

**RESPONDING TO THE TRANS-PACIFIC PARTNERSHIP (TPP):
COMPARATIVE STUDY ON INTERNATIONAL TRADE POLICY OF
MALAYSIA, VIETNAM, AND INDONESIA**

by

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CERTIFICATION

I, Rakhmat Syarip, hereby declare that this master thesis is my own work which contains ideas and information from published as well as unpublished works of different scholars who are recognized through the references listed in the thesis. The main arguments and ideas that are not cited are ideas and agreements written by author of this thesis.

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ABSTRACT

Despite its tremendous economic potentials, until now there is no mega-regional FTA covering all corners of the Asia-Pacific. Backed by the United States (US), the Trans-Pacific Partnership (TPP) is the recent attempt to do so and is promoted to be the ‘high quality 21st century agreement’. The research basically discusses Southeast Asian perspective on the FTA, focusing on why Malaysia and Vietnam decided to join whereas Indonesia decided not to. Positioning TPP within the existing literature on Southeast Asia trade policy-making, the research is important for two particular reasons. First, existing literature tend to be domestic-driven, while the ‘US factor’ embedded within TPP means that international factors are important to understand the behavior of these countries. Second, the prevailing assumption of ‘state-domestic business influence on trade policy’ is no longer true for the TPP case as more various actors, including within the state, have concerns over the impact of the ‘high-quality’ agreement.

The research finds that economic gain is not the only reason why a country joins an FTA. In fact, just like the Great Powers, small and medium countries in Southeast Asia align their trade strategy with political and security objectives. The decision on TPP intersects heavily with how they regard the position of China and the US in the Asia-Pacific, namely whether the former is seen as a political-security threat, whether it is important to engage the latter as part of hedging strategy and whether the latter’s TPP maneuver aligns with their regional foreign policy priorities. Moreover, the high-quality nature of TPP means that accession decision relates to political debate among various domestic actors on whether a country needs to conduct economic reforms. Specifically, the research finds that the interest of the leader and the Ministry of Trade on economic reforms, rather than the state as a whole, as well as their maneuver to deal with protectionist camp, play important role in determining Southeast Asian countries’ decisions on TPP.

Keywords: US’ pivot, trade and security linkage, 21st century FTA, domestic support on economic reform

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ABBREVIATIONS & ACRONYMS

ABAC	: ASEAN Business Advisory Council
ACA	: Anti-Corruption Agency
AEC	: ASEAN Economic Community
AFTA	: ASEAN Free Trade Area
AIA	: ASEAN Investment Area
AIDS	: Acquired Immune Deficiency Syndrom
AmCham	: American Chambers of Commerce in Vietnam
APEC	: Asia-Pacific Economic Cooperation
APINDO	: Indonesian Entrepreneur Association
ASEAN	: Association of Southeast Asian Nations
BANTAH TPPA	: Coalition to Act Against TPPA
BBC	: British Broadcasting Corporation
BIMST-EC	: Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation
BIT	: Bilateral Investment Treaty
BN	: <i>Barisan Nasional</i>
BTA	: Bilateral Trade Agreement
CBA	: Cost and Benefit Analysis
CCP	: Chinese Communist Party
CEO	: Chief Executive Officer
CEPA	: Comprehensive Economic Partnership Agreement
CEPEA	: Comprehensive Economic Partnership of East Asia
CIEM	: Central Institute for Economic Management
CJK FTA	: China-Japan-Korea Free Trade Agreement
CLMV	: Cambodia, Laos, Myanmar and Vietnam
COMECON	: Council of Mutual Economic Assistance
CSIS	: Center for Strategic and International Studies
CSOs	: Civil Society Organizations
DAP	: Democratic Action Party
EAFTA	: East Asian Free Trade Area
EAS	: East Asia Summit
EEC	: European Economic Community
EFTA	: European Free Trade Association
EU	: European Union
EVSL	: Early Voluntary Sectoral Liberalization
FDI	: Foreign Direct Investment
FDRA	: Footwear Distributors and Retailers of America
FELCRA	: Federal Land Consolidation and Rehabilitation Agency
FELDA	: Federal Land Development Authority
FIEs	: Foreign-Invested Enterprises
FTA	: Free Trade Agreement
FTAAP	: Free Trade Area of the Asia-Pacific

GATT	: General Agreement on Tariff and Trade
GCC	: Gulf Cooperation Council
GDP	: Gross Domestic Product
GLCs	: Government-Linked Companies
GSO	: General Statistic Office of Vietnam
GSP	: General System of Preferences
HIV	: Human Immunodeficiency Virus
IBRA	: Indonesian Banking Restructuring Agency
IGJ	: Institute for Global Justice
ILO	: International Labor Organization
IMET	: International Military Education and Training Program
IMF	: International Monetary Fund
IPe	: International Political Economy
IPR	: Intellectual Property Right
IR	: International Relations
ISDS	: Investor-State Dispute Settlement
ISIS	: Institute for Strategic and International Studies
ITI	: International Trade and Industry
ITO	: International Trade Organization
Kadin	: Indonesian Chambers of Commerce and Industry
KBE	: Knowledge-Based Economy
KORUS FTA	: Korea-US Free Trade Agreement
Lefaso	: Vietnam Leather and Footwear Association
Lemhanas	: National Resiliency Institute
LPEM	: Institute for Economic and Social Research
MFN	: Most-Favored Nations
MNCs	: Multinational Corporations
MoA	: Ministry of Agriculture
MoF	: Ministry of Finance
MoFA	: Ministry of Foreign Affairs
MoT	: Ministry of Trade
MP	: Member of Parliament
NAFTA	: North American Free Trade Area
NAM	: Non-Aligned Movement
NEM	: New Economic Model
NEP	: New Economic Policy
NGOs	: Non-Governmental Organizations
NIEs	: Newly Industrializing Economies
NTBs	: Non-Tariff Barriers
NTR	: Normal Trade Relations
P-4	: Pacific-4 (Brunei, Chile, New Zealand, Singapore)
P-7	: Pacific-7 (P-4, the US, Australia and Peru)
PAP	: People Action Party
PAS	: Pan-Islamic Party
PIFs	: Pacific Island Forums
PKR	: <i>Parti Keadilan Rakyat</i> (People Justice Party)

PM	: Prime Minister
PR	: <i>Pakatan Rakyat</i>
PSI	: Proliferation Security Initiative
PSM	: <i>Parti Sosialis Malaysia</i>
PTA	: Preferential Trading Arrangement
R & D	: Research and Development
RCEP	: Regional Comprehensive Economic Partnership
ROO	: Rules of Origins
SBY	: Susilo Bambang Yudhoyono
SMEs	: Small and Medium Enterprises
SNI	: Indonesian National Standard
SOEs	: State-Owned Enterprises
T & C	: Textile & Clothing
TAC	: Treaty of Amity and Cooperation
TIFA	: Trade and Investment Framework
TPA	: Trade Promotion Authority
TPP	: Trans-Pacific Partnership
TPPA	: Trans-Pacific Partnership Agreement
TPSEP	: Trans-Pacific Strategic Economic Partnership
TRIMs	: Trade-related Investment Measures
TWN	: Third World Network
UK	: United Kingdom
UNDP	: United Nations Development Program
UKM	: <i>Universiti Kebangsaan Malaysia</i>
UMNO	: United Malay National Organization
UNCTAD	: United Nations Conference on Trade and Development
UNDP	: United Nations Development Program
US	: United States
VCCI	: Vietnam Chambers of Commerce and Industry
VCP	: Vietnam Communist Party
Vitas	: Vietnam Textile and Apparel Association
WTO	: World Trade Organization
ZOPFAN	: Zone of Peace, Freedom and Neutrality

CHAPTER I - INTRODUCTION

I.1 Background

The Asia-Pacific is a site where economies grow tremendously dynamic. The region is home to several of the most advanced economies such as the United States (US) and Japan, Newly Industrializing Economies (NIEs) such as South Korea, Singapore, Hong Kong and Taiwan, and also new economic powerhouses, such as China, Vietnam and Indonesia. The region covers a vast area including Northeast and Southeast Asia, Western Pacific, North America and Latin America. The Asia-Pacific is such an important region that it covers almost 55 percent of the world's Gross Domestic Product (GDP) and contributes to 40 percent of world population and 44 percent of world trade.¹

Despite such potential, the region has yet to establish a region-wide Free Trade Agreement (FTA). Asia-Pacific only has the Asia-Pacific Economic Cooperation (APEC), which basically serves as an economic forum where leaders can discuss with each other without any legally binding agreement. Within APEC, the idea of a mega-regional FTA has been developed since the mid-1990s through the introduction of Early Voluntary Sectoral Liberalization (EVSL). However, it is not only that it was a mere sectoral rather than comprehensive liberalization, but also it failed to materialize in the APEC Summit of 1998. There are several other attempts under a more limited geographical scope. The North American Free

¹ What is Asia-Pacific economic cooperation? (n.d.). Retrieved from <http://www.apec.org/about-us/about-apec.aspx> at December 1, 2013, 11:00 PM

Trade Area (NAFTA) and the ASEAN Economic Community (AEC)² are among the most established one, yet it has never evolved into a bigger geographical region. There were many discussions on creating East Asian Free Trade Area (EAFTA) among the ASEAN + 3 countries (China, Japan and South Korea) and the Comprehensive Economic Partnership of East Asia (CEPEA) among the ASEAN + 6 countries (China, Japan, South Korea, Australia, New Zealand and India), yet both proposal never materialized. Until recently, the idea of creating an Asia-Pacific FTA only exists on a bilateral basis, in which countries engage in cross-regional FTAs such as the Japan-Singapore FTA, South Korea-Chile FTA, etc. (Solis & Katada, 2008).

Despite of such failures, the idea of Free Trade Area of the Asia-Pacific (FTAAP) is not dead.³ After EVSL, the genuine idea of a mega-regional FTA had to wait for nearly one decade to revive. The Trans-Pacific Partnership (TPP) is among the most recent attempt by Asia-Pacific countries to materialize their economic potentials, where they try to open up their economies to one another hoping for greater economic exchange, growth and mutual prosperity.⁴ Chronologically, TPP is the evolution of the Trans-Pacific Strategic Economic

² ASEAN or Association of Southeast Asian Nations is a regional grouping among ten members of Southeast Asian countries, i.e. Indonesia, Malaysia, Singapore, Thailand, the Philippines, Brunei Darussalam, Vietnam, Cambodia, Laos, and Myanmar.

³ See, for example, at Joint Statement of the 20th APEC Economic Leaders' Meeting, "Integrate to Grow, Innovate to Prosper", in Vladivostok, Russia, 8-9 September 2012, where leaders, "...recognize that Free Trade Area of the Asia-Pacific (FTAAP) is a major instrument to further APEC's regional economic integration agenda..." Retrieved from http://japan.kantei.go.jp/noda/diplomatic/201209/09apec_e.html

⁴ Besides the TPP, there is another attempt to create a region-wide FTA, namely the Regional Comprehensive Economic Partnership (RCEP). The RCEP is said to be the rival of TPP as its main promoter is China while TPP's promoter is the US. Although it is true that the RCEP is a mega-regional FTA (its GDP accumulation of participating countries is even bigger than TPP), it is not an Asia-Pacific FTA as it only consists of ASEAN + 6 countries. It remains to be seen whether the RCEP will add members from other regions.

Partnership (TPSEP), which is basically a FTA among Pacific-4 (P-4) economies, namely Brunei, Chile, New Zealand, and Singapore in 2005. However, since the US expressed its intention to join in September 2008, the supposedly peripheral FTA gained worldwide attention. It is the US status as the world's biggest economy as well as the world's remaining superpower that boosts TPSEP into the world's headline. After the US, more and more countries are lining up to join. When TPP conducted its first negotiation meeting on 15-19 March 2010 in Melbourne, Australia, the previous P-4 had grown into the P-7 by including the US, Australia and Peru. Afterwards, more and more countries have also joined, such as Vietnam, Malaysia, Mexico, Canada and, the latest, Japan. Until now, TPP has already concluded its 19th round of negotiation.

Seen from Southeast Asia, the TPP is seen for its economic importance. The logical reason is for the US economy, which traditionally constitutes one of the biggest export destination for countries in this region. In fact, the US is such a big economy that it almost dwarfs others, by contributing 58 percent of the TPP's total GDP and 40 percent of its total population.⁵ The US is always seen as very restrictive in selecting FTA partners, therefore, when it decided to join the TPP, it somehow sent temptation across the Asia-Pacific to take leverage of the US market. Not exceptionally in Southeast Asia, such an offer is very attempting since, as seen in Table I.1, only Singapore has successfully concluded a bilateral FTA with the US. Others, in search for market access, investment and other

⁵ In fact, given its superior economic and political status, the US is very dominant in TPP until one can refer it as a US-led FTA. This point will be discussed in greater details in Chapter III. The proportion is calculated based on data from the United Nations Conference on Trade and Development (UNCTAD) Handbook of Statistics, 2012, pp. 412-418 and 454-471.

economic gains, direct their FTA on ASEAN frameworks and bilateral FTAs with countries all around the world, but fail to engage the US.

Table I.1 – Southeast Asian Countries FTAs (Concluded)

	Singapore	Thailand	Malaysia	Indonesia	Philippines	Vietnam
ASEAN Framework	ASEAN Free Trade Area (AFTA), ASEAN-Australia-New Zealand, ASEAN-China, ASEAN-India, ASEAN-Japan, ASEAN-Korea					
Bilateral FTAs	Australia, China, Costa Rica, Gulf Cooperation Council (GCC), Jordan, India, Japan, Korea, New Zealand, Panama, Peru, European Free Trade Area (EFTA), US	Australia, India, Japan, New Zealand, Peru Other: BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation)	Australia, Chile, India, Japan, New Zealand, Pakistan	Japan	Japan	Japan

Source: compiled from Ministry of Trade and Industry, Singapore, 2012; Department of Trade Negotiations, Thailand, 2010; Ministry of International Trade and Industry, Malaysia, 2012; Directorate General of National Export Development, Ministry of Trade, Indonesia, 2011; Department of Trade & Industry, the Philippines 2008; Ministry of Industry and Trade, Vietnam, n.d.a

It is the purpose of this research to seek explanation on Southeast Asia's response to TPP. Despite its temptation, the response by countries in the region is far from similar: some countries such as Brunei, Singapore, Vietnam, and Malaysia are in the negotiation table already while some countries are still very sceptical on the prospect, such as Thailand, Indonesia, and the Philippines. Given such a situation, it is very reasonable to ask: why do they choose such an approach? What kind of factors contributes to these behaviors? How does such international stimulus coalesce with domestic priorities and political context? How do the factors work to influence these behaviors? Therefore, the research is basically about the determining factors or motives of Southeast Asian countries

toward TPP. It seeks to explore why some countries participate in the negotiating process while some others do not. As part of the Asia-Pacific, Southeast Asia is far from immune to its dynamic, especially the TPP. In fact, as part of the economically dynamic East Asia that contributes to the 'miracle' story and 'rise of the rest' phenomenon, Southeast Asia is actually one of the main targets of US' charm through the TPP.

By doing so, the research would like to contribute to the existing literature on Southeast Asia's trade policy. Firstly, the research will adopt a political-economy approach to explain these policies. Within the realm of international trade, the economic approach seems to prevail and leaves the political approach underresearched (Mansfield & Milner, 1999). TPP is indeed an economic measure, however, as it is situated within the very context of interaction among states, the political-economy approach becomes all the more important. Secondly, the research will adopt a comparative perspective by selecting 3 case studies: on one hand Vietnam and Malaysia as members of negotiating parties, and on the other hand Indonesia as the non-negotiating party. It is very important to follow such an approach as existing literature are far too concerned on single-country analysis. Thirdly, discussing TPP provides an opportunity to seek the nature of trade policy decision making in Southeast Asia. It is the TPP that makes Southeast Asian countries deal with the superpower, namely the US. So far, existing literature lag behind this insight by putting too much attention on domestic level analysis. Even more, within the domestic approach it is still far too occupied by unitary state perspective. It is through the TPP that one can determine that state is far from

unitary. It is also by investigating TPP that one can comprehend that in Southeast Asia, diverse societal groups actively look for opportunities to influence the decision-making process.

