indonesian companies and the Salim Group was no exception (see Dijk, 2002; Sato, 2003). The impacts of the AFC were felt by Liem’s Indonesian-based companies, which experienced their vulnerability to currency fluctuations and faced difficulties in paying their debts as most of those loans were in U.S. dollars. Indofood, for example, admitted it had hedged only 15 percent of its debt, and was forced to issue a profit warning in October 1997 (Dieleman, 2007: 85). As a result of the economic crisis, Salim Group suffered heavy losses. In September 1998, the Liem family reached an agreement with the government to pay its obligations of US$5 billion by transferring stakes in over 107 companies to the newly created government agency, the Indonesian Bank Restructuring Agency (IBRA) or Badan Penyehatan Perbankan Nasional (BPPN). IBRA was tasked to supervise the banks with problems but still viable. As of May 1998 this included the formerly Salim controlled BCA bank, along with most of the Indonesian banking sector (Rosser, 2003: 331; Sato, 2004: 26; Brown, 2006b: 16).

Salim’s overseas businesses also suffered, given that the crisis affected the economies of the entire Southeast Asian region. For instance, the First Pacific subsidiary, Metro Pacific, started to post losses due to a troubled property project in the Philippines. First Pacific then announced a strategy of selling off its investments in a variety of companies. It first raised US$2 billion by selling Hagemeyer in 1998. The sale of Hagemeyer, which was the foothold of the Salim Group in Europe, had become a decision which made Salim’s business operation more focused to Asian
markets. The money was later used to strengthen its existing businesses in the region and invest in new acquisitions. One of the acquisitions was a majority stake in the Philippine Long Distance Telephone (PLDT) for US$749 million (*Financial Times*, 28 October 1998).

Other assets that were sold by First Pacific were a Hong Kong-based cellular provider, a Sydney-based IT distributor, as well as some newly-acquired businesses such as a Taiwan-based cellular provider and a Hong Kong-based security services. All these assets were successfully divested at sufficiently high prices to help First Pacific maintain a respectable level of profit and earnings per share in 2000 (First Pacific, 2000). Nevertheless, after 2000, First Pacific was forced to sell more of its assets as the debts continued to increase. Consequently, in 2001, the stock price of its quoted holding company, First Pacific Company, suffered a sharp drop in the Hong Kong Stock Exchange, resulting in its removal from the Hang Seng Index (see First Pacific, 2001; 2002).

It was within the Asian crisis context that the Salim Group’s internationalization strategy started to change. As many of its business operations were severely affected by the crisis, Salim came to realise that serious expansion outside of the Indonesian market was essential for the Group’s future capital accumulation. It was under the new Chairman, Anthoni Salim, the son of the Group’s late founder, that this further internationalization took its important development beyond its core food business as well as extending its geographical reach (Suzuki, 2015b). As Dieleman and Sachs (2008: 168) noted, Anthoni Salim aimed to drive his family business to a new level
with a balanced portfolio: fifty percent operating inside of Indonesia and fifty percent outside. A strategy that would reduce the Group’s dependence on Indonesia, while retaining Indonesia as the most important market.

**Deepening internationalization and regional economic governance**

Soon after the Asian crisis, many of Salim’s businesses started to show their first steps towards growth, with a focus on capital expansion in the Asian-Pacific market. Anthoni Salim opted to boost the company into a strong player within the region, capitalizing on the Salim Group’s capacity and capitalist networks rather than moving into unknown territory. The focus, therefore, has been within the huge and promising market of ASEAN, China, and Australia. Salim’s new strategy was to continue its expansion and domination on domestic business, with control over the value chain and production networks that involve different locations in Asia (i.e., Dieleman and Sachs, 2008; Lubis, 2014; Suzuki and Suzuki, 2015; Thompson, 2016).

The direction of the Salim Group’s expansion was demonstrated in the case of its Hong Kong-based holding company, First Pacific Company Limited. Soon after the Asian crisis, the company restructured by focusing on the Asia Pacific with emphasize on Southeast Asia. During 2002 to 2015, its core investments grew rapidly through strategic acquisitions and partnerships in four major business sectors (figure 7.3): (i) food production under PT Indofood Sukses Makmur, Goodman

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39 First Pacific is one of the Salim Group’s holding companies. The Group has other holdings to carry out its international expansion that registered in other countries such as Singapore and British Virgin Islands.
Fielder Pty Limited, and Roxas Holdings Inc (RHI). Indofood is the largest vertically integrated food company in Indonesia and Goodman Fielder is the leading food company in Australasia. While RHI runs an integrated sugar business in the Philippines; (ii) telecommunication services under the Philippines Long Distance Telephone, the biggest telecommunications firm in the Philippines; (iii) infrastructure and real estate ventures in the Philippines, held through Metro Pacific Investments Corporation (MPIC), the Philippines’ largest infrastructure investment management and holding company with investments in the Philippines’ largest electricity distributor, toll road operator, water distributor, hospital group and rails; and (iv) natural resources through Philex Mining Corporation and PacificLight Power Pte. Ltd (PLP). Philex is one of the largest metal mining companies in the Philippines, producing gold, copper and silver. PLP operates one of Singapore’s most efficient gas-fired power plants (First Pacific, 2002; 2013; 2014; 2015).
Figure 7.3. First Pacific Corporate Structure 2015*

Source: First Pacific (2015)

* All businesses principally operate in Indonesia unless otherwise indicated
(1) Philippines; (2) Singapore; (3) China; (4) Australia
ASEAN economic scale has become essential for Salim’s internationalization process. This is because Southeast Asia provides the biggest market for Salim’s circuits of capital cycle yet also becomes the hub for its expansion beyond the region. In this sense, Manuel V. Pangilinan, Managing Director and CEO of First Pacific, said that it is part of the Salim Group’s strategy to enhance investments across the Southeast Asian region (Dumlao, 2012). This is possible through the positive growth of economic development and investment in the Asian region, specifically Southeast Asia (UNCTAD, 2015: 41). Anthoni Salim therefore recognised the importance of making the company into a strong regional and global player. In an interview with Nikkei Asian Review journalists, he said that ‘we [the Salim Group] would like to grow not only domestically but regionally, to have a better market and balance. Being in Indonesia, ASEAN is certainly an important market for us’ (Suzuki and Suzuki, 2015). The importance of ASEAN market for Salim’s capital expansion has been reflected in the Group’s interests in shaping the ASEAN integration project (Roughneen, 2016a).

In fact, Salim’s interests for market-driven economic policies in the region had been revealed right after the Asian crisis when Anthoni Salim, along with other big business elites, formed the Asia Business Council in 1999. The Council was commenced in responses to the changes of economic landscape brought about by economic crisis and globalization as well as in order to provide the government with sort of policy agenda. In 2012, the Council published a policy research paper looked at the ASEAN as an emerging global player amid its development into a region with single integrated market within the AEC initiative. The report emphasized how
Southeast Asian market has become the array in which the home-grown large companies were increasingly looking to become regional and global players, specifically in the food, banking, and energy industries (see Asia Business Council, 2012).

Salim’s interests towards regional economic governance have also been expressed through its involvement in the state-sponsored business association in the region. For instance, along with other Southeast Asian conglomerates, the Salim Group was associated with the ASEAN Business Advisory Council (ASEAN-BAC) which launched in 2003 soon after the AEC was initiated. The Council’s interest was to advice the ASEAN’s efforts towards economic integration (ASEAN-BAC, 2016). It is noteworthy that two of the Salim Group’s top managements are the prominent members of the Council, namely Manuel Pangilinan (the Philippines) and Subronto Laras (Indonesia).