The following subsection will scrutinize those points even more. The literature review will be presented with special attention to the above-mentioned gaps. Findings from the literature review will lead to the formulation of research questions and objectives. The chapter will conclude by providing the structure of the research.

I.2 Literature Review

Existing literature mainly discuss the more economically developed countries in the region, namely the ASEAN-5 (Indonesia, Malaysia, Singapore, Thailand, and the Philippines). Here, the literature review will focus on these countries with particular interest on the political aspect of Southeast Asian trade policy. Discussion on economic aspect has been far too robust, comprising of the potentials of FTA, existing FTAs' impact on GDP, income, labor and so on.⁶ Despite its economic leverage, it lacks political importance, which becomes central for this research. It is found that the political aspect of Southeast Asian trade policy seems to be left behind, as there are only relatively limited discussions on it. This is especially true for the case of Vietnam, which becomes a

⁶ The literature is particularly extensive for Vietnam, Malaysia, and Thailand and, to lesser degree, for Singapore, Indonesia, and the Philippines. For Vietnam, look at Athukorala (2009), Heng & Gayathri (2004), Jenkins (2004), and Thanh (2005). For Malaysia, look at Rasiah (2008), Devadason (2006), Nair, Madhavan & Vengedasalam (2006) and Yusoff (2005). For Thailand, look at Chirativat & Mallikimas (2004), Pungchareon (2005), Talerngsri & Pimchanok (2005). For Singapore, look at Sen (2005). For Indonesia, look at Basri & Patunru (2012a). For Philippines, look at Wignaraja, Lazaro & de Guzman (2009).

case study for this research, but there is no single discussion on its political aspect of trade policy, let alone FTA (see Table I.2 below). For other countries such as Indonesia and Singapore, there are relatively more literature. For the sake of discussion, existing literature can be grouped into three parts: first, those focusing on comparative study; second, those on international aspect; and third, those on domestic aspect. Such division also reflects the main critics central for the research.

I.2.1 Comparative Study

Discussion of this particular issue is one of the main weakness of the existing literature. Despite comprising ten different countries with varying trade policy behaviors and significance, it is quite surprising that comparative study never becomes the main focus. Comparative study is important, as it enables the researcher to make generalization, to test the strength of an independent variable to influence dependent variable, and to provide more diverse and richer account to a social phenomenon.

Hoadley (2007) is the only one taking such an approach. Comparing Singapore, Thailand and Malaysia, the research provides identification of trade policy characters of each country as well as its contributing factors. Singapore can be seen as a true champion of FTA, with aggressive deals with as many as 15 parties in 2006. At the same time, Thailand is in the middle, with its passion toward FTA liberalization while retaining domestic protectionism, and Malaysia is in the other spectrum with its cautious path toward cross-regional FTA.

Reasons behind Singapore's aggressiveness are market access, fear of trade diversion, its security partnership with major powers (as seen in US-Singapore FTA), and the 'demonstration effect' for other countries to play more active role on FTA. For Thailand, similar factors also play roles in addition to the politically influential 'export-oriented cosmopolitan entrepreneurs' and the quest for international prestige. Malaysia's low profile is basically due to its adherence to a multilateral scheme (World Trade Organization - WTO) and pressure from protectionist groups.

I.2.2 International Factor

International aspect highlights another major gap within the existing literature on Southeast Asian trade policy. For the sake of TPP issue, of particular importance here is the linkage between trade policy with efforts to approach Great Powers, especially the US. Among the limited literature, a work by Pang (2007) is the only one that qualifies this criteria by highlighting US-Singapore FTA. He argues that Singapore's motive to conclude the deal is because of the city-state's inherent vulnerability to regional conflicts, such as territorial disputes, terrorism, muslim neighbors, Taiwan strait, North Korea's nuclear issue, and so on. Signing on FTA with the US will provide the ground for closer interaction and interdependence among the two countries. In fact, the FTA was followed by other security initiatives, such as a security cooperation agreement in July 2005 and Singapore's US\$ 1 billion purchase of military aircrafts and US\$ 800 million of missiles, ordinance, parts and components in December 2005.

Other work also tries to assess this international factor, although not related to the 'US factor'. Van de Haar (2011) finds that in Japan-Philippines Economic Partnership Agreement (EPA), the international factor can overcome barriers posed by the domestic factor. The international factor here is the need to arrange closer relations with Japan, which is a US' ally in East Asia, especially in relations to the growing threat of China. Domestically, the Philippines is plagued by protectionist policy in its political institutions (due to decades-long rent-seeking behavior) and domestic interests (pressure from populist Non-Governmental Organizations - NGOs and the catholic church).⁷ Other works, such as those by Lee (2006) on Singapore and Nagai (2003) on Thailand, also attempt to assess international factor, although the two countries FTA behavior are basically a response to global development, such as the slow negotiation progress of WTO in multilateral level and ASEAN in regional level. Both works are also equipped with domestic nuances, namely the relative absence of protectionist groups in Singapore and the relatively strong role of export-oriented groups in Thailand.

I.2.3 Domestic Factor

A more robust literature on Southeast Asian trade policy lies primarily within this category. However, angles of analysis in this theme are quite various.

⁷ However, there is a validity weakness in Van de Haar's work. He claims that the international factor is better than domestic factor to explain the outcome. However, he comes to this conclusion after determining that the domestic factor (namely the deep division on whether or not to ratify the deal) cannot explain why the country still ratified it in the end. He does not show how the international factor leads to the ratification, especially in dealing with the stalemate in the domestic level.

A work by Bird, Hill, & Cuthbertson (2008) on Indonesia, for example, gives a very interesting insight on how the democratization process influences the country's inconsistent trade policy. The Ministry of Finance, on one hand, proposes tariff liberalization while the Ministry of Trade and the Ministry of Agriculture, backed by domestic business pressures and populist policies, implement non-tariff barriers (NTBs) on the other hand. Subnational governments also play a role by imposing local tax and other measures, which are largely NTBs. Another interesting theme, proposed by Chandra (2008) in the context of Indonesia, argues that Indonesia's relative eagerness toward ASEAN liberalization is due to the rise of 'logical nationalism' (a redefinition or awareness in which national interest can be attained through regional setting - 'Regional Integration Strategy'. For example, Chandra (2008) mentions that Indonesia's sensitivity toward national disintegration is preserved by ASEAN's principle of non-interference.

A broader classification within this category is presented by those authors who view the state as a unitary actor in influencing trade policy. There are quite many academics focusing on this issue. Low (2008) contends that Singapore's aggressiveness toward bilateral FTA deals is because of the city-state's development plan to be the center for a knowledge-based economy (KBE). An FTA is important because: 1) it provides a necessary lock-in reform to boost private initiatives; 2) it provides market access to KBE's products; and 3) it facilitates human resources and technology access, including mobility of highly-skilled workers. In contrast, Suzuki (2003) and Okamoto (2006) provide insight to

how this unitary state imposes a more protectionist policy in Malaysia. Suzuki (2003) argues that Malaysia is more confident to conduct FTA within the ASEAN framework as it provides flexibility for domestic adjustment, such as the delay of automotive liberalization until 2005. This is also the case for Malaysia's effort to expand ASEAN free trade to include China, Japan and Korea, which can be seen as an effort to maintain flexibility but to gain bigger market and stronger voices against other regional blocking in North America (NAFTA) and Western Europe (European Economic Community - EEC). Okamoto's (2006) work is similar to this logic as she labels Malaysia as a 'reluctant bilateralist'. Not only due to effort to protect sensitive sector, it is also because Malaysia cannot withstand WTO-plus principle which may hurt the country's *Bumiputera* policy. *Bumiputera* (which literally means 'son of soil') is an affirmative action designed to improve the economic status of ethnic Malay against Chinese and Indian.

Another important insight is from Nesadurai (2003, 2012), which again sees the state as a unitary entity. Both works see Southeast Asia as a single unit and argue that the AFTA is made in a way that would benefit intra-ASEAN vis-a-vis extra-ASEAN business groups. State and business engage in a patronage network, in which trade policy outcome is the result of accommodation that state elite has to make in order to engage key business elite. Such pressure from business groups result in so-called 'developmental regionalism', which can be seen in at least two examples: 1) low-quality FTA, which includes Sensitive List and Exclusion List (those sectors that are not competitive enough but economically leveraging domestic business); and 2) ASEAN business group that

will get the first priority (than extra-ASEAN) for investing in other ASEAN countries for 10 years under the ASEAN Investment Area (AIA) scheme.

Such development within this domestic aspect needs to be qualified for the sake of the research. For example, the prevailing theme in which state is seen as a unitary actor is not always true. State is a complex actor and institution, which behaves far from a single manner. The case is particularly true for their response to TPP, which will be shown in the subsequent empirical chapter. At the same time, the primary role of business groups should be seen in relations to the activity of other actors. Societal groups should not be seen within this single group alone; other groups such as the various NGOs also play important roles. Again, their role and influence will be shown in the subsequent empirical chapter.

Table I.2 provides a summary of literature review on Southeast Asian trade policy. It basically formulates three weaknesses of existing literature: 1) lack of comparative study; 2) lack of the linkage between FTA and the existence of Great Power (international factor); and 3) imperfect assumption that state is unitary and a societal group is only made of business sector (domestic factor). Table I.3 articulates such weaknesses into the solution that will be utilized within this research. It is argued here that the case of TPP provides an important account to address the gap. The research will be a comparative study, with a unique opportunity to see the linkage of trade policy and the existence of Great Powers (TPP is basically a US-led FTA). The research will also assume that the state is not unitary and societal groups vary much more than only ones constituted by the business group alone.

Table I.2 – Summary of Literature Review

Countries	Studies	Perspectives			
		Comparative	International Aspect	International and Domestic Aspect	Domestic Aspect
Comparative (Singapore, Malaysia, Thailand)	Hoadley (2007)	<ul style="list-style-type: none"> • <u>Economics</u>: market access; fear of trade diversion • <u>Politics</u>: rise of export-oriented entrepreneur; closer relations to the US 			
Singapore	Pang (2007)		Closer relations to the US		
	Low (2008)				State's strategy for economic survival
	Lee (2006)			<ul style="list-style-type: none"> • <u>Int'l</u>: WTO and ASEAN's slow progress • <u>Domestic</u>: relative absence of protectionist group 	
Thailand	Nagai (2003)			<ul style="list-style-type: none"> • <u>Int'l</u>: WTO's and ASEAN's slow progress • <u>Domestic</u>: role of export-oriented group 	
Malaysia	Suzuki (2003)				State's strategy to protect infant industry
	Okamoto (2006)				State's strategy to protect infant industry
Vietnam	-	-	-	-	-
Philippines	Van de Haar (2011)			<ul style="list-style-type: none"> • <u>Int'l</u>: to forge closer relations to Japan & to balance China • <u>State</u>: protectionist Senate • <u>Domestic</u>: pressure of protectionist group 	
Indonesia	Bird, Hill & Cuthbertson (2008)				Fragmented power due to democratization
	Chandra (2008)				The rise of 'logical nationalism'
ASEAN as single unit	Nesadurai (2003, 2012)				Role of protectionist business group

Table I.3 – Literature Gap and Proposed Solution

Categories	Problems	Proposed Solution
Comparative Approach	Too many discussions on single-country analysis	Conduct comparative study for the research
International Factor	Too few discussions on linkage between trade policy and existence of Great Power (the US)	<ul style="list-style-type: none"> • Conduct research on TPP (a US-led FTA) • Develop theoretical framework: linkage between trade policy and existence of Great Power
Domestic Factors	State is seen as a unitary actor. Societal group is also composed only of the business sector	Develop theoretical framework: state and societal group consist of various actors.

I.3 Research Questions

The main aim of this research is to analyze the role played by international and domestic factors in shaping trade policy. How do international factors influence the decision to participate or not to participate in TPP? How do domestic factors affect this very process? What is the pattern of interaction between these two factors in shaping a country’s trade policy? Do they perform similar patterns across countries? What are the similarities and differences among countries?

For the case study, the research will use 3 countries: Vietnam, Malaysia, and Indonesia. The first two represent ‘participating countries’ while the last one represents the ‘not participating country’. Practically speaking, the research aims to answer these questions: “Why have Vietnam and Malaysia decided to join the TPP?” and “Why has Indonesia decided not to join the TPP?”

I.4 Significance

The main significance of the research is to generate more understanding on the nature of trade policy decision making in Southeast Asia. Of particular importance, the research is designed to identify determining factors influencing the decision of Southeast Asian countries on TPP. On the international side, the research seeks to improve our understanding on the linkage between ‘trade policy’ and ‘Great Power existence’. On the domestic side, it seeks to improve our understanding on the linkage between ‘trade policy’ and ‘plural interests of state and societal groups’.

The research is basically a comparative approach. Therefore, by using the words of Ragin (1994), it aims to explore diversity of Southeast Asian trade policy decision-making, namely the decision whether or not to participate in the TPP. By doing so, it seeks to analyze similarities and differences between the 3 countries on their international trade policy behavior.

Practically, the research will be a useful account for any parties interested in the study of trade politics in Southeast Asia. Some stakeholders potentially taking advantages from this research are government officials, business groups and academics.

I.5 Structure of Research

The research will be organized as follows:

Chapter I - Introduction

This chapter will highlight the reasons for conducting this particular research. It consists of background, literature review, research questions, objectives and structure of research.

Chapter II - Research Design

The chapter will elaborate on the theoretical framework used for this research, namely the operationalization on international and domestic factors. The theoretical framework will mainly include definition, indicators and hypothesis. Meanwhile, discussion on methodology will include method, case selection, technique of validation and data collection.

Chapter III - TPP: Development and Controversies

The chapter will focus on TPP as a US-led FTA initiative. Firstly, it will discuss the progress of TPP, such as its evolution from TPSEP and negotiation process so far. Secondly, it will address TPP's economic issues sensitive to developing countries, such as comprehensive liberalization and WTO-plus proposal. Thirdly, it will position TPP within the US' regional approach in Asia-Pacific, especially on its interests to balance China and to create US-led regionalism.

Chapter IV, V, VI – Case Studies: Malaysia, Vietnam and Indonesia

Each chapter here will discuss one case study. Discussion will include dependent and independent variables. Here, the dependent

variable is the country's decision regarding TPP, while the independent variables are the international and domestic factors affecting the outcome. Each chapter will discuss the nature of relations between the two variables by examining how independent variables work to influence the dependent variable and so on. Each chapter will end with a conclusion.

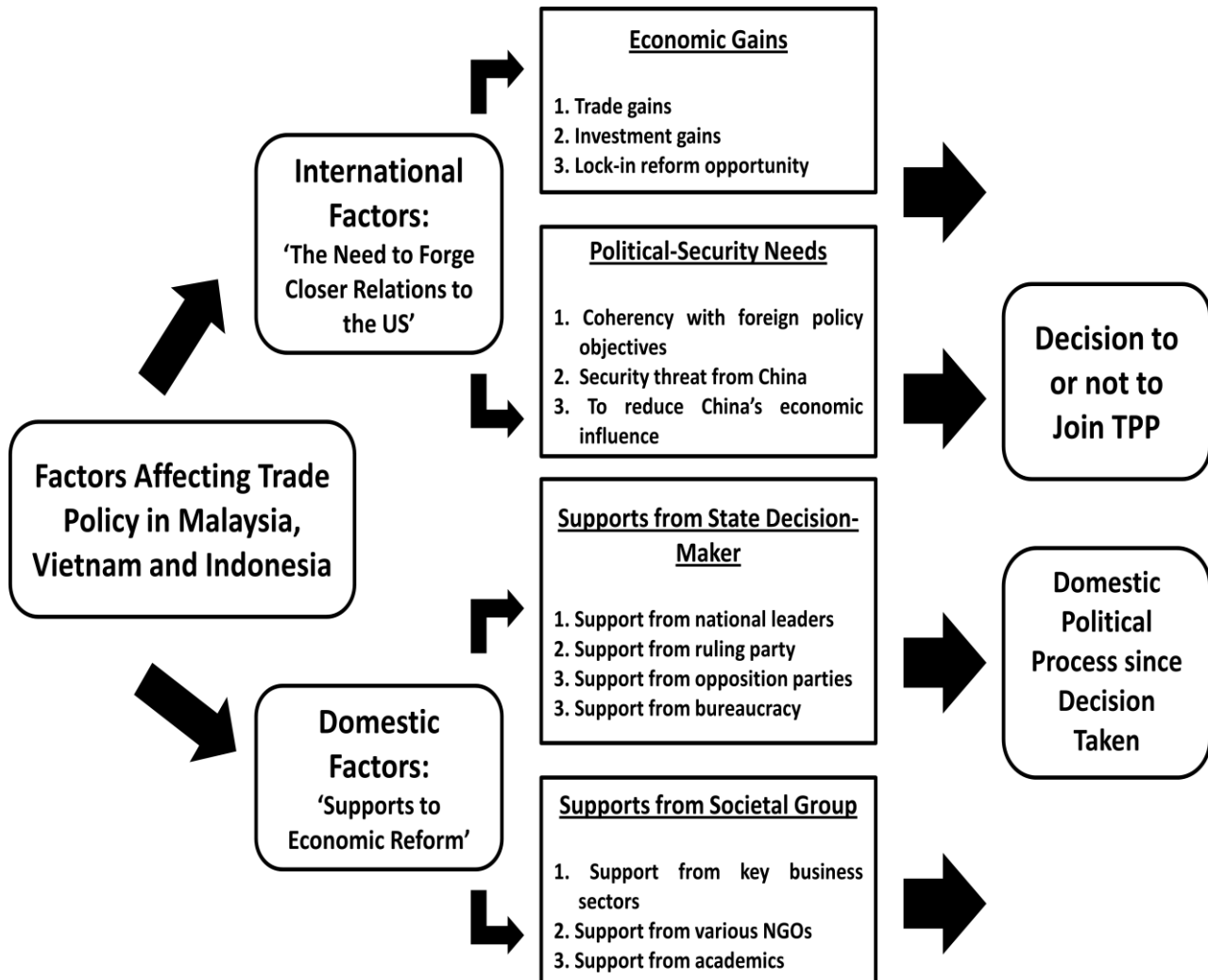
Chapter VII – Conclusion

The main aim of this chapter is to compare similarities and differences among the case studies. The chapter will also reflect the findings with theoretical framework proposed in earlier chapters, therefore creating a dialogue between evidence and theory. The chapter will also position the result of research to the broader theoretical literature of trade policy in Southeast Asia. Lastly, there will be a recommendation for further study.

CHAPTER II – RESEARCH DESIGN

II. 1 Conceptual Framework

Figure II.1 – Diagram of Conceptual Framework



In regards to determinant factors affecting trade policy decision-making, many literature put heavy emphasis on economic factors. It is not the goal of this research to continue such a tradition. Rather, it adopts the political-economy approach in which the intertwining political and economic aspects provide a more

comprehensive view on the nature of trade policy. As seen from figure II.1, there are two factors affecting Southeast Asian trade policy decision making, namely international and domestic factors. The distinction is made based on the gap found in the literature review section. For international factors, it is ‘the need to forge closer relations to the US’. It consists of two different variables, namely ‘economic gains’ and ‘political-security needs’. Meanwhile for domestic factors, it is ‘the support to economic reform’, which consists of ‘support from state decision-makers’ and ‘support from societal groups’. The four variables affect the decision of Southeast Asian countries, whether or not to participate on TPP.

Positioning TPP within the broader trade policy debate in Southeast Asia, several assumptions must be made to formulate the best conceptual framework. First, different from most existing FTAs that Southeast Asian countries currently have, TPP entails a ‘US factor’. The US has been an important economic partner for Southeast Asian countries for a long time, therefore incorporating this particular element is essential. Yet, the US is also a Great Power in current global politics: it is the main security guarantor in the Asia-Pacific since the end of World War II and the winner of the Cold War against the Soviet Union. Therefore, US’ presence (for example through TPP) must be seen in accordance with Southeast Asia’s own political and security objectives, whether it is aligned or not. Especially in the current uncertainty regarding China’s rise (either peaceful or not), the role of the US remains critical. This is why linking FTA policy with political-security consideration is justified. Second, TPP is an FTA promoted to be the ‘high-standard’ or 21st century agreement. It means that the TPP aims to be

more aggressive in promoting liberalization and economic reform. This coincides heavily with Southeast Asian countries' own domestic agenda for economic reform. Therefore, such international agreement should be seen in accordance with the dynamic within the domestic arena. Such a reform agenda is never easy; it always generates pros and cons among various groups. Reform agenda always carries a great deal of wealth distribution among actors, as some may benefit and some others may lose, be it for economic, political or even ideological reasons. For this research, it means that seeing TPP as part of a reform agenda opens up the possibility of seeing a different trade policy-making: state and societal groups should be seen as consisting of many actors with different interests on reform agenda. Thus, domestic politics even transcends beyond the decision-making of participating/ not participating in the TPP itself. Rather, as Figure II.1 suggests, it influences the domestic political process since the decision is being taken.

The following subchapters will discuss each variable in greater detail. It will start by discussing the economic gains and political-security needs (both are part of international factors), domestic support to economic reform (both from state decision-makers and societal groups), and hypothesis. The latest part of this chapter will discuss method, technique of validation, case selection, and data collection.

II.1.1 International Factors: The Need to Forge Closer Relations to the US

A. Economic Gains

Linkage between economic gain and trade policy is a very common framework. Basically, it postulates that the more a state gains economically, the greater the chance it will participate in an FTA. The framework is very common in the field of Economics. Yet even within International Relations (IR) theory, the issue of gain is also a central theme of state's behavior. The neoliberal-institutionalist theory proposes the concept of absolute gain for determining state action on international cooperation. The paradigm basically absorbs some realist assumptions of International Relations, such as state as a unitary actor seeking maximum gains (Grieco, 1988, p. 486-487). It will, therefore, determine their action on a given international cooperation (TPP in this research), in which the state will seek absolute gains. The more absolute gains it can take, the more willing a state will be to participate in international cooperation. Within this research, a state will pursue an FTA in order to get three types of economic gains: trade gain, investment gain, and lock-in reform opportunity.

Trade gain is an obvious reason for fostering an FTA. By liberalizing tariffs and other barriers, there will be more opportunity for export. Economically, this is called a 'trade creation' effect. In East Asia, in which many countries rely heavily on external markets, an FTA is an important tool to access overseas market, especially as the latter are getting more restrictive due to economic slowdown and domestic political pressure. Particularly in Southeast Asia, trade links heavily with development process. It constitutes a significant proportion of

the economic growth component. The more it exports, the higher the economic growth; the less it exports, the lower the economic growth. Consequently, it will also lead to employment level and welfare gains. Moreover, securing an FTA is also important against other countries competing to access the same market. One country does not trade only with a single country. So, a country must keep an eye on the performance of its competitors, especially those with the same export structure and export market. Securing an FTA is a winning tool as it will reduce tariff barriers only for members while maintaining tariffs to non-members. In a different situation, if a country loses market share given that its competitor has already secured an FTA with the targeted market, FTA can also be a tool to correct the disadvantage. Solis & Katada (2008) discusses this possibility on their work on cross-regional FTA. They argue that an FTA is arranged due to 'fear of exclusion' or 'trade diversion' from the existing FTAs as a way to improve competitiveness.

For a small country, like those in Southeast Asia, there is always a danger to secure an FTA with a bigger trading partner like the US. Due to power asymmetry, the latter can demand higher liberalization without the former can demand the same thing. Yet as argued by Ravenhill (2006), a small country is still always better off with than without an FTA. It is because a bigger country is always a more important partner for a small country than vice versa; therefore, the trade benefit they may enjoy will be higher. This causes a small country to be willing to liberalize more as the expected benefit will outweigh the cost.

Another gain from an FTA is investment. As a country secures FTA, it is anticipated that, as a member, it will experience an inflow of foreign capital. If the agreement is between developed and developing countries, then it is the latter that will experience higher FDI flow than the former. As an FTA is secured, there is an opportunity to produce goods in a more cost-effective way, which means relocating factories to developing country with the target to serve a big consumer market in the developed country (Ravenhill, 2011, p. 183). This is what happened in Mexico after NAFTA, in which the country received a massive surge of FDI from around US\$ 8 billion in 1990 to US\$ 24 billion in 2001 (Ravenhill, 2011, p. 183). This is also why some FTAs, such as TPP, are embedded with investment agreement. An investment agreement is important as it creates an investment-friendly environment for foreign capital, especially in Asia, where the governments traditionally require many restrictive measures for FDI operation (Aggarwal, 2006, p. 9). An investment agreement will prohibit local-content requirement, export performance requirement, rule for expropriation, and the like. As a result, member countries are more likely to experience more FDI. This investment gain is very important if one observes the development process in Southeast Asia. Throughout the second half of the 20th century, Southeast Asia has been tying its development process with the inflow of foreign investment. Foreign companies, either joint-venture or fully-owned, make a substantial contribution to these countries' exports. They also serve as the main source of capital, technology and working skills. Therefore, even without a substantial trade gain, sometimes a country still pursues an FTA exactly for this investment gain

(Kimura, 2006, p. 51). If one takes into account the competitive environment in which East Asian countries compete heavily for FDI, especially from China, then the greater the need is to secure investment gain through an FTA (Kimura, 2006, p. 51).

The last indicator relates heavily with the investment gain, e.g. opportunity to lock-in reform. An FTA is important as it shows a commitment to a pro-business, conducive investment climate, which will be critical for inviting foreign investment. Therefore, FTA is seen as an external push to conduct domestic economic reform, or to lock-in reform commitment. Within an FTA, especially the one with a high standard like the TPP, a country is bound to many reform agenda, such as greater liberalization, enhanced transparency, and fair competition. This is even more important in the globalized world, in which many countries compete with one another to attract FDI (Ravenhill, 2011, p. 180). Continuing this logic, it makes a lot of sense to secure such commitment in an FTA as countries' participation is less than the one in WTO level. Therefore, it will greatly improve a country's visibility in the eyes of foreign investors (Ravenhill, 2011, pp. 180-181).

B. Political-Security Needs

Some scholars have discussed the possibility of linking trade with political-security objective. This is very relevant for developed countries, in which Aggarwal (2006, p. 11) formulated that "...a more industrialized country has a higher stake in bilateral deals with specific countries whose assistance is vital in

the event of adverse political security development...”. Some countries have shown a very clear tendency to arrange such a trade-political/ security nexus. The US arranged an FTA with Israel and Jordan as rewards for both countries’ support on US’ policy in the Middle East, while China arranged a China-ASEAN FTA as a way to cool down China’s threat perception and Japan arranged bilateral and mini-lateral FTAs with Southeast Asian countries to strengthen its regional presence (Aggarwal & Lee, 2011, p. 17). In this research, it is argued that such a nexus is also very possible for small and medium powers. Countries in Southeast Asia, no different from their Great Power fellows, also possess political-security priorities which are very likely to make them link FTA to such objectives. There are three indicators to be utilized here, i.e. coherency with foreign policy objectives, security threat from China, and to reduce China’s economic influence.

For the first indicator, it is important to see trade policy as part of a state’s broader foreign policy tools. Analyzing the Philippines’ view on the Japan-Philippines Economic Partnership Agreement (JPEPA), Van de Haar (2011) notes that in the current academic literature there are only thin efforts to linkage these two policies, in which foreign policy is seen as a less important subfield in International Relations. Van de Haar (2011) tries to fill the gap by linking domestic sources of foreign policy to trade policy outcome, yet this research will formulate it differently. In this paper, it is argued that trade policy, especially on TPP, links heavily with a country’s foreign policy goals and objectives. If a state judges that a participation in a particular FTA will serve its foreign policy, then the more likely it will participate. Yet, if it is not then there will be no need to

participate. 'Foreign policy objectives' means that one must utilize a customized approach, since each country has their own foreign policy objective. Trade policy should be seen as a continuation of foreign policy. It can also serve as an important tool to achieve such objectives, if other political or security tools are considered inappropriate. Therefore, in this paper, it is assumed that a country's trade policy is consistent with its foreign policy.⁸

The second indicator relates heavily with the broader security situation in East Asia. As noted in many literature, the US always plays an important role as an external security guarantor in this particular region. Tracing back to the end of World War II, the US' presence is important as a significant deterrent to the expansion of communist insurgency. As the Cold War ended, the region faced another challenge as there is one potential Great Power accumulating its power source, namely China. The problem here is that China's rise also entails a high degree of uncertainty: is China's rise benevolent or malevolent? The very situation of China's rise relates heavily with the concept of 'balance of threat' postulated by Stephen Walt (1987). Different from the ordinary balance-of-power theory, balance of threat basically looks at the intention of one state to use its capability against another state. Therefore, it has a more direct nuance and is different from balance-of-power theory that emphasizes only capability. Does China have the intention to use force against its neighbors? This is something very difficult to answer.

⁸ By saying 'trade policy is consistent with a foreign policy', it does not necessarily mean that the author denies the possibility of inconsistency between the two of policies. In fact, this is the case of the absence of FTA between Japan-China, China-US, and Korea-Japan, although they trade heavily with each other. However, the author wishes to show that there are cases where the two policies go hand-in-hand. The finding of the thesis (shown in the conclusion) proves it.

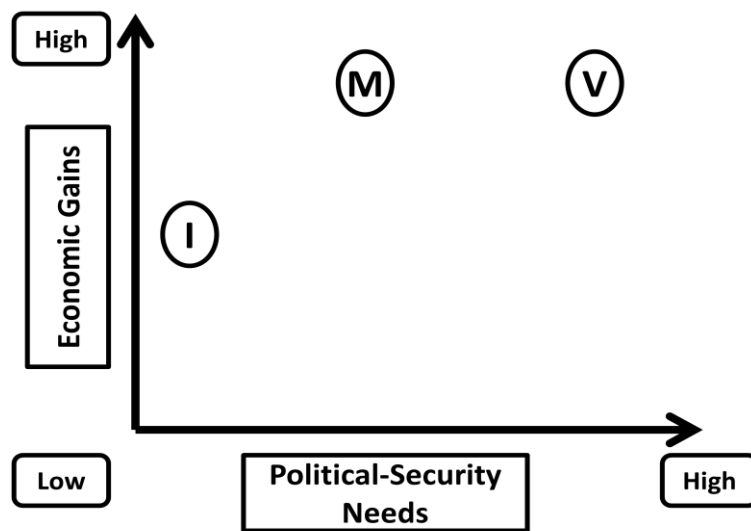
In IR, there is an assumption to arrange precautionary actions to mitigate an unlikely scenario. A work by Mochizuki (2009) sheds light on the connection of economic tools with such action. He mentioned that under security uncertainty, a country's strategy is usually not clear-cut between either balancing nor bandwagoning but entails a mixed approach. They will engage the potential adversaries through economic accommodation, such as what ASEAN did through the ASEAN-China FTA. Therefore, FTA is important as an engagement mean. Moreover, it also means that FTA can be used as a way to strengthen relations with an external power, especially one with the capability to constrain China, such as the US. Solis & Katada (2008) also explores this issue by arguing that one of the motives for cross-regional FTA is a state's attempt to engage the US as an extra-regional security guarantor. This is the very issue raised by Pang (2007) on commenting the US-Singapore FTA. From Singapore's point of view, the decision to arrange the deal is due to a political-security threat from surrounding environment, especially its bigger neighbors Indonesia and Malaysia and the broader US-China rivalry. On the TPP issue, it is argued here that the whether or not to participate links heavily with this US-China debate in East Asia. A Southeast Asian country will assess the level of China's threat based on their own customized situations, which then leads to an attempt to engage an external security guarantor or not. If they assess that such China's threat is high, then the more likely they will participate on TPP. Similarly, if they assess such a threat as relatively absent or less urgent, then the lower the need to engage the US through TPP.