Therefore, the international expansion of the Salim Group’s capital was undertaken within the context of the rise of liberalization agenda at regional level in the post-Asian crisis time, especially in the form of single integrated market between ten ASEAN member countries. This regional economic integration project – which further regulates the circuits of capital cycle – provided new opportunities for Southeast Asian capitalist class, especially for those with the most internationalized fractions of capital, to globally extend their capital accumulation. Since the AEC project was initiated in 2003, the region has been boosted by capitalist interests in the

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forms of corporate investment mergers and acquisitions, large influx of commodities, and regional production networks (e.g., Grant, 2014; ASEAN, 2015c; Ito, 2015) (see Chapter 4).

As ASEAN economic integration attracted more capital investments into the region, it is important for Salim to secure many forms of financial resources to fund its business projects. In this context, the expansion of Salim – and many other Chinese conglomerates in Southeast Asia – was to exploit advantages offered by the OCBN throughout the region. In Southeast Asia, opening the access of significant capital resources is heavily dependent upon the social relations of capitalist networks that reach across space; especially with Chinese business networks (e.g., Hamilton, 1991; Weidenbaum and Hughes, 1996b; Olds and Yeung, 1999; Haley, Haley, and Tan, 2009; Susanto and Susanto, 2013). The advantageous of the OCBN finds its momentum with the large flows of China’s investment into Southeast Asia, particularly through the China-led Asian Infrastructure Investment Bank (AIIB), which was set up in 2015. Luky Eko Wuryanto, the AIIB vice-president and chief administration officer, said that AIIB – with a registered US$100 billion of capital – is keen to support the ASEAN ‘connectivity’ initiative (Roughneen, 2016a). However, within the ASEAN economic integration scheme, Salim also took more adventurous alliances and moved beyond OCBD, especially in the case of Vietnam.

Salim’s preference for ASEAN economic governance has strengthened because it provided an institutional environment for the Group’s expansion across the region and beyond, notably how regional market became the hub for its business operation.
In other words, ASEAN economic integration project will smooth the Group’s endeavour to link its money capital, commodity circulation, and production chain across the region as well as to Australia and China. For instance, many of the Salim’s new acquisitions and joint ventures into these new markets have been connected with its investment vehicles based operation in Singapore, Indonesia, and the Philippines (First Pacific, 2015; 2016).

An important example of this investment linkage is demonstrated by Salim’s expansion in the consumer food and agribusiness industry, in which has covered throughout regional market. Food industry has become one of the largest business lines of the Salim Group. Its Indonesian-based Indofood, for example, already established among the largest food companies in Asia with operations in all stages of food manufacturing, from the production of raw materials and their processing, to consumer products in the market. According to the official report issued by First Pacific (2014: 29), the Salim Group’s priorities in the food sector was to strengthen and expand its operation through Indofood into both regional and international scale, specifically with regards to the ASEAN’s new economic community project. But what is noteworthy here is that the investment through Indofood needs to be argued as part of a broader context of Salim’s internationalization strategy to link its food production networks and investments across the region.

Through its holding company, First Pacific – which also controlled Indofood – the Salim Group strengthened its operation in this mass food production and distribution into other Southeast Asian countries, widen into new productions and commodities
which have not been encompassed by Indofood. In the Philippines, for instance, Salim’s interests operated by Roxas Holdings which now becomes the largest integrated sugar business in the country (First Pacific, 2015; Roxas Holdings, 2015). While in Vietnam, the Group’s operation is carried out through Interflour Vietnam Limited. This company is part of Salim’s Singapore-based Interflour Group which also operated flour mills in other Southeast Asian countries including Indonesia and Malaysia. With its total milling capacity of approximately 1.5 million tons per year, the Interflour Group has become one of the biggest flour millers in Asia (Interflour, 2017).

The Salim Group’s domination in the food business was also strengthened by its operation networks into China and Australia. In China, its expansion was run by China Minzhong Food Corp. Ltd., after Indofood became the company’s largest single shareholder. While in Australia, Salim had an important investment in Goodman Fielder, the country’s largest listed food manufacture. It is clear that the Goodman Fielder deal by First Pacific in 2015 was in conjunction to the Group’s broader ambition to ‘create a leading Asia-Pacific agricultural and consumer staples company’ (Camus, 2015). Specifically, it is part of Salim’s aggressive push to expand its regional food presence ahead of the ASEAN economic integration in 2015 (Suzuki, 2015b). According to Manuel Pangilinan, First Pacific Managing Director and CEO, Goodman Fielder will be transformed ‘into a regional food company, serving the needs of consumers across Asia—particularly in the fast-growing ASEAN markets’ (First Pacific, 2014: 51).
As Salim’s business operations continue to grow in the region, its capital expansion into the Philippines was perhaps the most important. Through First Pacific, Salim has managed to broaden its capital investment into the Philippines market in numerous sectors of business, spanning from telecommunications, infrastructure, food production, natural resources, and the media industry. Not surprisingly, the aggressive expansion has provided First Pacific with substantial revenues (Venzon, 2015). In 2015, 60 percent of First Pacific’s annual profits were generated from its business operations in the Philippines alone, surpassing revenues from other Southeast Asian countries including Indonesian market (First Pacific, 2016: 4). Salim’s success in expanding into the Philippines has inspired and supported similar expansion to other Southeast Asian markets such as in Singapore, Malaysia, Thailand and Vietnam, amid the ASEAN regional economic integration initiative. It is important to emphasize that these regional interconnections have amplified the formation of the Salim Group into an embryonic internationalized or better regionalized capitalist class.

The key to Salim’s capital expansion in the Philippines was its movement into the telecommunication sector. During the Asian crisis, Salim acquired the Philippines Long Distance Telephone (PLDT), a one-time state monopoly fixed-line firm, in September 1998 for US$925 million which secured its 27.4 percent ownership (Hilsenrath, 1998). In this case, Salim’s acquisition of PLDT benefited from Salim’s Chinese capitalist networks, specifically through Cojuangco family (Aquinos), one of the most powerful and influential families in the Philippines. The

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41 The acquisition of PLDT was finalized in 2000.
Group acquired the company from a member of the Cojuangco family that had run the monopoly for thirty years (Sprague and Lopez, 2000; Borsuk and Chng, 2014: 451; Tiglao, 2016b). PLDT had controlled nearly 70 percent of the Philippine telecommunications sector. The company then expands its investment. For example in 2011, PLDT announced a plan to buy out John Gokongwei’s Digital Telecommunications Philippines (Digitel) which was owned by Ayala Corp. and Singapore Telecommunications (SingTel). With US$1.6 billion deal, PLDT controlled 51.55 percent share of Digitel. It was the largest corporate takeover in the Philippines history (Borsuk and Chng, 2014: 480).

Capitalizing from its success in telecommunication, Salim spawned other strategic businesses such as power generation, water supply, mining, toll-roads and hospitals. The Group’s expansion into these sectors was carried out mainly through Metro Pacific Investments Corporation (MPIC), a listed holding company which incorporated in 2006 as well as through Philex Mining which was bought in 2008 (First Pacific, 2006; 2008). In this case, MPIC’s subsidiaries have dominated public utility services on the main island of Luzon, which generates two-thirds of the country’s gross domestic product. Manila Electric Co., for example, provides power to a quarter of the Philippines population, while Maynilad Water Services holds half of the capital’s water rights. Metro Pacific Tollways Corp. runs three expressways, or more than half of the country’s toll-road network. In addition to these, MPIC’s operations in the health services, especially hospitals, have become dominant (Venzon, 2015).