The third indicator, to reduce China's economic influence, still relates to this US-China debate. Yet, it entails specifically on the very economic tools that China may use to exert influence over Southeast Asian neighbors. China has been engaging Southeast Asia quite dynamically especially through trade relations and, to a lesser degree, FDI. The research will investigate how Southeast Asian countries respond to this particular economic engagement, such as on whether they see it as an opportunity or a threat and the very policy they formulate as a way to respond to such a situation. A country may continuously nurture its economic relations with China if it finds such relations beneficial. Yet, if it is not then a country may seek ways to mitigate such 'threat'. Responses here may vary, from developing their own competitiveness against surging import from China or to invite external actors to offset such imbalance. TPP is an important part of this strategy, as it gives an enormous measure for mitigating too close or too threatening economic relations with China. This line of argument is actually consistent if one sees the issue from the US' perspective. For the Great Power, TPP has important an political-security agenda (discussed more heavily in Chapter 3). Through TPP, the US offers a generous market access for Asia-Pacific countries, which on one hand, is substantial for deepening relations with the former, and on the other hand, to reduce or at least to balance the latter's increasing economic relations with China. Moreover, the high standard nature of TPP actually reflects the US' clear preference on neoliberal economic idea and its desire for more countries to embrace these ideals. As countries adjust their economies as required by TPP, then the greater distance it creates from other

development models, such as East Asian developmental state or Chinese-style ‘market socialism’ (Manthorpe, 2013). Therefore, this research will focus on the Southeast Asian view the security-generated economic agreement.

C. Proposition and Hypotheses⁹

Figure II.2 – The Needs to Forge Closer Relations to the US: Hypotheses



Note: V = Vietnam; M = Malaysia; I = Indonesia

Figure II.2 shows relations between ‘economic gains’ and ‘political-security needs’. The figure shows the relations in X and Y axis, describing the continuum by each variable. In this research, there are four propositions worth mentioning. Propositions here describe the logical relations between independent variables (‘political-security needs’ and ‘economic gains’) and dependent variables (decision on TPP).

⁹ Given the qualitative nature of this research, the hypothesis proposed here should not be seen as a theory testing effort. Rather, it serves as a starting point or an early prediction to answer research questions. This position, therefore, makes the theory and hypothesis are very likely to change during the research.

#1 The higher the economic gains a country will get from the US, the more likely it will join the TPP

#2 The lower the economic gains a country will get from the US, the less likely it will join the TPP

#3 The higher a country has political-security needs to the US, the more likely it will join the TPP

#4 The lower a country has political-security needs to the US, the less likely it will join the TPP

Different from propositions, hypothesis concerns more on temporary answer to the research questions. As seen from Figure II.2, there are three hypotheses based on three case studies:

#1 High economic gains and high political-security needs most likely cause Vietnam to join the TPP

#2 High economic gains and medium political-security needs most likely cause Malaysia to join the TPP

#3 Medium economic gains and low political security needs most likely cause Indonesia not to join the TPP

II.1.2 Domestic Factors: Support to Economic Reform

Within the domestic category, there will be two different variables proposed: ‘support from state decision-maker’ and ‘support from societal group’. It is important to distinguish them, as they operate at different levels and are

constituted by different actors too. The activity of elite usually relates directly to the decision-making process. In this category, elite is indicated by national leaders, ruling party, opposition parties and bureaucracy. In the meantime, societal group also relates to decision-making process, although it plays a relatively more indirect role as a pressure group rather than the one responsible with the decision making process. Within this category, there are business groups, various NGOs, and academics. In this research, it is important to see the interest of those plural actors on the domestic economic reform process.

Economic reform process means a set of policies designed to improve the efficient allocation of resources within a country. It means that there should be an abolition of market distortion policy and more promotion of pro-business or pro-investment policy. Important in this regards are basic provisions, such as availability of infrastructure, human resources, and streamlining of investment procedures. Basically, economic reform is derived from neoliberal thinking. The most aggressive economic reform policy means only minimal state intervention within the economy, in which the state should only function as a referee or watchdog to maintain order. Therefore, market reform policies also entail liberalization and abolition of protectionist policies such as tariffs, subsidy, discrimination against foreign companies, and the like. TPP as a policy is of course coherent with this thought with the aim to restructure or reform the economy. A reform-minded government may use FTA like TPP as an additional pressure to directly expose domestic businesses to international competition, along with their own domestic economic reform agenda. By doing so, the state

hopes to force them to restructure their business activity so that it will conform more to international standards and competitiveness (Ravenhill, 2011, p. 182). In East Asia, where the economies are increasingly integrated to each other by a regional production network, policy reform is critical to deepen industrial structure or to move up the development ladder. As argued by Kimura (2006), abolition of protection will create an incentive for foreign companies to restructure their production from 'pattern specific to each country' to 'a pattern with wider production networks across countries'.

In this research, several qualifications must be made in order to better assess the influence of this variable on FTA decision-making. First, the domestic economic reform process is always politically contested. As mentioned before, this policy always carries a high degree of welfare distribution effect as some businesses are allowed to stay while some others are forced to exit. Not only in the business sector, such contest can also easily spill over into the political arena by taking more actors to express their position, such as the ruling party, opposition parties, bureaucracy, NGOs and others. In this research, such debate leads to a country's position on TPP. The more the support for domestic economic reform, then the more likely a country will participate in TPP. Second, there should be a distinction made between an actor's interest and its capacity to deliver it. Some reform-minded actors, for example, leaders from a ruling party, may have keen support for economic reform measures. Yet, it does not necessarily mean that they have the capacity to implement them, even though the decision has been taken. Actors may take important reform measures, such as the passing of

several business-related laws, but implementing them is another story. This research that covers the decision-making process on TPP relates pretty much to the interest aspect rather than the capacity. It relates to the power contest among actors in expressing their interests. This is very typical among developing actors, in which influential actors support reform measure but lack implementing capacity. Domestic actors within Vietnam and Malaysia may join the TPP as it relates to their interests, yet they seem to have problems to implement it once the negotiation reaches a conclusion. The implementing issue is of course beyond the scope of this research, not to mention that at the time being (2013-2015) it is impossible to cover, as TPP has yet to reach a conclusion.¹⁰

The rest of the subchapter will discuss the role of various actors in the policy-making process, divided by state and societal group's support, as well as the proposition and hypothesis for the domestic factor.

A. Support from State Decision-Makers

As mentioned in chapter I, existing literature on Southeast Asian trade policy seems to see the state as a unitary actor. However, this research adapts an opposite view: the state is constituted by several actors, each of which competes for their own interests. The research is in line with the work of Gourevitch (19798) on the 'second image reversed model', where he challenges the concept

¹⁰ The distinction between 'an actor's interest' and 'implementing capacity' helps to explain why many developing countries, although have limited capacity to implement the TPP's high standard requirement, still decide to join the negotiation. A decision to join the TPP (pre-negotiation) only needs interests from powerful domestic actors to support the economic reform. Even more, the implementing capacity (post-negotiation) arguably can be translated into the negotiation table to request for technical capacities from developed countries, longer transition period, and the likes.

of strong state. According to him, assuming the state as the sole and only ultimate decision maker is both ‘apolitical’ and ‘reductionist’. It is ‘apolitical’ since it hides the domestic policy making process; even though there seems to be a single articulation of interest in a given state, there should be an adequate explanation of why it happens. It is also ‘reductionist’ since it makes false assumption that each state behaves similarly without room of variations. Furthermore, Gourevitch (1978) proposed the concept of ‘coalitional analysis’, where any groups within a country articulate and make a coalition to foster their interests. Similarly, Milner (1997) said that the unitary state’s assumption is both misleading and overgeneralizing, as it makes a researcher overlook key domestic factors to influence a decision-making process. International cooperation, including an FTA, always has ‘domestic distributional consequences’, which lead various domestic actors to influence the process to maximize their gains. Milner (1997) proposes the concept of ‘polyarchy’, which consists of: 1) no actor has a single authority over decision-making; 2) each actor has interest and power; and 3) each actor involves in a political ‘struggle and compromise’.¹¹

In Southeast Asia, discussion on the state itself is quite robust under different themes. If one looks at literature on political regime, discussion on state as a non-unitary actor is similar to the term ‘elites’, which simply means power concentration on the few (Bertrand, 2013; Case, 2009, 2010). Discussion on elite itself is very important within Southeast Asian politics, as argued by Felker

¹¹ However, it must be noted that both Gourevitch’s ‘coalitional analysis’ and Milner’s ‘polyarchy’ include not only political actor but also institution/ structure to explain a country’s foreign policy. However, this thesis focuses only on actor-based analysis. Such limitation is made that the thesis becomes more manageable with less number of variables.

(2009), as the elites themselves contribute to the adaptation, and even success, of Southeast Asian states within the global political economy.

According to these literature, elite usually consists of ‘national leaders’ and ‘opposition parties’ (Bertrand, 2013; Case, 2009, 2010). The distinction is very clear to the democratic political system in Indonesia, Thailand and the Philippines, in which national leaders are competing with leaders of other political parties for political power and authority. For the more autocratic Malaysia and Singapore, national leaders are usually the ones responsible for establishing and maintaining the current autocratic regime, namely the leaders of United Malay National Organization (UMNO) party in Malaysia and the People Action Party (PAP) in Singapore, whereas opposition parties are those wishing to overthrow such regimes and establish democratic ones, as in the case of Anwar Ibrahim in Malaysia. In a communist country like Vietnam, national leaders are the executive committee of the Vietnam Communist Party (VCP), but without any clear role of opposition parties. However, even within Vietnam’s case, greater participation in policy-making is also fostered, especially in the parliament (London, 2010; Gainsborough, 2012). Specifically for national leaders, Case (2009) argues that they are important for regime survival as they provide economic resources to other elite members in exchange for political support and therefore create the so-called ‘elite cohesiveness’.¹² Given their high ranking and powerful position in the ruling party, usually they also serve as a country’s President or Prime Minister.

¹² Usually, the ‘elite cohesiveness’ applies to elite members favoring the national leaders’ group, as the case in Malaysia (Nesadurai, 2012). However, in democratic countries like the Philippines, opposition parties also get leverage from the existing democratic regime and, therefore, wish to maintain the survival of the regime (Case, 2009).

Moreover, beside leader and opposition party, the ruling party itself is also very important as a distinct political entity. Their positions (or rather, members of the party) do not always conform to the leader. In many cases, they exert a certain degree of power and opposing stance that the leader must keep an eye on. Yet if they are in the same stance, then the ruling party will be an important political supporter for a leader's interest.

Such a concept so far only applies for political change in Southeast Asia. It is the purpose of the research to see the extent to which these elite members influence policy-making in the region, especially on FTA preferences. It is interesting to see that some single-country researches actually prove that elite plurality plays a significant role within trade policy decision-making. Focusing on the Philippines, Van de Haar (2011) shows that the legislature does play a role in assessing the Japan-Philippines EPA (by delivering protectionist stance), therefore providing the room for conflict (or consensus) between national leaders and opposition parties.

Another important actor within this category is the bureaucracy. Existing literature in this particular actor, such as Fritzen (2009), usually sees bureaucracy in Southeast Asia as a non-Weberian example, namely non-neutral actor and heavily co-opted by the leaders due to their strategic roles in delivering the state's policy. Bureaucracy seems to be trapped within conflict between elite, as can be seen in Thailand in which elite division means bureaucratic division as well (Bertrand, 2013, pp. 122-123). There are also exceptional cases, of course. In Singapore, bureaucracy has transformed into a professional, rule-based, and

meritocratic one, although one must still take into account the influence of national leaders (former Prime Minister Lee Kuan Yew) that determined such design to maintain the city-state's competitiveness and survival (Winters, 2012, pp. 61-63).¹³ However, bureaucracy indeed plays a role in determining policy outcome. Sometimes they act on their own interests and ideas to foster a particular policy, even if it means confronting themselves with other bureaucratic bodies or even other elite members. As shown by Bird, Hill & Cuthbertson (2008), this is particularly true for the case of Indonesia, in which the Ministry of Trade and Ministry of Agriculture adopted protectionist NTBs (in favor of business and populist) vis-a-vis the Ministry of Finance, which continued its liberal tradition by imposing a tariff reduction. In the case of the Philippines, Tongzon (2005) shows that trade decision-making should be conducted through several layers of discussion among bureaucratic bodies, therefore giving room for conflict, let alone the supposed coordination and consensus.

B. Support from Societal Groups

IR theory recognizes the role of non-state actors in influencing the policy-making process, especially trade policy. Neo-functionalists argue that domestic business entrepreneurs, eyeing on the potential gains in a regional market, will push the government to conclude an FTA deal (Solis & Katada, 2008, p. 18). This is important, as usually there are deep trade and investment linkages

¹³ Winters (2012) bases his explanation on the geoeconomic consideration, in which Singapore cannot compete with the resource-rich Indonesia, Malaysia, Thailand and other surrounding states to attract global investment. Therefore, the regime predictability, which includes a sound bureaucracy, is crucial for the resource-lacked Singapore to win the competition.

between a country and its neighbors, as seen in the establishment of the European Economic Community (EEC). Coherent with this logic, referring to the bilateralism phenomena in Asia Pacific, Aggarwal (2006) proposes that competitive and export-oriented industries will likely be the supporter and push for the government to conclude bilateral FTAs.

In Southeast Asia, the business sector constitutes the major element within societal groups. Regarding this group, their very significance is undoubtedly important. Nesadurai (2003, 2012) discusses the ‘patronage network’, in which business sector links heavily with the state in order to maximize its economic gain. Within the AFTA, they are sufficiently strong to influence the FTA outcome, namely developmental regionalism through Sensitive List and Exclusion List, as well as affirmative action on investment. In the words of Winters (2012), the domestic business sector can be categorized as oligarchs, in which they possess material power to maximize their own interest. High profile role played by the business sector has been discussed in many literature, especially in the case of Indonesia (Robinson & Hadiz, 2004; Hadiz, 2012; Winters, 2012), the Philippines (Tongzon, 2005; Van de Haar, 2011; Winters, 2012), Thailand (Bertrand, 2013), and Malaysia (Bertrand, 2013; Nesadurai 2012).¹⁴ Therefore, within the context of TPP, it is expected that they will play an active role in determining outcome.

On the other hand, one must bear in mind that a business sector is not the only actor within societal groups. Others also play a significant role, although so

¹⁴ In the case of Vietnam, London (2010) shows that remarkable economic growth has contributed to the rise of business group, especially managers of state-owned enterprises (SOEs). However, their influence to the government is not very clear.

far their very influence has been assessed only in terms of bringing political change in Southeast Asia. There has been extensive discussion on this particular issue. Writers such as Alagappa (2004), Hughes (2009), Case (2010), Aspinall & Weiss (2012), and Bertrand (2013) use the word ‘civil society movement’ or ‘middle class’ to describe this other group, which basically means ‘group of associational life’. Interestingly, they found relatively similar results across Southeast Asia. In democratic-type regimes such as in Indonesia, Thailand and the Philippines, civil society is very vibrant; they are a necessary factor to support change in the political regime, although they are not a sufficient factor, as elites still play a more important role. In pseudo-democracies like Singapore and Malaysia (Beeson, 2009b), the elite is such a strong entity that it can exert influence to or co-opt with civil society, although they still maintain some degree of autonomy and opposition. In communist or totalitarian countries such as Vietnam and Myanmar however, civil society is completely repressed.

It is the purpose of this research to assess their influence on different arenas, namely trade policy-making. Here, they are better represented by NGOs, which cover a wide variety of arenas, such as labor, health, consumer satisfaction, trade, and so on. They are usually active in advancing the concern of civil society, ranging from low, middle, to high income groups. In existing literature, NGOs in Indonesia (Bird, Hill & Cuthbertson, 2008; Chandra, 2008) and Philippines (Van de Haar, 2011) are particularly notable in advancing such concern.

Another important actor, but with less coverage discussion, is the academics. They are important, as they are the source of academic and technical knowledge

that will be necessary for any actor's interest attainment. The academics themselves are quite various, yet in this research it is important to distinguish at least two different camps. First is the economist with an Economic or Management background. Usually, they support the idea of neo-liberalism, which is pretty much coherent with the domestic economic reform policy. Second is the academic with Political Science or IR background. Usually, they are concerned with mostly foreign and security policy. They also are keen on seeking linkages between economic cooperation with foreign and security objectives, therefore their stances are usually more state-centered than the economist. These two camps give different nuances on TPP, as they see it differently based on their academic background.