42 Philex Mining is the Philippines’ largest gold and copper producer. First Pacific bought 20% of the company’s stake in October 2008 for US$131 million. At the end of the year First Pacific raised its stake to 31% (Borsuk and Chng, 2014: 479).
Another important expansion made by the Salim Group in the Philippines was in food and agriculture industry. In 2013, FP Natural Resources together with its Philippine affiliate, First Agri Holdings Corporation, acquired 34 percent of Roxas Holdings, Inc. (RHI), the country’s largest integrated sugar business (Cabuag, 2015; Perez, 2015; Venzon, 2015). Salim then increased its share to 50.9 percent on February 2015. The Group’s expansion into this sector, as should be noted, was within the context that the Philippine sugar industry is the second-largest in Southeast Asia after Thailand. It is noteworthy that RHI is constantly on the lookout for opportunities to grow its business beyond sugar. In this case, RHI then entered ethanol business in 2015 as well by acquiring 93.7 percent of a bioethanol company and former competitor, San Carlos Bioenergy, Inc., with US$39.0 million. Through this investment, the Salim Group literally has controlled the biggest ethanol producer in the Philippines (First Pacific, 2015: 52).

In Singapore, Salim Group’s expansion has also been prominent, especially in the power generation and electricity retailing which operated by PacificLight Power Pte. Ltd. (PLP), a Singapore subsidiary of First Pacific’s FPM Power Holdings Ltd (First Pacific, 2015: 48). In addition to this, Salim also expanded its investment into other sectors of business through KMP Private Limited, a joint venture between FPM Power Holdings and Malaysia’s PETRONAS International Power Corporation Ltd. Salim mad several moves through this holding company. In 2015, for example, KMP formed a joint venture with CAB Cakaran Corporation Berhad, one of Malaysia’s largest quality food producers to set up a fully integrated poultry business in Indonesia. Salim hold a 90 percent stake in this new company (Ali, 2016).
Years earlier the Salim Group had also expanded into food business in Singapore. In 2006, specifically, Salim bought 22 percent of listed Food Empire Holdings Ltd., a manufacturing company in the food and beverage sector founded by Tan Wang Cheow. Its products, which include instant beverage products, frozen convenience food, confectionery and snack food, were sold to over 50 countries such as Russia, Eastern Europe, China and Central Asia. Salim’s capital share was made through Universal Integrated Corporation Consumer Products Pte Ltd which solely owned by Anthoni Salim’s investment holding, Trevose International Pte Ltd (Food Empire, 2016). Another Salim’s investment in Singapore was in partnership with the Para Group – later renamed CT Corp, owned by the rising Indonesian conglomerate, Chairul Tanjung. Through their Singapore partnership company named Grandiflora, they bought 28 percent of AsiaMedic, a health services provider, for S$13 million in 2005 (Borsuk and Chng, 2014: 474).

Since the ASEAN regional economic integration initiated after the Asian crisis, a project which tried to link the region’s market scale, production chain and investment flow, the Salim Group continued to show its strong interests to deepen its business operation into other Southeast Asian countries, especially into the new market of Vietnam and Thailand. In this case, Manuel Pangilinan, said that sectors such as telecommunications, power and water have become of interests of the Group in both countries (Batino and Yap, 2013). Furthermore, as Pangilinan emphasized, although the legal framework and financial systems in country like Vietnam – which was only

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43 Although Chairul Tanjung denied being a proxy for Salim family, an interview with several Indonesian top bureaucrats and journalists indicated that the rise of CT Corp’s capital has been linked to the Salim Group.

44 Interview with Subronto Laras, President Commissioner Indomobil, the Salim Group’s automotive company, in Jakarta, 17 March 2015.
recently opening up its markets – would still have to be set up, the country has offered promising opportunities for Salim’s capital expansion (Dumlao, 2012).

Salim Group’s expansion into Vietnam had started with its movement in the agribusiness and food industry which undertook by Interflour Vietnam Limited. The company was established in 2010 as a joint venture between the Salim Group’s Singapore-based, Interflour Holdings Limited, and Bulk Handling Limited (CBH), Australia’s largest wheat exporter to Vietnam. Together they shared ownership of 80 percent while Sojitz Corporation, a Japanese trading company, owned another 20 percent (Dumlao, 2012). The Interflour Holdings operates flour mills and its vision is to be the biggest integrated flour miller company that manage the supply chain and production in Southeast Asia. It offers products through distribution channels, and depot and sales offices in Indonesia, Malaysia, Vietnam, and Turkey (Interflour, 2017). Since 2010, Interflour’s operation has grown significantly. In 2016, for instance, its Vietnam operations was contributed for about 40 percent of Interflour’s total profit (Field, 2016). To support its regional productions and supply networks in this sector, Salim also expanded into port operation. At the end of 2010, Interflour Vietnam Limited had completed the Cai-Mep Agri Port (CAP) project. CAP has become the largest of special-purpose grain port in ASEAN (Sojitz, 2010).

Salim’s internationalization of capital has also been extended beyond Southeast Asian market, namely into China and Australia. It is noteworthy, notwithstanding, that some of these investments have been closely linked to Salim’s ASEAN-based companies as well as in order to strengthen its core business operations in the region.
Salim’s expansion into China’s mass food sector, for instance, was made through the Group’s largest food industry company and Indonesian instant-noodle maker, PT Indofood Sukses Makmur. In February 2013, Indofood acquired 29.3 percent stake of China Minzhong Food Corp. Ltd. In September that year, Indofood then raised its share to 82.88 percent and became the single largest shareholder of the vegetable processor and supplier company (Venkat, 2013).

Salim’s investment in this mass food industry has also been expanded into Australia. In 2003, for example, the Salim Group, together with Japan’s Nissho Iwai, announced their alliance with Australia’s agricultural company, Futuris, to build an Australian grain export business. Salim itself took 5 percent share with AU$46 million investment through its Singapore-based company named Droxford International Limited (Borsuk and Chng, 2014: 473). An important movement of the Salim Group investment in this sector was made in 2014 by acquiring Goodman Fielder, the largest listed food manufacturer in Australia. The acquisition was carried through First Pacific’s FPW Singapore Holdings in partnership with Singapore oils trader, Wilmar International. Together they bought 50 percent of the company’s stake for AU$1.3 billion (Heffernan, 2015).

Another important sector in which the Salim Group controlled in Australia is in the mining industry. Through Droxford International, Salim acquired Sydney-based mining company, Robust Resources, for US$70.5 million in 2014. It was a joint takeover made by Salim and Hong Kong investment firm, Stanhill Capital Partners,

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45 Goodman Fielder is involved in manufacturing, marketing and distribution of food ingredients and consumer branded food, beverage and related products, including packaged bread and other related goods, biscuits, dairy products, small goods, flour, edible oils and meal components.
with 46.6 percent ownership of the company (Yueyang, 2014; Schultes, 2016). In 2016, Salim then also extended its mining operation by purchasing Mount Pleasant which operated one of the largest coal projects in New South Wales. Mount Pleasant was a subsidiary company of Rio Tinto. The takeover was carried through MACH Energy Australia for US$224 million (Malik, 2016). It is noteworthy that the Salim Group’s movement in Australia was within the context of its broader expansion in Southeast Asian mining industry, especially in countries such as Indonesia, the Philippines, as well as Vietnam. For instance, Robust Resources also controlled some exploration projects in Indonesia and the Philippines, including a gold, silver and base metal.

**The state and the political role of the Salim Group**

Many companies controlled by the Salim family have aggressively expanded its business operation into numerous sectors beyond its traditional business which they mainly operated before the Asian crisis. Consequently, the Group has a strong interest in pushing the ASEAN economic integration project to liberalize the regional market. It is noteworthy that these interests have been facilitated by the state in the forms of new and complex alliances involving state apparatuses and other class forces. Since the end of the authoritarian’s New Order, the Salim Group’s political nexus has shifted: from previously relying on patronage relations with Suharto to more complex coalitions within the new Indonesian electoral system. The coalitions helped structured the state policies that underpinned the current project of the AEC.

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46 MACH Energy Australia Pty Ltd. engages in coal mining business. It was incorporated in 2015 and is based in Perth, Australia. The company is a wholly-owned subsidiary of Droxford International Limited, a subsidiary of the Salim Group.
The ASEAN regional economic institution, in this case, is viewed as part of the projects in which many politico-bureaucrats had interests in expanding capital accumulation on a regional wide basis. The direct political role played by Indonesian capitalists in the post-New Order period was in part a reflection of the internationalization of these capital groups and the dependence of this internationalization on political protection. This tendency, for instance, was showed from the reorganization of the oligarchic formation in the new electoral system, specifically through the strong links between conglomerates in the political arena with political parties, parliament, as well as numerous government bureaucracies (e.g., Hadiz, 2007; Winters, 2013; Carney and Hamilton-Hart, 2015; Fukuoka and Djani, 2016). Hence it is important to position such process in the context that many capitalists have risen into important political actor as well as secured access towards strategic economic foreign policies.

Furthermore, this new configuration of political alliances has helped the way capitalists reorganize their capital accumulation process which always takes place within specific state territorial boundaries. As the accumulation process is very much deals with domestic economic and socio-political requirements, such as class domination, government concession, land acquisition, and not to mention the increased exploitation of labour force, the state has played its fundamental role in securing such conditions favouring the bourgeoisies. As a conglomerate that emerged and triumphed under the protection of the authoritarian New Order regime, it was not a surprising comeback of the Salim Group in the new electoral politics. Although the Group seems to keep the distances from the public eye following the fall of Suharto,
in fact Salim continues to cultivate its political alliances through its links to the government top bureaucrats in which among them were appointed as corporate board members (Carney, Dieleman, and Sachs, 2008: 314). For example, Salim’s Indonesian-based Indofood has appointed Bambang Subianto, former Indonesian Minister of Finance, as one of the company’s commissioners (Indofood, 2015: 15). Salim’s alliances were also carried out through political party elites and through political funding to numerous executive and legislative candidates.\(^{47}\) Such connection, hence, has substantially facilitated Salim’s business expansion through the government preferential treatment—directly or indirectly.

An example of this alliance has been evident in Salim’s natural resource interest, a sector where a degree of regulatory preference for capitalists is nearly inevitable. In 2008, a competition over 35,000 hectare concession of coal exploration in East Kutai, East Kalimantan province, occurred between Nusantara Group and Churchill Mining. Nusantara is a firm owned by one of Indonesian’s most prominent political figure, Prabowo Subianto.\(^{48}\) A major shareholder in this company is Anthoni Salim (Allard, 2011). Most of the locations of the concessions have been worked by Churchill. However, at the same time Nusantara began processing the extension of its six licenses for exploration that had lapsed. The matter of overlapping claims then arose. The situation changed which favours Nusantara when Isran Noor became the district chief (Bupati) of East Kutai. While the extensions of Nusantara’s licenses

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\(^{47}\) Interview with Sukaardi Rinakit, Senior Researcher Soegeng Sarjadi Syndicate, in Jakarta, 4 March 2015. Rinakit was also a campaign manager for Joko Widodo during a 2014 presidential campaign.

\(^{48}\) Prabowo is the former Indonesian Army General and was the son-in-law of President Suharto who now leads the Gerindra party. During the 2014 election he was running for president though lost to Joko Widodo.
were granted in July, Isran Noor then issued a letter stated that his administration had never once issued mining licenses to Churchill (Tempo, 4 March 2012b).

It is noteworthy that Nusantara was benefited by the rapid shift to (and popularity of) resource nationalism in Indonesia that happened during that period of time. This was very much based on opposition to foreign ownership of mining—considering the Law No. 4/2009 on Minerals and Coal Mining (Minerba Law) which specifically regulates the development of energy sector including licensing system. The law also clearly defines the powers and scopes of the central, provincial, and district/city governments within the new decentralized political system. In this context, Bupati – many who rise through money politics – has the power to issue and revoke licenses over lucrative concessions (Cahyafitri, 2015; Sundaryani, 2016; Nur Alami et al., 2017: 62). Though Nusantara Group denies any accusation made by Churchill that the Group was behind this action, it was believed that Nusantara’s interest has been benefited by its political alliance as Prabowo is a long-time friend of Isran Noor (Tempo, 4 March 2012a).

Another example was also expressed in the Salim Group’s palm oil expansion. Salim’s interest in this sector has been operated through a Singapore-based Indofood Agri Resources Ltd (IndoAgri) and its affiliated and subsidiary companies. IndoAgri is the third largest private palm oil company in Indonesia in terms of Crude Palm Oil production and has supplied substantial profits for Salim’ capital accumulation. In 2016, the company’s oil palm plantations covered a total area of 247,430 ha in Kalimantan, Sumatra, and Papua (IndoAgri, 2016: 6). It is important to note that
Salim’s expansion in the palm oil is part of the rise of many Indonesian conglomerates capital which benefited enormously through this industry, specifically since the 2000s palm oil boom that made Indonesia surpassed Malaysia to become the world’s top producer of the commodity. Salim’s robust operation in this sector, nevertheless, has been coincided with its companies’ shoddy reputation. Through its political alliance, which guaranteed government protections, Salim was able to deepen its accumulation despite many violations practices (Varkkey, 2016: 144).

Furthermore, Salim’s political alliance has also helped the Group’s expansion into new sector such as poultry feed business. In 2015, the Salim Group bought 11.05 percent share of Malaysia-based poultry firm, CAB Cakaran Bhd., in order to form a joint-venture in Indonesia, especially in the poultry-based food business. Salim’s decision to enter this sector has pushed for further liberalization policies from Indonesian government. However, this new market expansion faced challenged from Charoen Pokphand Indonesia, a subsidiary of Thai conglomerate, Charoen Pokphand Group, which holds 34 percent of the Indonesian market share (Hermansyah, 2016). Charoen Pokphand Indonesia, in this case, has expressed its resistance to the poultry sector liberalization under the ASEAN regional governance scheme as mostly of its productions are for domestic consumptions (Charoen Pokphand Indonesia, 2015; Hameiri and Jones, 2015). Such liberalization also received criticism from other local

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49 Among those top Indonesian richest that also engaged in the palm oil plantation, for example, are Djarum Group (Budi and Michael Hartono), Gudang Garam Group (Susilo Wonowidjojo), Sinar Mas Group (Eka Tjipta Widjaja), Wilmar International (Martua Sitorus), CT Corp (Chairul Tanjung), Royal Golden Eagle (Sukanto Tanoto), and Rajawali Group (Peter Sondakh).
businesses such as Sierad Group, accusing the government was supported more the larger companies with international-linked capitals rather than local businesses.\textsuperscript{50}

As the Salim Group’s business operations were enormously spread across the region amid the ASEAN economic integration project, its political coalitions with the state has also been widened into other countries where the expansion took place (Carney, Dieleman, and Sachs, 2008; Tiglao, 2015a; 2016a; Venzon, 2015). Given its position as a ‘political outsider’ when entering those countries, and whiles the clear importance of these connections for expansion success, this creates an imperative to try to get some form of political ‘top cover’ involving local elites and capitalist class. Importantly, the widening of these coalitions also explains the specific role of Salim’s political ties in Indonesia and other regional countries in facilitating its capital accumulation and underpinning the regional economic governance.