C. Proposition and Hypotheses

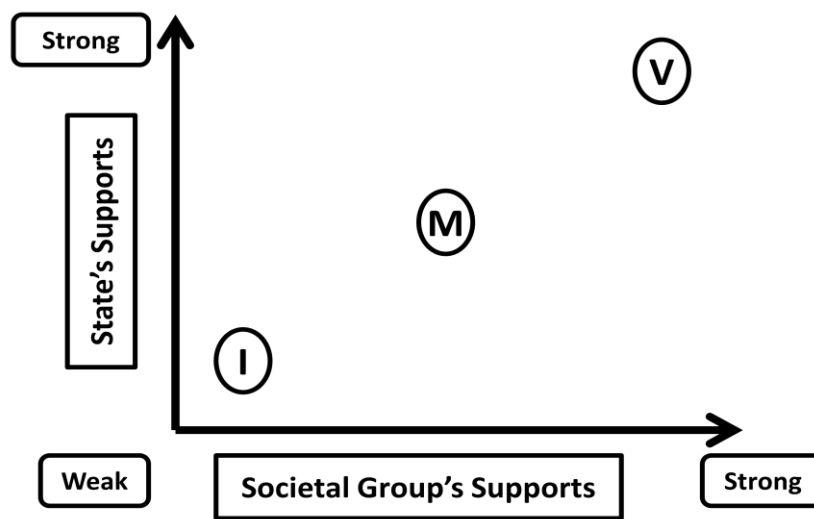
It is best to formulate relations between 'state's support' and 'societal group's support' by using figure II.3. Each of these variables inhabits either axis X or Y and influences a country's decision on TPP. For that purpose, it is important to make a proposition. For domestic support to economic reform, there are four propositions:

- #1 The stronger the support from state's decision-makers, the more likely a country will join the TPP
- #2 The weaker the support from state's decision-makers, the less likely a country will join the TPP

#3 The stronger the support from societal groups, the more likely a country will join the TPP

#4 The weaker the support from societal groups, the less likely a country will join the TPP

Figure II.3 – Domestic Support to Economic Reform: Hypotheses



Note: V = Vietnam; M = Malaysia; I = Indonesia

Figure II.3 postulates hypothesis for these domestic variables. It poses 3 hypotheses based on three case studies:

#1 Strong support from state decision-makers & societal groups most likely cause Vietnam to join the TPP

#2 Medium support from state decision-makers & societal groups most likely cause Malaysia to join the TPP

#3 Weak support from state decision-makers & societal groups most likely cause Indonesia not to join the TPP

II.2 Method

The research adopts a comparative method. According to Ragin (1994), such a method lies between quantitative (many cases, few aspect of cases) and qualitative (few cases, many aspect of cases) approach. The comparative method enables researcher to examine a moderate number of aspects within a moderate amount of cases, therefore it serves best for research aiming to explore diversity (Ragin, 1994). In this research, ‘aspect of cases’ is the international and domestic factors, while ‘cases’ are the 3 countries (Vietnam, Malaysia and Indonesia). The research will follow an inductive process of reasoning to identify the degree and nature of interaction among variables.

The research will adopt a case study as its process of inquiry.¹⁵ A case study enables the researcher to develop a holistic account to phenomena, in which the researcher is not constrained simply by ‘tight causal-effect’ as in quantitative approach, but more on ‘complex interaction’ among variables (Creswell, 2007, p. 39). A case study requires accurate descriptions as well as deep analysis on phenomena being studied. A case study is mostly appropriate for research aiming to find answer on ‘why’ and ‘how’ questions, which are the goal of this research. The case study here will be of an explanatory type to seek explanation of an event. A case study also enables the researcher to develop a better understanding between theory and evidence. According to Yin (2003), the researcher must conduct a feedback loop in order to better understand phenomena. A feedback loop is basically a ‘going back and forth’ typical in qualitative research, in which

¹⁵ Creswell (2007) mentioned that there are five process of inquiries: case study, ethnography, phenomenology, narrative reasearch, and grounded theory.

the researcher will reflect findings (data) to the theory being used, therefore refine and modify it to better explain the phenomena. Moreover, for a timeframe, the research will investigate the three case studies within 2008-2015. 2008 is chosen as it was the first time the US expressed its intention to join TPP, a decision of which was soon followed by Vietnam and Malaysia. 2015 reflects the current year in which discussion of TPP is still evolving.

II.3 Technique of Validation

As for validation technique, the research will follow “within-case control” and “process tracing” outlined by Munck (2004). Such concepts are adaptations of a quantitative approach (or in the words of Ragin (1994), “hard science nature of social research”) which distinguishes between experiment group and control group to measure whether independent variable really influences dependent variable. In qualitative-type approach as adapted in this research, usually it is very difficult to develop such grouping as phenomenon occurs in natural setting and cannot be experimented. “Within-case control” is a technique developed in order to cope with this issue. Basically, a phenomenon is segregated into variables related to hypothesis (called ‘systematic component’) and those that do not (‘random component’). Then, a close examination through process-tracing will be conducted. Process-tracing is basically finding evidence on an independent variable to influence a dependent variable as well as on how it works. ‘Evidence’ here usually appears on the statement of actors or official documents.

Another technique of validation for this research is a ‘positive-negative case’ proposed by Ragin (2004). For comparative research, it is very common to compare cases possessing similar outcomes (or positive case). The researcher will find similarities across cases to explain causal factors, on the basis of “presence/absence of a cause by presence/absence of an effect”, known as “two-by-two cross-tabulation”. However, a problem appears, as we cannot determine the degree of causality of an independent variable in influencing the outcome of a dependent variable. In practicality, what if an independent variable appears in a case the outcome of which is totally opposite (negative case)? Therefore, it is necessary to compare a positive case with negative case. Such effort will enable a researcher to assess the degree of influence of independent variables to dependent variable, therefore contributing to a more valid causality. In this research, positive cases are represented by ‘participating’ groups (Malaysia and Vietnam) while the negative case is the ‘not participating’ country (Indonesia). As mentioned above, therefore, a comparison between these different groups is of utmost importance.

II.4 Case Selection

There are three countries selected to be case studies for the research: Vietnam, Malaysia and Indonesia. Vietnam and Malaysia are chosen as they represent ‘participating countries’ of TPP; in fact, they are among the first countries to join after TPP held its first official negotiation in March 2010. On the other hand, Indonesia is chosen as the ‘not participating’ country. During 2008-

2015, various actors in Indonesia have been consistently showing reluctance to join.

Case selection for this research follows John Stuart Mills' 'Method of Agreement' and 'Method of Difference'. Method of Agreement basically states that countries are chosen based on similar outcomes, whereas Method of Difference is based on opposite outcome (Mills, 1974, quoted in Ragin, 2004). In this research, Method of Agreement is utilized at one point on finding commonalities on the decision to participate on TPP (between Vietnam and Malaysia). Moreover, another level of analysis will be devoted to comparing 'participating' and 'not participating' groups, therefore utilizing Mills' Method of Difference as both groups show opposite outcomes. Such analysis is necessary as it will address validity issue, namely the cross-tabulation problem which appears on analyzing countries with similar outcomes alone (Ragin, 2004, pp. 130-131).¹⁶ Such a combination, i.e. 'participating' and 'not participating' countries, is also taken as the research is aimed to explore the diversity of trade policy in Southeast Asia. Therefore, concentrating only on either 'participating' or 'not participating' will only bring partial results. Comprehensiveness of the nature of trade policy decision making in Southeast Asia is the ultimate goal of this research.

There are surely more countries belonging to either 'participating' or 'not participating' groups in Southeast Asia. For example, Singapore and Brunei Darussalam are the original member of P-4 countries since 2005, in which TPP was still named the TPSEP. Other countries, such as Thailand, Laos, Cambodia

¹⁶ For more detail on the cross-tabulation problem, please see the 'Technique of Validation' subchapter below.

and Myanmar, are also among the ‘not participating’ countries. The decision to put only Vietnam, Malaysia and Indonesia are based on the following considerations:

First, countries taken as case studies for the research must have an economically important status within the region. Among this category, the most common reference in any literature is the ASEAN-6 (Indonesia, Malaysia, Philippines, Singapore, Brunei and Thailand) and CLMV countries (Cambodia, Laos, Myanmar and Vietnam). The former constitutes the more economically developed countries, with a combined GDP of around 90 percent in Southeast Asia’s economy (ASEAN Secretariat, 2010, p. 38), while the latter is seen as less developed countries with a limited influence on the region, let alone on the global economy. Seen from this perspective, choosing ASEAN-6 seems to be a rational decision. However, in this research, Vietnam should be included in respect to its relatively fast economic development process. The country grew tremendously high, from only US\$ 14.1 billion in 1985 to US\$ 123.6 billion in 2011.¹⁷ The growth performance is close to the other miracle story in Southeast Asia, namely China, by around 7-8 percent since the late 1980s. Academics such as Masina (2002) credits Vietnam as a ‘late late-comer’ in the world’s economic development, while Collins (2009) refers it as a ‘young tiger’. Therefore, the most important countries for the research are ASEAN-6 and Vietnam.

Second, countries chosen should be sensitive to the ‘US factor’ embedded within TPP. Politically, TPP is important as the US’ tool for reengaging the Asia-

¹⁷ Data.worldbank.org

Pacific.¹⁸ In this regard, Singapore and Brunei are not qualified for the research exactly because they are the original member of TPSEP. At the time of establishment (in 2005), the US was not interested in becoming member; in fact, the US only expressed its interest to join in September 2008, which then triggered other countries' interest to join the deal. The very motive of Singapore and Brunei in joining TPSEP definitely excluded this 'US factor'. Therefore, the only qualified 'participating' countries are Vietnam and Malaysia.

As for Indonesia, the reason for selection is because the country is the biggest economy in the region with the status as the informal leader of ASEAN. Indonesia is also a good negative case ('not participating' decision) as, compared to other candidates such as Thailand and the Philippines, it scores low or weak at any variables being observed in this research ('medium economic gain, low political-security needs, low state support and low societal group support').¹⁹ Indonesia does not show a large degree of variations, therefore it will serve as a good comparison to the positive case. Other countries such as the Philippines will show variation of variables, such as high-political security needs combined with low support to domestic economic reform.²⁰ This is important to assess the degree of explanatory factor of each variable. In the proposition beforehand, it is stated that the higher/ stronger the degree of independent variables, then the more likely it will lead to participation on TPP. Yet, the Indonesian case shows that the

¹⁸ The issue will be elaborated in greater detail in chapter III

¹⁹ Look at the previous subchapter on hypothesis.

²⁰ Even for the economic gain variable, Indonesia's function as a negative case is still better than both Thailand and the Philippines. For this variable, Indonesia is hypothesized as having medium level gain. Meanwhile, both Thailand and the Philippines are trade-dependent nations with high reliance on the US' market. Therefore, both countries should be categorized as 'high economic gain'. This is less ideal for a counterfactual proving.

counter-factual situation is also true where the lower/ weaker the independent variables, then the less likely it will lead to participation in TPP. Another reason to choose Indonesia is due to practical issue, as the author is a native Indonesian speaker, which will lead to an easier data gathering process. This is important as TPP is a very recent phenomenon in which English-based data is not always readily available.

II.5 Data Collection

Multiple data sources will be used in this research, consisting of secondary and primary data. Secondary data will be gathered from existing literature and available publication, both from government and non-government agency. Some secondary data for the research are: 1) relevant books and journals; 2) research, statistics, and other publication; 3) reliable articles from various newspapers, magazines and websites. Meanwhile, primary data will also be used in the research. Interviews will be conducted to relevant actors, such as officials, business, NGO activists, and academics. Formal documents and other necessary texts will also be gathered.

For that purpose, two activities will be conducted. The first will precede the second activity. First is desk study activity by using the library and internet to gather data from books, journals, articles and formal documents. Second, a field trip to case studies' countries aimed primarily for interviews. Ideally, the whole 3 case studies should be visited to ensure balanced views. Yet due to time and financial limitation, the field research is only to be conducted in Malaysia &

Indonesia (in Spring 2015). In Malaysia, the author interviewed staff members and/ or academics from Malaysian AIDS Council, Institute for Strategic and International Studies (ISIS), *Universiti Kebangsaan Malaysia* (UKM, National University of Malaysia), and Monash University Malaysia. In Indonesia, the author targeted academics from the University of Indonesia, *Bina Nusantara* University, ASEAN Advisory Business Council (ABAC), NGO activists from Third World Network (TWN), and former Presidential Staff for Economic Affairs.

CHAPTER III - TPP: EVOLUTION AND CONTROVERSIES

This chapter aims to give an introduction to what TPP is. First, it will give an explanation of the evolution of TPP. The origin of the deal can be traced back to 2005 when it was still regarded as a peripheral agreement. Second, it will focus more on economic controversies. The subsection will elaborate on what it means to be the 21st century agreement, why it is necessary and why it is controversial. Third, the chapter will highlight the political controversies surrounding the TPP. Of particular importance is the political-security meaning it carries: the view that TPP is part of US' pivot in Asia-Pacific. The chapter will end with a conclusion.

III.1 Evolution: From TPSEP to TPP

The name of TPP came only in March 2010. Previously, there was the Trans-Pacific Strategic Economic Partnership (TPSEP), a preferential trading arrangement (PTA) between Singapore, New Zealand, Chile and Brunei Darussalam (known as the P-4 countries). Tracing back to its early development, TPSEP was born after the deadlock of APEC-initiated Early Voluntary Sectoral Liberalization (EVSL) negotiation in 1998. As mentioned in Chapter I, EVSL itself is the first attempt to create a Trans-Pacific PTA. The deadlock arose from difference between two groups, namely the Western Group on one hand (consisting of 'Western' members such as the US, Canada, Australia, New Zealand, and Singapore) and Asian group on the other hand (Japan, China and some other Asian countries) (Kelegama, 2000; Okamoto, 2004; Beeson, 2009a).

Western members demanded for Western-style FTA, which was basically comprehensive liberalization sectors, tight schedule and legally binding, whereas Asian members insisted on a looser arrangement to mind members' different development stage (Kelegama, 2000; Okamoto, 2004; Beeson, 2009a). Given the deadlock, the Western members tried to arrange PTA among the like-minded states. However, Australia and the US declined their negotiation status. The remaining smaller countries (Singapore, New Zealand and Chile), aware of the potential unattractiveness of their small markets, still continued the negotiation process. They believed that it was important to demonstrate other Asia-Pacific countries the benefit of full-scale trade liberalization. Then, Brunei Darussalam joined the negotiation in 2005. The TPSEP was concluded in the following year.

As part of TPSEP negotiation, two years after it came into force in 2006, there should be another round of negotiation to address liberalization in financial service and investment in 2008. It is where the US expressed its interest to negotiate (Capling & Ravenhil, 2012, p. 283) and when TPSEP started gaining worldwide attention. It was not so long until Presiden George W. Bush announced US' intention to negotiate fully in September 2008. The US seemed to find the high-quality nature of the TPSEP attractive. Among other FTAs, the TPSEP is widely acknowledged for its wide liberalization scopes, including the controversial agriculture sector (Lewis, 2011, p. 31). Financial service and investment were also still rare negotiation objects at that time.²¹ US' decision

²¹ Although it is true that the TPSEP has a higher standard than other FTAs, some authors argue that it is not that high-standard. Capling & Ravenhill (2012) mentioned that there are some 'high-quality' requirements that have not been fulfilled yet by the TPSEP, such as the normative commitment (not legally-binding) to the environmental standard, the exclusion of dispute

soon triggered other countries to join as well. Australia, Peru, and Vietnam were among the earliest to join. As seen in Table I.1, they grouped with the P-4 and US to arrange the 1st round of negotiation in Melbourne, Australia, March 2010, although Vietnam decided to be only an observer. Soon enough in October 2010, Malaysia joined Vietnam to be full negotiating parties during the 3rd round of TPP negotiation in Bandar Seri Begawan, Brunei Darussalam. In October 2012, Canada and Mexico joined the group while, in July 2013, Japan joined too. It made TPP members to 12 countries. Other than that, some countries are also reported to express intention to join, such as Colombia, Costa Rica, the Philippines, Thailand, South Korea and Taiwan.

Table III.1 – New Members of TPP

Time	New Members	Note
2006	Chile, Singapore, New Zealand, Brunei Darussalam (P-4)	FTA titled <i>Trans-Pacific Strategic Economic Partnership</i> (TPSEP)
September 2008	United States (US)	US expressed interest to join. TPSEP started gaining world attention.
November 2008	Australia, Vietnam, Peru	Expression of interest
March 2010		<ul style="list-style-type: none"> • 1st Round of negotiation under the title <i>Trans-Pacific Partnership</i> • Negotiation between P4, the US, Australia and Peru • Vietnam participated as observer
October 2010	Malaysia	Malaysia and Vietnam formally joined as negotiating parties during 3 rd round of negotiation
October 2012	Canada and Mexico	As negotiation parties
July 2013	Japan	As negotiation party
TOTAL MEMBERS		12 countries

The format of TPP negotiation is quite rare in comparison to other FTAs.

The latter usually follows closed commitment by being restrictive to other

settlement mechanism from ‘competition policy’ clause, and the lower IPR provision than the WTO commitment.

countries to join the deal (Elms & Lim, 2012b, pp.1-2; Lewis, 2011, p. 32). TPP is different as it opens the possibility for more countries to join. This rule was derived from the TPSEP, which acknowledges new members through the accession clause. Article 20.6 of TPSEP mentioned that:

“(1) this agreement is open to accession on terms to be agreed among the Parties, by any APEC Economy or other State. The terms of such accession shall take into account the circumstances of that APEC Economy or other State, in particular with respect to timetables for liberalisation...” (Trans-Pacific Strategic Economic Partnership Agreement, 2005)

TPP clearly follows the path of TPSEP (Lewis, 2011, p. 34). Not only for accession clause, TPP also follows high-standard or high-quality agreement in its negotiation. Furthermore, the two FTAs share a similar approach to geographical boundaries, by combining countries from North America, Latin America, Southeast Asia, Northeast Asia and South Pacific. It is, therefore, a truly Trans-Pacific agreement, which has the potential to carry the APEC’s idea of Free Trade Area of the Asia Pacific (FTAAP). Nevertheless, it is not always easy to adopt such objectives. As shown below, there are clear gaps between intention (or propaganda) and reality.

III.2 Economic Controversies: TPP between Promise and Reality

III.2.1 20th vs 21st Century Agreement

TPP has been conducting negotiation since 2010. Until August 2013, member countries have concluded 19th negotiation round, the latest was in Bandar Seri Begawan, Brunei Darussalam. The negotiation was focused on creating the so-called high standard or 21st century agreement. Having said so, supporter of

TPP wishes to undermine existing FTAs by labeling them as a mere 20th century agreement. Lim, Elms & Low (2012) mentions several arguments why 20th century agreement is an example of low-quality arrangement. First, it focuses only on final rather than intermediate goods and tariff liberalization. Second, they also include many exclusion lists on sensitive sectors, most notably agriculture. Third, 20th century FTA also incorporates strict Rules of Origins (ROO), which is a new protectionist measure as it imposes a high ratio of local content requirement. Fourth, 20th century FTA also only put limited commitment to service and investment liberalization. Many of them only adopt WTO commitment, which is criticized as weak commitment.

21st century agreement, in contrast, tries to go beyond that by pursuing more aggressive liberalization. It puts a specific target on intermediate rather than finished goods as cross-border parts and components trade becomes increasingly significant nowadays (Capling & Ravenhill, 2011, p. 560). Traditionally, to produce goods, all lines of production are conducted within a country. However given the prevailing communication and technology, it is now possible to split production process to several countries based on their specialization and cost-effective competitive advantage. Value chain, vertical specialization and global production network are terminologies used to describe this phenomenon. As the result, on-the-border liberalization is now not enough. Beyond-the-border liberalization or domestic market reform is now all more important to ensure smooth mobility of such products (Capling & Ravenhill, 2011, p. 560). This is also the phenomenon captured by the WTO-plus arrangement, which is then

adopted within TPP. Trade facilitation is very important in this regard by streamlining or harmonizing custom procedures between countries. State-of-the-art infrastructure is also important to support faster mobility and efficient value chain process. At the same time, stronger competition and investment policy should also be fostered. Competition policy gives national treatment status to foreign countries, therefore putting them in equal competition with local companies. Investment rules should also be incorporated within this trade agreement as it has intertwining nature within this value chain process (Lim, Elms, & Low, 2012, pp. 8-9). International rule should be maintained to ensure no expropriation or other discriminative action are taken, to establish Investor-State Dispute Settlement (ISDS) and to ensure ‘establishment without limits on the operation of financial institutions and suppliers’ (Schott & Muir, 2012, p. 55). Stronger IPR regulation is also necessary to protect patent and other copyright materials, whereas a loose ROO is important to simplify complexities and rigidities generated by the strict 20th century agreement.

As observed by Schott & Muir (2012), such high standard agreement is influenced by the US’ FTA template. Compare to other country, US’ FTA is relatively more broad-based with only limited exclusion list. There are exceptions, such as sugar products in US-Australia FTA, rice in Korea-US (KORUS) FTA and small dairy products in US-Canada trade. This category also includes the service sector, in which the US has a keen interest in liberalizing financial services, insurance, telecommunication, and air express delivery in the overseas market. For investment chapter, the US refers to the NAFTA template, in which

the ISDS is set up to ensure the Mexican does not expropriate US' companies. Moreover, US' FTA usually also includes investment treaty to escape complexities in the Congress. Different from trade agreement that only requires a simple majority to pass, investment treaty should possess two third majority in the Congress. Therefore, it is easier to embed investment with a trade agreement.

III.2.2 Opposition from Member Countries

TPP's high-quality arrangement, of course, must confront with oppositions. Many member countries voice concern on some clauses. Japanese interest groups disagree on agriculture liberalization, stating that TPP will endanger the country's food security by a rising food import from 60 percent to 90 percent and it makes Japanese rice, wheat and beef uncompetitive in domestic market (Fensom, 2013). Another controversy is at the pharmaceutical issue. Through stronger IPR implementation, the US wishes to impose a lot more expensive pharmaceutical sales for medicine in other countries. This is the issue in which Malaysia withdrew its bilateral FTA negotiation in the 2000s and triggers opposition from other countries as well, such as Australia, New Zealand, Chile and Peru (Capling & Ravenhill, 2012, p. 291).

Meanwhile, competition policy is problematic in TPP's developing members. Under the national treatment principle, small, uncompetitive companies in Mexico, Vietnam, Peru, and Malaysia should confront big highly competitive companies from the US. National treatment principle also means that it is prohibited to support state-owned enterprises (SOEs); a rule that can greatly

hamper state-led development process in Malaysia, Vietnam, and Singapore. Moreover, strict implementation on IPR, environment and labor are difficult as developing countries can never cope with. Piracy is way too prevalent while the environment and labor standards are beyond the capacity of any governments from developing countries. Moreover for the issue of International Arbitration Committee, TPP aggressively protects the interest of Multinational Corporations (MNCs) beyond the traditional international law. TPP tries to position MNC equal to states, thereby giving space for the former to bring the latter to the court. Controversy moves as the US tries to propose financial service liberalization. In East Asia, especially those suffering negative impact from Asian financial crisis 1997-1998, excessive capital mobility is seen as one contributing factor to the crisis, therefore financial service liberalization will lead to greater financial instability in the region. It is not without reason that Malaysia imposed capital control measure during the crisis.

III.3 Political Controversies

III.3.1 TPP: US' Tools for Engaging the Asia-Pacific

Another controversial issue surrounding TPP is about US' motives. One argument said that the very purpose of the US to foster TPP is to capture a new global market for US' future economies. It correlates heavily with the severe economic downturn that the US faced during the global crisis in 2007-2008. During this episode, almost 2.2 million housing owners in the country were unable to pay their debt (Kompas, 19 Sept. 2008). In 2008, as many as 10.1

million people lost their jobs or the highest in the latest 25 years. It is with this background that the US feels attracted by East Asia, a dynamic region with a huge domestic market, productive citizens and high economic growth. By engaging East Asia, the US tries to boost its economic performance again by exporting more to the region. Moreover, the world's economy is characterized by the global imbalance in which the US' import too much and East Asian countries export too much (Akyuz, 2010). The US feels it is important to correct such imbalance, as it will also remedy its huge trade deficit by exporting more to East Asia. Therefore, proposing TPP is an important exit strategy to revitalize the US' economy further. Through export, the US wishes to produce more, therefore, to recover economic growth and to provide more jobs.

Such argument is true at some point. However, one must recognize that so far TPP only engages countries with small markets, such as Brunei, New Zealand or Malaysia. For other countries such as Mexico, Canada, and Australia, the US already has FTA with. Therefore, at least in the short term the export market argument is not very valid as the US finds no significant gain. However, the argument is more valid in the middle or long run, given the possible entry of new countries under TPP's accession clause. The entry of Japan in July 2013 is a good proof, which is clearly an important state in East Asia, given its huge domestic market and powerful economic status. The US may expect the entry of other market-prospective countries, such as Indonesia, India or even China. The more countries to join the higher economic gains that the US will achieve, therefore bolstering the very purpose of East Asia as US' new spur of economic growth. In

this regard, US has interest in the creation of FTAAP, as mentioned by Myron Brilliant, Senior Vice President of US Chamber of Commerce (quoted in Lewis, 2011, p. 35-36):

“...while new export opportunities in the seven partners of the TPP negotiations...may be relatively modest for US companies...[i]f the TPP agreement evolves gradually into the Free Trade Area of the Asia-Pacific, then the United States has the potential to reach into economically significant markets that previously have been closed off to us through bilateral negotiations...”

There is another argument claiming that one must position the US' TPP maneuver with the overall US' political-security objective in Asia Pacific. Koo (2013) argues that after the Cold War, the US seems to detach from East Asia because its market-led Washington consensus idea is in direct conflict with the traditional Asian-led capitalism. The US uses International Monetary Fund (IMF) to promote greater liberalization in the region; even more the US is no longer very generous to give other countries' access to its huge domestic market. Such situation makes East Asian countries somehow 'move away' from the US and triggers East Asian regional arrangement. This is particularly true for the ASEAN+3 arrangement, in which China is the main promoter. This arrangement gains success in developing Chiang Mai Initiative, which provides liquidity backup for member countries during the economic crisis. It is a challenge to US-backed IMF program that accentuates structural adjustment program. In terms of trade, East Asian countries also try to access other markets as alternatives to the traditional US market.

Within such situation, it is no wonder that China gains a sufficient space to exercise its power rise. As mentioned above, China is a keen supporter of

ASEAN+3 arrangement, which largely excludes the US. China also generously provides its market to Southeast Asian countries through ASEAN-China FTA, concluded in 2001.²² China even proposed another bold measure to create FTA among ASEAN+3 countries, which again excluded the US. The US, in the midst of China's regional presence and accusation of the former being too involved in the Middle East, responded by establishing the "plus-one" framework with ASEAN countries (Koo, 2013, p. 104). In November 2005, there was ASEAN-US enhanced partnership, in which one of the main agenda is to promote ASEAN-US trade and investment facilitation, including to propose FTA with individual ASEAN countries. The US concluded FTA with Singapore in 2003 and conducted bilateral negotiations with Malaysia, Thailand, and the Philippines, although it eventually failed (Koo, 2013, p. 104). In US' view, it is important to leave its wait-and-see behavior on ASEAN regionalism project and start engaging it to ensure that it will not harm US' regional influence (Mochizuki, 2009, quoted in Koo, 2013). The US even signed the ASEAN's Treaty of Amity and Cooperation (TAC), a decision that the US was very reluctant beforehand.

Another central pillar for the objective is to support the idea of FTAAP through APEC (Koo, 2013, p. 104). TPP is important as it has the potential to make the idea come true. TPP is also important as a continuation of US' engagement in Asia Pacific as well as to keep China's regional influence in check (Capling & Ravenhill, 2011, p. 559). This is particularly relevant if one looks into

²² China even proposed the Early Harvest Program with which Southeast Asian countries can export agriculture products at 0 percent tariff rate to China during 2004-2010 without reciprocal action from China's side.

the political-security connection between the US and the current TPP members, as elaborated below:

“...there is a strong degree of support for US foreign policy goals among the current TPP partners, many of whom seek their security in defence arrangement with the US. Australia has a treaty alliance with the US and it hosts joint military intelligence facilities. Singapore has actively supported the US military presence in East Asia, and it provides the US forces with access to its air and naval bases. Malaysia and Brunei Darussalam have defence cooperation arrangements with the US. Peru and Chile have been close allies of the US in Latin America in recent years. Although New Zealand and the US suspended their alliance in 1985 (when New Zealand refused to allow nuclear-powered submarine access to its ports), NZ-US military cooperation resumed in 2007. Finally, Vietnam has recently commenced low-level forms of military cooperation with the US, in large part because of escalating tensions with China over the South China Sea...” (Capling & Ravenhill, 2012, p. 293)

Trade-security linkage is not without precedent in US’ policy. After the end of World War II, the US had keen interest to promote the capitalist world vis-a-vis Soviet Union-backed communist world. This made the US support the establishment of the World Bank, IMF and International Trade Organization/ ITO (which then was replaced by the General Agreement on Tariff and Trade/ GATT) as part of creating free and open world system. In 1951, the US also established San Francisco Peace Treaty, in which it provided bilateral security guarantee while the allies (including Asian allies like Japan) joined trade multilateralism and enjoyed access to US’ domestic market (Aggarwal, 2013, p. 182). The pattern continues with US’ PTA strategies since the 1980s. US-Israel and US-Jordan FTAs in 1985 and 2001 are important as they reaffirmed American support to these allies as well as to strengthen relations with them (Aggarwal, 2013, p. 183). This is also the very reason in which the US gives FTA partner status to Bahrain, Morocco and Oman (Capling & Ravenhill, 2012, p. 292). In the Asia-Pacific, important countries in this regard are Australia, Chile and Singapore, with which

the US already arranged bilateral FTAs during the 2000s as part of its attempt to strengthen existing security arrangements (Capling & Ravenhill, 2012, p. 292).

Geo-economically, it is increasingly more urgent for the US to engage more deeply in the Asia-Pacific. This region is a site for growing economic influence or, using the word of Fareed Zakaria (2008), the Rise of the Rest, such as China, Indonesia, and other East Asian countries. East Asia is one of the most economically dynamic regions nowadays as it consists of the Asian Miracle countries, which succeed to transform their nations from poor into strong economic powerhouses. East Asian countries contributed 32 percent to the world's GDP since the 2000s. It makes them as one of the contributors to the multipolar world while at the same time erodes the US' hegemonic status. It is no wonder that under President Obama, the US tries to give more emphasis on Asia-Pacific. In November 2009 during his visit to East Asia, President Obama even portrayed himself as 'America's first Pacific president' (Capling & Ravenhill, 2012, p. 288).

III.3.2 TPP as New Regional Model in Asia-Pacific

Another US' motive on TPP is to promote it as a new model of regional integration in the Asia-Pacific. As mentioned beforehand, after the Cold War East Asia increasingly develops its regional arrangement. Many of them excludes the US, due particularly to the influence of China. It is very clear in the case of ASEAN+3, in which China even proposed to create EAFTA in 2003, although it failed due to minimal support from other countries. Japan proposed another

arrangement called the CEPEA, consisting of ASEAN+3 countries, India, Australia and New Zealand (called the ASEAN+6). The US was once again not here. Despite commonalities in terms of US' exclusion, both arrangements have another similarity. They are a relatively low-quality arrangement by emphasizing mostly on tariffs and maintaining high exclusion list and limited support for WTO-plus principle (Lewis, 2012, pp. 238-239).

Given such development, the US wishes to use TPP as a new model of regional integration. TPP is, at least in the rhetoric, a complete contrary to the East Asian integration model. In terms of membership, it includes not only the US but also other American countries (Lewis, 2012, pp. 238-239). Secondly, as mentioned above, TPP is promoted to be high-quality 21st century FTA with a deep commitment to large-scale liberalization and WTO-plus principle. Through TPP, the US emphasizes different rules of the game in the Asia-Pacific to pursue a legally based arrangement, stronger protection to labor and environmental standard and creation of a level playing field (Obama's speech, quoted in Capling & Ravenhill, 2012, p. 292).