For instance, it is demonstrated by Salim’s crony networks in the Philippines involving political elites, military power,\textsuperscript{51} as well as other capitalist class. An example is through Alberto del Rosario, the Philippines’ former Foreign Affairs Secretary (2011-2016) whom has been a key figure in Salim’s capital development in the country since the 1980s (Tiglao, 2015a). He holds the biggest individual stockholder of Salim’s Metro Pacific with 11.5 million shares (Metro Pacific, 2015: 10). Since 2003, del Rosario has been served as the Metro Pacific’s board director as well as of several Salim firms, including Indonesian-based companies. In this case,

\textsuperscript{50} Interview with Anthon J. Supit, President Commissioner of Sierad Group and Chairman, Indonesian Employers Association (APINDO), in Jakarta, 22 May 20015.

\textsuperscript{51} Salim’s relationship with the army was through its Metro Pacific. Among the company’s ventures, for instance, was a project to redevelop the national headquarters of the Philippine National Army, Fort Bonifacio, which located in southeastern Metro Manila.
Salim’s business operations in the Philippines have also been benefited by del Rosario’s wider political connection specifically with the Aquino family. His ties with Aquino began since the mid-1980s when Corazon Aquino was elected as president. In February 2011, few months after Benigno Aquino III became president of the Philippines, del Rosario was appointed as one of the president’s cabinet members (Tiglao, 2015a).

In a broader picture, as indicated by Tiglao (2016a), such socio-political nexus has helped the Salim Group undertaking major capital breakthroughs through different administrations. During Fidel Ramos’ government (1992-1998), Salim’s consortium won the prized Fort Bonifacio property project which was backed by government officials. Under Joseph Estrada (1998-2001), Salim marked its important expansion by capturing PLDT from the the Cojuangco family. Cojuangcos (which includes the Aquinos) is among the most powerful clans in the Philippines which controlling several economic sectors. While during Gloria Arroyo’s administration (2002-2010), Salim expanded further by acquiring the power-distribution monopoly, Meralco (Manila Electric Company), from one of the most economic and politically influential elites, the Lopez family. Meralco then became Salim’s base for expanding into the power sector. Within this period as well, Salim was able to control the Philippines largest gold producer, Philex Mining, with the crucial help of the state-owned Development Bank of the Philippines.

Under Benigno Aquino III’s presidency (2010-2016), the Salim companies have grown rapidly to include the largest infrastructure investments, operating even the
Philippines longest toll-road network. It is important to note that under Aquino administration, the Salim Group has participated in the bidding for almost all public-private partnership program which worth more than US$20 billion deals. In 2014, for example, First Pacific’s MPIC allied with the Philippine conglomerate, Ayala Corp, to win a US$1.5 billion contract to extend the City of Manila’s longest and busiest light railway line. In the early 2015, MPIC has secured another a US$790 million toll-road deal (Venzon, 2015).

The expansion of Salim’s capital during the Aquino administration needs to be defined as part of the larger process of class formation in the Philippines, where the consolidation of capitalist class has been enhanced through the state power and alliances. It should be remembered that Aquino himself is part of this capitalists circle where his family (Cojuangco-Aquino family) controlled numerous strategic holding companies such as San Miguel Corporation (food and beverage); Central Azucarera de Tarlac (sugar mill and refinery); Jose Cojuangco and Sons Inc. (agro-industry); Hacienda Luisita Inc. (sugar plantation); Paniqui Sugar Mills Inc (sugar); and Liberty Insurance Corp. (finance). Although some of these companies have a competition history with the Salim Group’s interests (e.g. food and agricultural sector), they certainly have gained substantial profits from merger and acquisition activities which involving Salim’s companies (e.g., Sprague and Lopez, 2000; Eñano, 2013; 2014; Kawase, 2015; Tiglao, 2015).

During this period of time, Salim’s massive capital operations in the country have started to receive scrutiny and criticism which considered have exceeded the
specified limits ownership to foreign capital set by the constitution (Tiglao, 2014; 2015a; b; Venzon, 2015). In this case, the Philippines Supreme Court has issued a decision in 2014 – it became final and non-appealable in 2015 – which could have stopped Salim’s business operations in the country due to such constitutional violation. However, it was ignored by the Securities and Exchange Commission, the government agency which assigned to enforce such decision (Tiglao, 2016a).

During this period, the Salim Group had also extended its business investments in the media industry in which foreign capital are actually barred from owning a major share. Salim, in this regards, acquired TV5 television network, the Philippines third-largest broadcaster, and controlled three of the most widely circulated newspapers namely The Philippine Daily Inquirer, BusinessWorld, and The Philippine Star. The last mentioned newspaper owned a number of media outlets such as Pilipino Star Ngayon, The Freeman, Cebu, as well as People Asia Magazine (Venzon, 2015). These acquisitions were made through MediaQuest Holdings, a subsidiary of PLDT (The Jakarta Post, 3/4/2014). To put into context, Salim’s media expansion has followed many Southeast Asian tycoons’ imprints which have importantly engaged in this sector. In Indonesia, for instance, numerous prominent conglomerates have established their ownership in the media outlets ranging from TV station, newspaper, magazine, and radio networks. Media, in this sense, has become essential for the capitalists not only for financial profits but also to invigorate their oligarchic alliance (e.g., Sudibyo and Patria, 2013; Winters, 2013; Tapsell, 2015).

52 The Philippines limits foreign ownership to its proportionate share in strategic industries such as utilities and natural resources. It was enshrined in the 1987 Constitution of the Republic of the Philippines, Article XII, Section 11.
Salim’s strong alliances with the Philippines elites have also benefited its business expansion and domination through market protection. Despite its broader interests over ASEAN regional integration market, the Group is still dependent on the government protection in particular sector of productions and commodities. In this context, the political coalition with the state is crucial for Salim’s internationalization strategy. This, for instance, was expressed in Salim’s business operation in the sugar industry after First Pacific acquired Roxas Holdings in 2013. In attempt to compete for the domestic production and market share domination in the Philippines, Salim Group has sought the government supports in the sugar sector policy. Manuel Pangilinan, in this case, urged the Philippines government to temporary restrict the liberalization in this industry amid the AEC scheme at regional scale. He emphasized that domestic businesses must be protected from the cheap sugar imports such as that from Thailand producers (Camus, 2014; Mercurio, 2015).

**Conclusion**

This chapter has explained the internationalization of the Salim Group’s capital as window into the emergence of internationally oriented fraction of capital. The chapter has argued that the Group’s broader capital expansion beyond Indonesian market has been closely related to the economic integration projects at regional level as well as how it was operated through the state-capital relations. Indeed, Salim’s internationalization of capital has been started since the 1980s onwards. However, the 1997 Asian economic crisis has hindered many of Salim’s offshore companies operations. The Salim Group, which was very significantly affected by the economic and political turmoil, has been able to restructure its capital while refocusing more on
the Asia-Pacific regional expansion in which ASEAN became its centre of operations. In this regards, such process of internationalization showed the strong interests of the Salim Group in supporting the liberalization of regional economy of ASEAN. In this context, Salim viewed the ASEAN regional economic integration as an instrumental in strengthening the Group’s circuits of capital networks throughout the region, from production chains, commodity distributions, to capital investments.

This process of internationalization was sustained by the new forms of coalitions within the state-capital relations engaging the bourgeoisies, political elites, as well as other socio-political forces. Salim’s massive expansion has been carried out through such political nexus, especially within the development of the new electoral system in Indonesia following the fall of Suharto. As the capital expanded across the region, this sort of alliance was also widened beyond national frontiers. For example, it is showed between Salim and the Philippines’s political elites which have yielded substantial profits for the Group’s capital in the country. Accordingly, the international expansion of Salim’s capital across the region has contributed in structuring the government policies in underpinning the regional economic integration project. The chapter also suggested that the regional economic governance has in turn contributed in regionalizing the political foundations for crony capitalism in Southeast Asia.
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Conclusion

At the gathering of business leaders on the eve of the ASEAN Summit meeting in Bali (Indonesia), October 2003, Prime Minister of Thailand, Thaksin Shinawatra, called upon Southeast Asian leaders for fast and definitive action towards a single integrated market in the region. He said, ‘this is the time for action, this is the time to adapt to meet the change, this is the time to realize regional economic integration’ (Shinawatra, 2003). Since then, the regional economic governance of ASEAN has been incrementally developed with institutional moves being carried out: starting from the agreement between ten ASEAN governments to establish the ASEAN Economic Community (AEC) through the Declaration of the Bali Concord II in 2003; the launching of the AEC Blueprint in 2007, which specified the characteristics and elements of the AEC; until the official enactment of the common market at the end of 2015.

How do we understand these tentative steps towards regional integration? The core argument of this thesis is that beneath the recent intensification of regional economic cooperation in ASEAN lies a set of social forces that have shaped the political economies of Indonesia, and Southeast Asia in general, over more than three decades. These social forces have emerged out the internationalization of capital – where corporate profit-making activities operate beyond territorial boundaries – that has subsequently transformed national political institutions and internationalized
parts of the state policymaking apparatus. It is this twin process of internationalization of capital and state that has underpinned the various project of regional economic integration.

The framework of this thesis builds on those accounts of regional integration that emphasise domestic politics, where coalitions and struggle for resources occurs between different social and political forces at the state level (e.g., Jayasuriya, 2003a; 2008; Nesadurai, 2003; 2012; 2017; Rodan, Hewison, and Robison, 2006b; Jones, 2015). However the thesis moves beyond the methodological nationalism of domestic political economy explanations – including such work as Robison and Hadiz (2004) – by developing the thesis that domestic political forces were shaped by transformations in the regional and global political economy. These transformations then have led to the rise of internationalized fractions of capital. In this context, the state has played, and continues to play a crucial role in facilitating the capital expansion of these internationally oriented capitalists across the region, in particular through foreign economic policies that support the regional economic integration project.

It is instructive that the statement made by Thaksin was in the context of foreign economic policy designed to facilitate the expansion of Thai’s capitalist class throughout the region. Thaksin himself was a prominent capitalist whose political rise to power was based on challenging the traditional oligarchic business interests in Bangkok (Phongpaichit and Baker, 2004; 2009; Hewison, 2005; Higgins, 2011). His own personal fortune – through Shin Corp Group – was tied to regional circuits of
capital accumulation, especially in the telecommunication and airline industry (e.g., Arnold, 2006; Kazmin, 2006; Burton and Kazmin, 2007). In this way, Thaksin’s enthusiasm for ASEAN regional integration was rooted in a broader structure of changes in the social forces at state level, specifically with the transformation of capitalist class and their coalitions which seek to broaden their scale of capital accumulation into a global level.

This thesis then cuts across the grain of much institutionalist theorising on regional integration in Asia, especially on the debate towards the role of the state within the regional integration process. The debate has usually centred on the extent to which the state plays its role in shaping and strengthening the regionalization process. For example, the functionalism approach believes the success of regionalism is determined by the way the state plays a minimalist role. This view rests upon the premise that nation-states are incapable of solving complex economic and political problems. Regional integration emerges ‘naturally’ as part of the functional solution to the growing interdependence among states (see Mitrany, 1966; Rosamond, 2000). Meanwhile, institutionalism considers the state more as regulator of the regional initiative. The state, in this case, is looked as a valuable actor that pursues its own national interests through regional institution as it will provide space for productive exchanges (e.g., Keohane, 1989; 1993; Milner, 1992; Baldwin, 1993a).

The study shows the regional economic integration is a product of broader social and class relations that underpinned through the changes in the forms and spaces of capital accumulation. These changes were reflected by the emergence of the
internationally oriented fractions of capital which linked to the regional and transnational circuits of capital (i.e. production, commodity, money capital). In this sense, the transnational accumulation of capital requires new forms of economic regulatory coordination beyond territorial frontiers – in particular at the regional level – which regulates and facilitates the interlocking of circuits of capital for further capitalist expansion (Glassman, 1999; Harvey, 2003; Chacko and Jayasuriya, 2017).

The rise of this internationalized capitalist class has become prominent in Southeast Asia, particularly after the Asian economic crisis (e.g., Robison and Hadiz, 2004; Brown, 2006b; Tipton, 2009; Bafoil, 2014). Since 1980s onwards, the state adopted internationalist strategies to facilitate the expansion of domestic enterprises beyond national market through export-oriented industrialization (EOI) policies. However, it was after the Asian crisis at the end of 1990s that the internationally oriented fractions of capital have significantly emerged by their interconnection with the regional circuits of capital. The economic crisis pushed many conglomerates to pursue an accumulation strategy beyond their home markets. As this outward expansion was centred in the Asia Pacific region with the emphasis on Southeast Asia, these new internationalized capitalists pushed for further market liberalization on a regional scale to support their transnational operations (e.g., Polsiri and Wiwattanakantang, 2006; Tsui-Auch, 2006; Dieleman and Sachs, 2008; Lee, 2014).

Political projects of regional economic governance in Southeast Asia has been shaped by the internationalization of capital, as this provided the institutional
foundations for the international expansion of many family-based conglomerates across the entire ASEAN economies and beyond. In particular, the foundation of such expansion is related to the regionalization of commodity flows, production networks, and capital investment. For example – as explained in Chapter 5 – the AEC initiative has strengthened Southeast Asia as an integrated investment area and enhanced the region’s capacity to serve as a global production networks centre. The AEC also urged for intra-regional trade improvement by facilitating such rules as integrating customs procedures and establishing the ASEAN Single Window (ASW) which accelerated the clearance of cargo and releasing of shipments (ASEAN, 2008; 2015d). This regionalization of capital accumulation, in turn, has reinforced the formation of transnational capitalist networks across the region. The capitalist networks were reflected in the patterns of intra-regional investment flows, acquisitions and joint ventures, personal connection, and ethnic proximity.

The internationalization of the state, hence, has substantially facilitated the internationalization of capital accumulation across the region through strategic policies which support the regional economic integration of ASEAN. It is important to point out that the international fractions of capital have their foundations in prior patterns of state restructuring. We have seen in Chapter 4 through the case study of Singapore, Malaysia, and Thailand, as well as Indonesia (in Chapter 6), that the state’s political and economic strategies – as a result of complex power alliances within the state-capital relations – have been shaped and adapted in an attempt to facilitate the formations, priorities, and interests of the capitalist class. These interests, specifically, related to the economic liberalization policies in the form of
ASEAN economic integration project, facilitation towards transnational corporate linkages, as well as government protection ensuring the capitalist expansion (Jessop, 1995; 2015; Jones, 1997; MacLeod and Goodwin, 1999).

The emphasis on the internationalization of the state and capital in this thesis stands contrary to the dominant institutionalist accounts of Asian regional integration as they defined the realms of regional project were detached from the state politics and the interests of different social forces (e.g., Munakata, 2006; Plummer and Jones, 2006; Soesastro, 2006; Hew, 2007). What is missing from their explanations is that the processes of regional integration have been organically linked to the state restructuring and the way it facilitated the process of internationalization of capital. It must be noted that capital accumulation is tied up to space and time and always takes place within specific geographical spaces of the state (Harvey, 2003: 33; Chacko and Jayasuriya, 2017: 16). The focus of liberal and institutionalist theories of regional integration fails to interrogate the broader social relations of capital that underpin processes of state restructuring. These processes of state restructuring provide the social foundation for projects of regional economic integration.