The competing model between East Asia and the US seemed to repeat the previous division within the APEC-initiated EVSL negotiation. At that time, Asian groups proposed a more relaxed approach by proposing concerted liberalization or liberalization based on each country's development capacity. In contrast, Western countries led by the US proposed comprehensive liberalization equipped by tight schedule and legally binding commitment. In the current era, it is somehow repeated in which ASEAN plus arrangement is said to be 20th century

or low-quality agreement, whereas the TPP set the 21st century or high-quality standard. It is interesting to note that the US uses its mighty power, namely its huge domestic market, to draw countries closer. Many Asian countries rely very much on this market, therefore creating a big pull strategy for them to gather around the US, even though it means accepting US' rule of the game. It is not without coincidence that the US chose TPSEP as its starting point, as the agreement possesses the accession clause to enable new membership. By doing so, the US somehow sends a message to other Asia-Pacific countries that access to US' market is only granted if a country accepts US' sphere of influence. Therefore, if the TPP gains success, the US will be the ultimate agenda-setter in Asia-Pacific and potentially dwarf other regional arrangements (Lewis, 2011, p. 39).

III.4 Conclusion

The very idea of TPP was coming from the initiative of Brunei, Chile, New Zealand and Singapore to create TPSEP in 2006. It soon gained worldwide attention as the US expressed its intention to join in September 2008. What makes it attractive is the very fact that TPP still retains the so-called high-quality FTA that TPSEP pursues. This is not easy, of course, because such rhetoric faces resistance from other countries, such as developing members within TPP that disagree on the strict adherence to WTO-plus arrangement. More importantly, the opposition also comes from the US' domestic politics itself. Despite US' rhetoric on 21st century FTA, in fact, it is not ready to fully liberalize its domestic market

as certain domestic groups oppose market opening in sugar, beef and textile market. The US' government will also find difficulties to pass congressional debate as now it no longer enjoys the leverage of Trade Promotion Authority (TPA).

Politically, one can systematize US' motive in TPP as followed. First, the US tries to anticipate engine of growth from the Asia-Pacific for the US' economy in the middle and long-term period. Currently, TPP is not big enough for market expansion. However, the accession clause within TPP makes it very possible to accept new potential members with huge domestic markets. Secondly, TPP is important as US' tools to engage the Asia-Pacific, especially as the last several years countries in the region actively make their own regional arrangements that practically exclude the US, such as the ASEAN+3 or ASEAN+6. China also takes advantage of such situation by pursuing its regional agenda through the ASEAN+3. Therefore, it is necessary for the US to come up with a new regional model that is different from the East Asian proposal. TPP is important here as its high-quality rhetoric can serve as a new regional model against the East Asian low-quality model.

CHAPTER IV - MALAYSIA

In the academic literature, Malaysia was known as the reluctant bilateralist (Okamoto, 2006) as dense patronage network between state and domestic business group hampered the country from becoming an aggressive FTA champion. However, Malaysia nowadays engages FTA more passionately than before by signing bilateral FTAs with Japan, Chile, Pakistan, India and Australia. Since 2010, Malaysia also joined the TPP negotiation. For Malaysia, the motives for joining TPP intersects heavily with its very position within the global economy as it seeks economic survival. Moreover, the TPP is considered to be the ‘next stage’ of Malaysian development agenda. More interestingly, discussing TPP in Malaysia relates heavily to the overall structure of Malaysian domestic economic and political landscape, touching more sensitive issues such as the Bumiputera policy and the survival of existing political regime.

The chapter on Malaysia reveals that the country’s decision to join TPP comprises of international and domestic aspect. On international aspect, the economic benefit is very dominant, especially in regards to Malaysia’s status as a trading nation. Through TPP, the country strengthens the existing trade and investment linkage with the US, which is Malaysia’s traditional economic partner. It is also important to note that TPP serves as an important tool to lock-in economic reform within Malaysia. It resonates well with domestic aspect, in which Malaysia’s participation in TPP is due to the existence of pro-economic reform groups, consisting of national leaders and bureaucracy, which are willing

to deal with the long-standing protectionist group within domestic political landscape.

IV.1 The Development of TPP Case in Malaysia

In regards to trade relations with the US, Malaysia was negotiating bilateral FTA as early as 2005. It followed the US' Trade and Investment Framework (TIFA) in Southeast Asia as way to get the superpower closer to this particular region. However, the negotiation did not go very smoothly. In January 2009, the negotiation stopped and never resumed. The Malaysian government commented that it was due to US' support for Israel's invasion to the Palestine.²³ Yet, the real cause was the high standard template that US wished to impose, in which Malaysia found it hard to comply. Among the most difficult issue was the government procurement, where in one hand the US wished it to be liberalized and on the other hand Malaysia saw it vital for ethnic redistributive policy (Brown, 2010; Elms & Lim, 2012a).

As Malaysia found FTA with the US vital, the country wished to resume trade talks. Opportunities came in 2010 where the US-sponsored TPP started negotiation in 2010. Malaysian Minister of International Trade and Industry (ITI) explicitly stated that due to the stalemate of bilateral talks, Malaysia's 'natural choice' would be joining the TPP (Brown, 2010). Malaysia also found it more

²³ (2009, Jan. 13). Rundingan FTA dengan AS Ditangguh [FTA negotiation with the US is pending]. Retrieved from http://ww1.utusan.com.my/utusan/info.asp?y=2009&dt=0113&pub=Utusan_Malaysia&sec=Muka_Hadapan&pg=mh_03.htm

convenient to negotiate in TPP framework than in bilateral FTA. The reason is as followed:

“...Malaysia thought maybe this is [TPP] a good idea to continue where we left [the US-Malaysia bilateral FTA]...it makes sense to us now that we have more friends, we have developing countries friends in the negotiation process...because if we have any industry that we want to protect, then let's give Vietnam or Peru a call...so we have friends to negotiate with...and we thought that we have more bargaining chip as [we are now with] countries with similar development status compare to before. So it makes absolute sense for us to join the TPP...”²⁴

Malaysia was then officially accepted as negotiating parties during the 3rd Round of TPP negotiation in Brunei Darussalam, 4-10 October 2010. It makes Malaysia be the fourth countries from Southeast Asia to join the talks, besides Singapore, Brunei Darussalam, and Vietnam. At this point, the decision was taken by Minister of ITI Datuk Seri Mustapa Mohamed and backed up by the PM Najib Razak himself. Nonetheless, as the issue evolves, these two actors are criticized domestically since the negotiation is too confidential without any access for other actors. Criticism comes from many actors, such as NGOs, opposition parties, and ex-PM Mahathir Mohamad. Recognizing this problem, MITI starts to engage other actors more intensively, especially through consultation and press release, yet it is still reluctant to disclose all negotiation texts and development. On their reply to MITI's press release in May 2013, NGO coalitions commented that MITI's engagement should start at least three years earlier (Idris, 2013).

The domestic debate continues as the government established the bipartisan TPP caucus in the parliament. The aim of the caucus is to foster consultation with the public and to ensure that Malaysia's participation will be in

²⁴ Interview with two economists from the Institute of Strategic and International Studies (ISIS) in Kuala Lumpur, Malaysia, 24 February 2015

line with the country's best interest (The Malaysian Insider, 8 Jul. 2013). The caucus is also a forum where the government delivers the update of the negotiation. In reality, the government can never uncover the whole process and only selectively point out several issues. Originally, the caucus comprised of 7 members: four from the ruling coalition Barisan Nasional (BN) and three from the opposition Pakatan Rakyat (PR) (The Malaysian Insider, 8 Jul. 2013). Subsequently, it evolves into 11 members: six from BN and five from PR (The Borneo Post, 1 Oct. 2013). The chairman is Datuk Ahmad Hamzah from UMNO. The government and the caucus meet regularly, such as in July 2013, August 2013, September 2013, October 2013, November 2014 and April 2015.

However, there is still much dissatisfaction. Opposition parties make many press statements, whereas NGOs arrange demonstrations, coalition, and other forms of pressure to the government. It heightened even more in April 2014 where US' President Barrack Obama visited Malaysia. Many actors, either they are in the pro- or anti-TPP groups, used this rare occasion to voice their concerns. Until now, there is no consensus achieved among these domestic actors. Government still continues negotiation in the TPP and the anti-TPP group still conducts various forms of protest.

IV.2 International Factor

IV.2.1. Economic Benefits: Seeking Trade, Investment and Economic Reform

One of the reasons why Malaysia joined the TPP was due to the structural economic issue. For a small, trade-dependent country like Malaysia, international

economic exposure in terms of market access and investment are of greatest importance. As seen in Table IV.1, trade to GDP ratio in Malaysia consistently reaches a high level, from around 111 percent in 1980 to 220 percent in 2000. As a small population country (only around 30 million people), Malaysia's trade importance is a lot greater than populous countries like Indonesia or China. The last two countries mostly rely on the domestic market, in which trade only contributes around 40 to 70 percent of their GDP. Malaysia's trade dependence is pretty much like Singapore, another member of TPP, the ratio of which consistently more than 300 percent.

Table IV.1 – Trade to GDP Ratio (Percent)

	1980	1990	2000	2010
Indonesia	54	49	71	47
China	n.d.	27	44	55
Malaysia	111	147	220	170
Singapore	411	344	366	372

Source: data.worldbank.org retrieved at 2 April 2015, 2:21 PM

It is of this structural situation in which Malaysia seeks international market more aggressively than a country like Indonesia does. Within TPP, Malaysia's greatest interest is the US, which dominates the grouping by accumulating 58 percent of its Gross Domestic Product (GDP) and 40 percent of its population in 2010.²⁵ The US also happens to be one of Malaysia's biggest (and traditional) trading partner (in fact, the US is number two after Singapore), with trade amounted to as much as US\$ 40 billion in 2011 and surplus of US\$ 11.6 billion (Williams, 2013, p. 5). For Malaysia, the US is an important

²⁵ Calculated from *UNCTAD Handbook of Statistics 2012*, pp.412-418 and 454-471

market for its manufacturing sectors such as electrical product and machinery. On 2011, these two segments contributed to US\$ 12.5 billion and US\$ 4 billion or around 48 percent and 16 percent of total Malaysian export to the country (Williams, 2013, p. 16).²⁶

Table IV.2 – Top Five Foreign Investment in Malaysia (US\$ Million)

	2006	2007	2008
Japan	1,202	1,896	1,637
Germany	63	1,092	1,287
USA	675	878	2,544
Singapore	514	858	565
Netherlands	895	491	526
US' shares	14.3 %	9.0 %	19.1 %

Source: US Department of State, 2012

Moreover, Malaysia is also a country very dependent on FDI. Foreign companies constitute to as much as 80 percent of the country's export. Especially to the US, the country contributes as one of the biggest FDI providers in Malaysia. As seen in table IV.2, US' shares of total FDI in the country is around 14.3 percent, 9 percent, and 19.1 percent in 2006, 2007 and 2008. In 2010, the US contributed to as much as US\$ 3.8 billion from the total FDI US\$ 6.8 billion (US Department of State, 2012). Among the major US companies to operate in Malaysia are Freescale, Texas Instruments, and Intel (semiconductor), Motorola, Agilent, Komag and Western Digital (electronics) and ExxonMobil,

²⁶ Although the US' market is very important to Malaysia, it does not necessarily mean that other TPP members provide no economic opportunities. In January 2015, Malaysia is going to graduate from Canada's General System of Preferences (GSP), which gives the former preferential access to the latter's market to support its economic development. Upon termination of GSP, Malaysia must deal with higher tariffs to access Canada's domestic market; a situation that Malaysia wishes to avoid upon participation in TPP. See Hunter (2014).

ConocoPhillips, Caltex, Murphy Oil, Dow Chemical and Eastman Chemicals (petroleum and petrochemicals) (US Department of State, 2012).

With such trade and investment standing, it is not surprising that Malaysia seeks to secure deeper trade and investment linkage with the US. The TPP is part of the way as liberalization agenda will trigger a higher number of trade and investment between the two countries. On the consultation with Malaysian Chambers of Commerce and Industry at 28 May 2013, Minister of International Trade and Industry (ITI) Mustapa Mohamed explicitly said that Malaysia seeks penetration to other countries through lower tariffs, taxes, and other barriers (Bernama, 2013). In fact, a feasibility study conducted by the United Nations Development Program (UNDP) at the request of Malaysian government showed that by 2020 the country will gain as much as 1.46 percent of its GDP in 2020 (MITI Malaysia, 2013, p. 10).²⁷ Petri, Plummer and Zhai (2011) gives a more ambitious prediction that Malaysia will be the second country to benefit the most from TPP after Vietnam. In 2025, it is estimated that TPP will create welfare benefit of as much as US\$ 9.4 billion or 2.24 percent of Malaysian GDP. The export benefit will also reach US\$ 16.4 billion or around 5.0 percent of GDP 2025. Malaysia clearly gains more, as the US will only accumulate 0.07 percent and 2.0 percent for welfare benefit and export benefit. Having such clear economic gains, Ministry of Trade and Industry (MITI) Malaysia mentioned explicitly that the country seeks trade and investment opportunity from this particular FTA, as stated below:

²⁷ However, the full text of the feasibility study has never been made to public; a situation, which made member of parliament (MP) from opposition party PKR (People Justice Party), Wong Chan, speculated that the study resulted in bad, rather than good, economic prospects.

“...By not joining the TPPA, Malaysia would be at a disadvantage in terms of seeking **bigger and better market access** for Malaysian products and services. The impact of that disadvantage will be even more significant should countries such as China, South Korea, Taiwan, Thailand and other competitors decide to join the TPPA later...In an increasingly competitive global environment, our absence from the TPPA will also make Malaysia less attractive as an **investment destination**, compared with other TPPA members. Investors’ perception of Malaysia will also be affected. As investors avoid Malaysia, this could result in less opportunities for job creation. Similarly, Malaysian companies that are investing in the TPP countries, will not enjoy the privileges and investment protection as provided under the TPPA...” (MITI Malaysia, 2013, pp. 12-13, emphasis added)

Table IV.3 – Share of FDI Going to East Asian Countries, (Percent)

	1980	1990	2000	2005	2008	2009
Northeast Asia (ex. Japan)	26,5	40,7	83,7	72,9	78,7	77,1
China	1,6	16,1	29,2	45,4	46,0	46,0
South Korea	0,5	3,5	6,5	4,4	3,6	3,6
Southeast Asia	73,5	59,3	16,3	27,1	21,3	22,9
Singapore	34,5	25,8	11,1	11,3	5,0	11,8
Vietnam	0,1	0,8	0,9	1,2	4,1	3,7
Thailand	5,3	11,9	2,4	5,1	3,6	2,3
Malaysia	26,0	12,1	2,7	2,5	3,0	0,7
Philippines	3,2	2,5	1,6	1,2	0,7	1,0
Indonesia	5,0	5,1	-3,2	5,2	0,0	0,0
Northeast & Southeast Asia (ex. Japan)	100	100	100	100	100	100

Source: Compiled from UNCTAD, 2012

The investment seeking motive is a very important in Malaysian case if one takes a look at regional perspective. In East Asia, as seen from Table IV.3, there has been a severe competition for FDI. Malaysia did not perform very well since its share of FDI continually went down from 26 percent in 1980 to only 2.7 percent in 2000 and even only to 0.7 percent in 2009. There are rising stars in the region such as China, Vietnam, and South Korea in attracting FDI, which somehow reduce Malaysia’s performance. China is the most serious competitor as the country received only 1.6 percent in 1980 but jumped to 29.2 percent and 46 percent in 1990 and 2009. Vietnam and South Korea also performed quite

tremendously from only getting 0.1 percent and 0.5 percent in 1980 to 3.7 percent and 3.6 percent in 2009. The regional situation now is competitive enough even for traditional FDI-attractive countries like Singapore to inevitably lose its FDI sharing, from 34.5 percent in 1980 to 11.8 percent in 2009. For Malaysia, this is problematic since foreign companies account for almost 80 percent of its export (Lee, 2014a). Lee (2014a) even mentioned that China develops so fast that it is now no longer a lower-value chain country but moves to a medium-value chain, a position that Malaysia currently retains. Therefore, Malaysia sees TPP as a way to be economically visible in Asia Pacific (Nambiar, 2012). By having more liberalization and better access to the US, Malaysia hopes to be more competitive in the eyes of the global investor.

Another important motive for Malaysia to join the TPP is to boost domestic economic reform process. It is true that Malaysia's economic development is a success story from low-income to middle-income. But as the country marches toward high-income country (or as stated in the development plan document, the New Economic Model, to be a developed country in 2020), problem arises as the country seems to face a middle-income trap. The middle-income trap is a situation in which a country finds difficulties to move up the development ladder since there is not sufficient capital, technology and efficient allocation of production in the economy. Therefore, the general prescription is to have a higher degree of liberalizations and structural reforms of the economy. According to economists from Institute of Strategic and International Studies (ISIS) interviewed for this research, Malaysia is way too slow to reform itself.