It is in this sense that Glassman (1999) defined such state’s involvement as the ‘internationalization of the state’, where state apparatuses become strongly oriented towards facilitating the internationalization process of capital expansion. The state is important not only in conjunction to the economic processes of the accumulation, but also to the broad range of social and political activities. Most of these activities were crucially related to the production and reproduction of capital which formed through
coalitions between distinct social and political forces, importantly involving different fractions of capitalist class and state apparatuses (Poulantzas, 1978a; Jessop, 1990b; Hewison, Rodan, and Robison, 1993). It is through such alliances that the state – through policy making apparatus – has played, and continue to play, a crucial role in facilitating the internationalization of capital through regional integration project (Glassman, 1999).

The theoretical and empirical significance of this thesis lies in its contribution in providing a new way of understanding the regional economic integration in Asia, specifically in Southeast Asia. It emphasizes on the social and class relations through the changes in nature, spaces, and forms of capital expansion. The framework of this research – which draws on the internationalization of capital and social conflict theory – further unravels how the state, in particular through the new forms of coalitions within the state-capital relations, is pivotal in comprehending how regional political projects facilitate the interests of specific fractions of internationalized capital.

The Indonesian case, as examined in Chapter 6, supports this argument with respect to the restructuring of state-capital relations. In the post-Asian crisis, many Indonesian capitalists have successfully restructured their business operations. Some of them emerged into important internationally oriented fractions of capital with strong interests towards ASEAN regional market. The interest of these capitalist fractions – in the form of internationalization of the circuits of capital accumulation – was carried out within the context of the new forms of coalitions that have been
invigorated in the new electoral system following the fall of Suharto’s authoritarian regime in 1998. The new political system has allowed capitalists to have direct access to political power, especially in dominating the influence over domestic political institutions and agencies which have strong role for free market and internationalization oriented agendas such as Ministry of Trade; Coordinating Ministry for Economic Affairs; and Investment Coordinating Board (BKPM). The capitalists’ interests have been activated whether through political parties, politico-bureaucrats, or business associations (e.g., Rosser, 2002; Fukuoka, 2012; Winters, 2013; Hadiz and Robison, 2014; Fukuoka and Djani, 2016).

This coalition has helped the internationalized fraction of capital to form the political support for ASEAN regional initiative in the form of economic integration. This is reflected through foreign economic policies and several liberalization packages at the national level which underpinned the deepening process of regional economic integration. For example, the government policy the so-called ‘Masterplan for the Acceleration and Expansion of Economic Development of Indonesia 2011-2025’ (MP3EI) set policy priorities to support the regional economic integration project for the expansion of Indonesian capitalists across the Southeast Asian market. The MP3EI emphasized the interconnection between liberalization of investment and the Indonesian integration to the regional and global supply chain (Coordinating Ministry for Economic Affairs, 2011: 38). It is noteworthy that this policy was configured as a result of political coalitions involving the internationally oriented capitalists and the state apparatuses, especially through the newly government
agency, the National Economic Committee (Komite Ekonomi Nasional – KEN), which has been led by conglomerates.

Within the international expansion of capital across the region, the political alliances of the most internationalized capitalists have also expanded regionally. The expansion of political coalitions into different states of the region has helped the capital expansion strategy, which has then shaped their support for regional economic integration projects. As denoted in the case study of the Salim Group (Chapter 7), one of Indonesia’s largest conglomerates that emerged through patronage relations with the New Order’s ruling regime, the expansion of the Group’s business operations throughout the Southeast Asian market was sustained by the reinforcement of its social and class alliance in Indonesia and beyond. Salim’s expansion into the Philippines, for instance, was strongly supported and protected by its coalitions with political elites, especially through the Aquino (Cojuangco) family (Venzon, 2015; Tiglao, 2016a). This political and economic alliance made it easier for Salim to boost its business expansion and also encourage support for economic liberalization through regional economic integration projects (Dumlao, 2012; Suzuki and Suzuki, 2015; Roughneen, 2016a). Hence, the internationalization of capital through regional economic integration also means the deepening of political coalitions between networks of capitalists and the state apparatuses across the region.

There are limitations to the argument presented by this thesis. First, this research put more focus on the rise of Indonesia’s internationalized capitalist fractions and how their interests towards promoting the ASEAN economic governance. Given the
importance of Indonesia politically and economically within the context of ASEAN, the case study of this region’s largest economy has illustrated how the internationalization strategy of capital accumulation has shaped the structure and characteristic of regional economic institutions. Further comparative research could reinforce the theoretical proposition offered by this thesis. Comparative studies that include capitalist fractions in other Southeast Asian countries, significantly as Singapore, Malaysia, the Philippines and Thailand, can also contribute in understanding the contingent pathways of the internationalized capitalist transformation and their political alliances within the state politics across the region. The studies of the new members of ASEAN, the so called CLMV countries (Cambodia, Laos, Myanmar, and Vietnam), might also provide important insight as some suggest that these countries’ policy still hinder the progress on regional economic integration. It is important to point out that the nature of these alliances in other Southeast Asian countries might be district from that in Indonesia. This is due to, for instance, which social and class forces that were more salient that the other; the impact of ethnic politics; and the degree of class struggle involving different fractions of capitalists and the ruling elites.

Second, in explaining the internationalized capitalist class in Indonesia, this thesis centred its analysis on the family-owned conglomerates but has not focused on the state-owned enterprises. It is important to note that the state formation and restructuring under the New Order regime since the late 1960s has led to the emergence of new capitalist class. Most of them were largely based on family business groups. However, in the last decade numerous state-owned companies have
started to grow significantly, especially with the financial support from the government’s national budget (*Anggaran Pendapatan dan Belanja Negara* – APBN) along with their political nexus. Some of these state companies even started to expand regionally into ASEAN market amid the regional integration market scheme (*Kompas*, 27 March 2016a; *Tempo*, 26 March 2016). Therefore, further research which incorporates the state-owned enterprises could open up more dimensions to the changes in the capitalist expansion in Indonesia and how their position with regards to ASEAN economic integration project.

Despite these limitations, the findings presented by this thesis have a broader relevance for defining the social and political foundation of regional economic governance in Southeast Asia. The thesis has clearly established the notion that the directions of the regional economic governance cannot be fully comprehended through the reinforcement of institutional capacity or government political commitment suggested by institutionalist norms and agendas. Neither the institution nor the decision making apparatus is detached from the rise of internationally oriented fractions of capital and the associated social and class transformations.
Appendix:
List of interviewees

A. Business Groups

1. Mr Subronto Laras
   President Commissioner of Indomobil Group, Salim Group; Chairman of
   Indonesian Employers Association (APINDO); Board of Advisor, Indonesian
   Chamber of Commerce and Industry (KADIN), Jakarta

2. Mr Gandi Sulistiyanto
   Managing Director of Sinar Mas Group; Vice Chairman, Indonesian Chamber of
   Commerce and Industry (KADIN), Jakarta

3. Ms Emmy Kuswandari
   Corporate Affairs and Communication, President Office, Sinar Mas Group,
   Jakarta

4. Dato’ Sri Dr. Tahir
   Founder and Chairman of Mayapada Group, Jakarta; Listed among the top 50
   richest people in Indonesia by Forbes Magazine in 2014

5. Mr Suryo Bambang Sulisto
   President Commissioner of Bumi Resources, Bakrie Group; Chairman,
   Indonesian Chamber of Commerce and Industry (KADIN); Chairman of the
   Indonesian Indigenous Businessman’s Association (HIPPI), Jakarta

6. Mr Sandiaga S. Uno
   Founder and President Director of Saratoga Investama Sedaya. Forbes Magazine
   ranked him the 27th Indonesian richest man in 2010; Vice Chairman, Indonesian
   Chamber of Commerce and Industry (KADIN), Jakarta

7. Mr Chris Kanter
   Chairman of Sigma Sembada Group; Vice Chairman, Indonesian Chamber of
   Commerce and Industry (KADIN); Board of Advisor, Indonesian Employers
   Association (APINDO); Senior Advisor to Indonesian Minister of Trade, Jakarta

8. Dr Yandi Djajadiningrat
   Bramadi Capital; Secretary General, Indonesian Chamber of Commerce and
   Industry (KADIN), ASEAN Committee, Jakarta

9. Mr Anton J. Supit
   President Commissioner of Sierad Group; Chairman, Indonesian Employers
   Association (APINDO), Jakarta
10. Dr Fadhil Hasan  
   Executive Director of Indonesian Palm Oil Association (GAPKI); Supervisory Board of Bank Indonesia (BI), Jakarta

11. Mr Soetrisno Bachir  
   Founder and Chairman of Sabira Group; Chairman of National Mandate Party (PAN) 2005-2010. In 2014 general election, PAN won 7.59 percent of popular votes and was ranked in the 5th position. The interview was conducted in an informal discussion format in his house, Jakarta

B. **Government Bureaucrats & Political Elites**

12. Dr Hassan Wirajuda  
   Indonesian Foreign Minister (2001-2009); Member of the Presidential Advisory Council (WANTIMPRES) for International Affairs (2009-2014), Jakarta

13. Dr Lim Hong Hin  
   Deputy Secretary General of ASEAN, ASEAN Secretariat, Jakarta

14. Mr Rahmat Pramono  
   Indonesian Ambassador/Permanent Representative to ASEAN, ASEAN Secretariat, Jakarta

15. Mr I Gede Ngurah Swajaya  
   Indonesian Ambassador/Permanent Representative to ASEAN (2010-2014), ASEAN Secretariat, Jakarta

16. Mr I Gusti Agung Wesaka Puja  
   Director-General of ASEAN Cooperation, Ministry of Foreign Affairs, Jakarta

17. Ms Ina Hagniningtyas Krisnamurthi  
   Director, ASEAN Economic Cooperation Division, Ministry of Foreign Affairs, Jakarta

18. Prof. Dorodjatun Kuntjoro-Jakti  
   Indonesian Coordinating Minister for Economic Affairs (2001-2004); President Commissioner of Bank Tabungan Pensiunan Nasional (BTPN), Jakarta

19. Dr Rizal Ramli  
   Indonesian Coordinating Minister for Economic Affairs (2000-2001); Indonesian Minister of Finance (2001); President Commissioner of National Bank of Indonesia (BNI), Jakarta

20. Prof. Mari Elka Pangestu  
   Indonesian Minister of Trade (2004-2011); Indonesian Minister of Tourism and Creative Economy (2011-2014), Jakarta
21. Dr Fahmi Idris  
Indonesian Minister of Industry (2005-2009); Board of Advisor, Indonesian Chamber of Commerce and Industry (KADIN), Jakarta

22. Mr Agus Tjahajana Wirakusumah  
Director-General of International Industry Cooperation, Ministry of Industry, Jakarta

23. Prof. Dewi Fortuna Anwar  
Deputy Secretary to the Vice President of the Republic of Indonesia, Political Affairs; Professor, Centre for Political Studies, Indonesian Institute of Science (LIPI), Jakarta

24. Ms Halida Miljani  
Indonesian Ambassador/Permanent Representative to the World Trade Organization (WTO) (1997-2002), Geneva; Advisor to Indonesian Minister of Trade for International Cooperation (2002-2012), Jakarta

25. Mr Ahmad Faisol  
Economic Expert to the Chairman of Indonesia Investment Coordinating Board (BKPM), Jakarta

26. Mr Poetra Adi Soerjo  
Political Expert to the Deputy Speaker of the Indonesian People’s Representative Council (DPR RI), Jakarta

C. Intellectuals

27. Dr Rizal Sukma  
Executive Director, Centre for Strategic and International Studies (CSIS), Jakarta

28. Dr Yose Rizal Damuri  
Head, Department of Economics, Centre for Strategic and International Studies (CSIS), Jakarta

29. Dr Sukardi Rinakit  
Senior Researcher, Soegeng Sarjadi Syndicate, Jakarta; He was a Campaign Manager for President Joko Widodo during a 2014 presidential campaign

30. Dr Adriana Elisabeth  
Director, Centre for Political Studies, Indonesian Institute of Science (LIPI), Jakarta

31. Dr Cornelis P.F. Luhulima  
Senior Researcher, Centre for Political Studies, Indonesian Institute of Science (LIPI), Jakarta
32. Dr Makmur Keliat
   Director, ASEAN Studies Centre, University of Indonesia, Jakarta

33. Dr Shofwan A. Choiruzzad
   Researcher, ASEAN Studies Centre, University of Indonesia, Jakarta

34. Prof. Hikmahanto Juwana
   Professor in International Law, Faculty of Law, University of Indonesia;
   Independent Commissioner of Smart Agribusiness and Food, Sinar Mas Group,
   Jakarta

35. Mr Faisal Basri
   Economist, Faculty of Economy, University of Indonesia, Jakarta

36. Mr Alberto D. Hanani
   Economist, Faculty of Economy, University of Indonesia, Jakarta

37. Dr Kusnanto Anggoro
   Senior Lecturer, Indonesian Defense University (UPI), Jakarta

38. Dr A. Tony Prasetiantono
   Director, Centre for Economics and Public Policy Studies, Gadjah Mada
   University (UGM), Yogyakarta; Independent Commissioner of Permata Bank

39. Dr Revrisond Baswir
   Senior Lecturer, Faculty of Economics and Business, Gadjah Mada University
   (UGM), Yogyakarta; Independent Commissioner of National Bank of Indonesia
   (BNI)

40. Dr Dimas Oky Nugroho
   Executive Director, Akar Rumput Strategic Consulting, Jakarta; Political
   consultant to several political parties and politicians including President Joko
   Widodo during his 2014 presidential campaign

D. Journalists & NGO Activists

41. Mr Rafendi Djamin
   Indonesian Representative for the ASEAN Intergovernmental Commission on
   Human Rights (AICHR), Jakarta; Chair of Human Rights Watch

42. Dr Riza Damanik
   Executive Director, Indonesia for Global Justice (IGJ), Jakarta

43. Mr Wahyu Susilo
   Board Member and Policy Analyst, Migrant CARE, Jakarta
44. Ms Ninuk M. Pambudy  
    Vice Editor in Chief, KOMPAS (Daily), Jakarta

45. Mr Andreas Maryoto  
    Editor of Economic Affairs, KOMPAS (Daily), Jakarta

46. Mr Bambang Harymurti  
    President Director TEMPO Media Group; Former Editor in Chief, TEMPO (Weekly Magazine), Jakarta

47. Mr Arif Zulkifli  
    Editor in Chief, TEMPO (Weekly Magazine), Jakarta

48. Mr Usman Kansong  
    Editor in Chief, Media Indonesia (Daily), Jakarta

49. Mr Nezar Patria  
    Vice Editor in Chief, CNN Indonesia (Online), Jakarta

50. Mr Metta Dharmasaputra  
    Editor in Chief, KATADATA Business News and Research Portal, Jakarta
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