There had been attempts to liberalize Malaysian economy further, such as those in the 1970s when Malaysia started the export-oriented strategy, yet as the year goes more aggressive reform is necessary.

The most troublesome sectors are the strategic industries, pioneered by Malaysia's longest serving Prime Minister, Mahathir Mohamad, such as automotive, heavy and chemical industries. Following the logic of Japanese developmental state, protection at the initial stage is important to develop them, yet the protection should be gradually removed to make them get used to international competition and, therefore, improve their performance. However, such domestic-driven liberalization is way too slow since the business becomes too dependent on the government for protection without any improving performance.²⁸ According to Rasiah (2011), the most protected sectors, namely automotive and chemical, are in fact the least exporting ones, therefore showing that they underperformed throughout the years. Transport equipment sector only exported around 23.7 percent of overall output in 2008, while chemical-based such as non-metal mineral products and basic metal only exported 11.7 percent and 17.8 percent. Malaysian automotive company, Proton, only survives since there is government regulation for Malaysian officials to use only Proton car for office purpose (Tham, 2014). More importantly, the Malaysian government is also

²⁸ One of the reasons for the slow domestic-driven liberalization is the government's interventionist policy, namely the *Bumiputera* policy, is too intertwined with Malaysia's social and political system. The longest ruling party, the UMNO, retains a dominant status since it links Malaysia's development policy with ethnic Malay's affirmative action agenda. The poor but majority ethnic Malay has the first priority and opportunity to almost everything to restore the economic imbalance against the ethnic Chinese and Indian. Stopping such interventionism means cutting the UMNO's political tool, therefore, UMNO politicians are among those opposing the economic reform. More on this issue will be elaborated on the domestic subchapter below.

very slow in preparing for cutting-edge human resources to prepare the country to be a developed and knowledge-based economy. Malaysia is lagging behind neighboring countries in terms of providing researchers and engineers. In 2006, while Japan, South Korea, Singapore, and Taiwan can provide around four to five thousand researchers and engineers per million persons, Malaysia can only provide 367 (Rasiah, 2011, p. 113). The same goes to research and development (R & D) funding, as seen in Table IV.5, in which Malaysia can only provide 0.3 to 0.6 percent during 1990-2006, while other East Asian countries can reach 2-3 percent (Rasiah, 2011, p. 113).

Regarding the TPP, therefore, what Malaysia aims to do is to re-orient its economic reform strategy. As domestically-driven approach fails, then participation to TPP is important as a way to lock-in reform.²⁹ Malaysia has a stake in the high-quality standard of the deal as it requires Malaysia to undergo significant structural economic reform. Committing to TPP means that Malaysia is bound to the international agreement to liberalize the long-protected heavy industries, service sectors, government procurements and the likes. Doing that will ensure a more efficient allocation of resources, streamlining sectors in which Malaysia has no advantages on and focusing on sectors where Malaysia has the leverage. It will also invite more investment opportunities from abroad, therefore ensuring fresh amounts of capital and technology that Malaysia urgently needs. Under TPP, there will also be an opportunity for movement of the natural person, in which skilled workers will have greater mobility to work overseas. Malaysia

²⁹ Two economists from ISIS interviewed for this research also pointed out this lock-in reform idea.

has a lot of interests in this particular aspect to support its knowledge-economy goals.

Moreover, Malaysia should immediately undergo reform since international norms in the 21st century is getting more and more liberal that Malaysia finds it harder to comply. However, a different situation occurs after the Asian crisis 1997-1998. Internationally, new norms apply in which Malaysia finds it harder to comply. Tham (2014) mentioned that under WTO's Trade Related Investment Measures (TRIMs), Malaysia must prohibit its local content requirement policy. Meanwhile, even on a relax FTA such as the Japan-Malaysia Comprehensive Economic Partnership (CEPA), the country must liberalize tariff for small engine capacity vehicle to 2015 (in which Malaysian Proton company concentrates its production). Moreover according to Case (2006), investors are hesitant to enter Malaysia since in the Asian crisis 1997-1998 the government conducted capital control to protect domestic businessman (especially from UMNO), a policy that in turn hurted foreign investors.

It is not too much to say that Malaysia is now at the crossroads. Malaysia must conduct economic reform if it wants to remain economically competitive. Malaysia's entry to TPP must be seen as an effort to bring the country to the 'next stage'. TPP is a lot more ambitious than any other FTA Malaysia currently has with its strong demand for domestic economic reform. By joining TPP, Malaysia tries to 'lock-in' domestic reform to ensure its smooth process by complying with international legal standards.

IV.2.2 The Political-Security Needs: Malaysia between the US and China

Another motive for Malaysia to join the TPP relates to the political-security aspect. Joining TPP means that the country has more opportunity to engage the US. The US is important as it is still the world's superpower, so for small country like Malaysia having a close connection to the US is always very important. Just as many countries in East Asia, engaging the US is an important agenda in their foreign policy since the rise of China makes political and security condition the region unpredictable (Ciorciari, 2010). There is no country in the region that can stop China from being too aggressive, therefore greater US' presence in the region is always welcomed since the latter is the only one capable of constraining China. Malaysia's participation in the TPP is in line with other maneuver that Malaysia takes toward the US.³⁰ Lee (2014a) argues that Malaysia-US political and security relations are an 'unsung success story' as there are much cooperation in progress. Among them are continuous military training (Malaysia is one of the few sites for American troops to conduct jungle training, whereas Malaysian military officers join training program in the US), opening access to the US for Malaysian port and airfields (which since 2009 the US Navy has visited more than 30 times), and renewing Acquisition and Cross-Service Training Agreement in 2005 (which means both countries can exchange logistics for 10 years ahead). Ciorciari (2010) argued that Malaysia now commits a limited alignment with the US, which means that the country pursues stronger political-security interaction but without a defense treaty nor space for US' military base.

³⁰ Interview with two political scientists from *Universiti Kebangsaan Malaysia/ UKM* (National University of Malaysia) in Selangor, Malaysia, 23 February 2015

Ciorciari (2010) further explains that there is, of course, a limit on how close Malaysia can be. First, the country's Muslim majority constituent tends to assume US' foreign policy as anti-Muslim. Second, the country always has adherence to the idea of regional resilience, as it is the champion of ASEAN's Zone of Peace, Freedom and Neutrality (ZOPFAN).

Yet, one must not assume that Malaysia pursues TPP (or closer relations to the US) since it feels threatened by China. Although the threat exists, it is more to be of middle to long-term rather than short-term one (Dhillon, 2009, p. 153, 155). In fact, internally Malaysia is not a keen supporter of China's threat theory. It can be seen from the statement of the then PM Mahathir Mohamad, who saw it as 'a bad and dangerous idea' (Lee, 2014a, p. 12). One must understand Malaysia's foreign policy that seems to be pragmatic towards the Great Powers; it is better to engage them both rather than choose either one of them.³¹ Such pragmatism derives from Malaysia's nature as a small trade-dependent economy, which makes them look for international market and stable regional environment. For Malaysia, China is an important trading partner; even Malaysia has the biggest trade volume with China than any other Southeast Asian countries.³² Malaysia already aimed for China's huge market even since the 1970s, when the rapprochement between the US and China gives Malaysia an opportunity to start a diplomatic relation (Dhillon, 2009). Malaysia is also the first Southeast Asian country to start diplomatic relations with China.

³¹ *Ibid.*

³² In 2012, trade between two countries reached US\$ 95 billion.

At least in the short to medium term, Malaysia has no worry to the perceived China's threat. The country is a maritime Southeast Asian, therefore, reduces the possibility of having a direct military attack from the Great Power (Ciorciari, 2010). Economically, Malaysia's open economy makes it relatively immune from China's power since the later is only one from several trading partners (Lee, 2014a). Structurally, China cannot easily translate its economic prowess into actual political tools since it depends too much on foreign firms to manufacture export products. If China reckless enough to do so, it mistakenly sends the wrong signal of being unilateralist that possibly triggers relocation of foreign factories to a more friendly country (Lee, 2014a).

IV.3 Domestic Factor

To understand the domestic dynamic of TPP in Malaysia, one must understand the very context from where it evolves. Debates within Malaysia, either from the pro-TPP groups or the anti-TPP groups, link with the very roots of Malaysia's social, economic and political condition. Malaysia is a typical post-colonial society, in which inter-ethnic conflict becomes the determining feature. Segregated under British colonialism, the majority but poor ethnic Malay community lived separately from the richer ethnic Chinese and Indian during Malaysia's independence. The previously politically marginal ethnic Malay came into dominance after the ethnic riot in 1969. A Malay grassroot organization called United Malay National Organization (UMNO) becomes the ruling party even until now, making a big coalition under the banner of Barisan Nasional (BN

or National Front). The UMNO gains legitimacy since it brings forward the Bumiputera policy (means son of the soil), implemented through the New Economic Policy (NEP), in which it proposes affirmative action to ethnic Malay in order to correct economic imbalances with the Chinese and Indian. It is henceforth many discriminative policies were introduced, such as scholarships for the Malays, delegation of government contracts, imports commitment, leasing and other projects to Malay businessman, the Malay equity ownership rules and many others.³³ Everything goes well in the second half of 20th century, in which the state can find a delicate balance between international and domestic demand. According to Case (2006), state apparatus selectively liberalized some economic sectors, such as the manufactures for FDI and export activities, and used the money to developed other protected sectors where the ethnic Malay can grow, such as the service sector, automotive, heavy, and chemical industries. Under this system, economically Malaysia transforms from low to middle-income country and politically to be an authoritarian state (where the UMNO continued winning all elections).

Yet, as Case (2006) further argued the equilibrium was shaken after the Asian Crisis. There has been a changing term from ‘ethnic Malay priority’ to ‘Malay conglomerate priority’ since the affirmative actions goes in large degree to this businessmen.³⁴ Even more, they are so influential since they are also the member of the UMNO. Therefore, they can ensure government contracts and

³³ Included here is the government procurement sector, which is to be liberalized under the TPP.

³⁴ The richer the ethnic Malays are after the introduction of *Bumiputera* policy, the more likely they can exert control to the state. In the 1970s, most of UMNO members were teacher, but in the 1980s they were dominated by businessmen (Dhillon, 2009, p. 77).

other activities go to their pocket. When crisis stroke, Malaysia's well-known capital control policy was dedicated to protecting this business from the stormy weather of the crisis, including to help them from collapsing. Domestically, it caused anger to the general public, not only to ethnic Chinese and Indian but also to the Malays. Consequently, the UMNO lose two third majority (which is critical for amending constitution) in the election in 1999 for the first time.³⁵ Internationally, foreign investors cannot accept such moral hazard and corrupt bureaucracies, and therefore began seeing other neighboring countries as better alternatives.

Post-Asian crisis Malaysia is at the crossroads. Politically, the UMNO no longer enjoys comfortable standing in front of Malaysian and needs to keep close eye on the opposition parties, such as the PKR (People Justice Party), PAS (Pan-Islamic Party), DAP (Democratic Action Party), etc. Again in 2008, these opposition parties made the BN coalition lose two-third majority.³⁶ Economically, Malaysia can no longer sustain interventionist policy without backlashing international investor. Economic slowdown after the crisis, the middle-income trap and growing competition from neighboring countries, all call for the need to structurally reform Malaysian economy, but with the complication of hurting the

³⁵ Ever since, the UMNO is always perceived as full of corruption and scandal, distant from the general public, and full of intra-UMNO politician conflicts. See Samad (2009).

³⁶ Since the 2000s, there has been a growing discourse named the 'new politics' among the young Malay. Since they no longer share past history of Malay ethnicity and developmentalism, nowadays they demand governance issues, such as corruption eradication, public participation, and the likes. This position shares much resemblance to the interest of opposition parties but not so much to the UMNO. This young Malay aspiration also meets the interest of ethnic Chinese and Indian, who wish for getting rid of discriminative policy. Look at O'Shannassy (2013) and Samad (2009) for more elaboration on this.

intra-UMNO business-politician.³⁷ Malaysian society now must choose between those difficult options.

It was in this context where Malaysia entered the TPP negotiation. TPP strikes pretty much to the debate, by showing that the government wishes to pursue economic reform, but with the risk of alienating intra-UMNO business politician (and even the general public of ethnic Malays). The government is also no longer in the politically convenient position where it must concern on alternatives outside UMNO. The following section explores the issue more. It discusses the stances and maneuvers of domestic groups belonging to the pro- and anti- TPP groups. The pro-TPP groups consist of some business sectors, the Ministry of International Trade and Industry (MITI), and leader (the Prime Minister/ PM Najib Razak). Meanwhile, the anti-TPP groups are made of some bureaucratic agencies, NGOs, opposition parties, and the intra-UMNO business-politician. The chapter will then followed by an assessment of their political powers.

IV.3.1 The Pro-TPP Groups

As Malaysia is a trading nation, it is only natural to see that business sectors support the government decision to negotiate in TPP. However, business stance is unanimous since those supporting are only those working on export-oriented industry. This is the stance made by several business associations, such as the Federation of Malaysian Manufacturers and Malaysian Textile

³⁷ Tham (2014) labeled it as choosing between the ‘economic’ or ‘race’ policy.

Manufacturers Association (Hunter, 2014). Other business groups have quite heavily linkages with other countries, especially the US. Even since the negotiation of Malaysia-US Bilateral FTA, several companies are known to lobby the Malaysian governments. Many of them belong to the US-Malaysia FTA Business Coalition, which is basically a group of high profile US companies, such as the Cargill, Citigroup, Intel Corp, General Electric, ExxonMobil, and the likes (Smeltzer, 2009, p. 15). There is also other foreign affiliated business associations that declare their support for the TPP, such as from American-Malaysian Chamber of Commerce, Malaysia-Canada Business Council and the Malaysia-New Zealand Chamber of Commerce. They released a Joint Statement during 18th Round of TPP Negotiation in Kota Kinabalu, Malaysia at July 2013 (The Establishment Post, 17 Jul. 2013).

A relatively more important icon and more well-publicized, for domestic economic reform, is the MITI. This powerful ministry is the one most responsible for handling the negotiation with overseas parties on the trade-related issue. On TPP, beside serving as the chief negotiator, MITI directly negotiates no less than 9 technical working groups, e.g. 1) market access in goods; 2) rules of origin; 3) trade remedies; 4) investment; 5) services; 6) non-conforming measures; 7) business mobility; 8) cooperation and capacity building; and 9) horizontal issues (MITI Malaysia, 2013, pp. 7-9). Domestically, MITI is the government's main speaker for TPP issue, discussing and deliberating government's stance to various domestic stakeholders. This ministry sees TPP as a 'lock-in' process to ensure continued domestic reform, citing its objective 'to develop transparent and

predictable rules...[and] inclusive regulatory environment' are in resonance with Malaysia's own 'economic transformation and domestic reform program' (MITI Malaysia, n.d., pp. 4-5). Moreover, it stresses that "...Malaysian companies are also increasingly becoming global investors and they require a level of transparency and predictability that can only be guaranteed effectively through binding agreements like FTAs..." (MITI Malaysia, n.d., p. 3).

In TPP issue, MITI is like the forefront of the government in socializing and deliberating information on Malaysia's participation on TPP. It is no wonder that MITI, even more than the PM Najib himself, receives the most attack from other political actors.³⁸ It is MITI that needs to deal with NGOs business or media through various consultation, meeting and press releases. When the government is accused of keeping all information behind the scene during 2010-2013, it was MITI to take on all the attack and then hitherto to open channel for information dissemination. Included here are several briefings with the parliamentary TPP caucus that was led by Minister of ITI himself, Datuk Seri Mustapa Mohamed, such as on 30 September 2013, 17 November 2014 and 1 April 2015. MITI even conducted TPP Open Days on 1 August 2013 and met with Coalition to Act against TPPA on 6 August 2013 (MITI, 2013). If one searches through their website MITI actively provides press release and article on their website regarding TPP.

Arguably, the most powerful supporter of TPP (or economic reform, interchangeably), is the PM Najib himself. He is the national leader or the holder

³⁸ Interview with two economists from ISIS. *Op. Cit.*

of the topmost position within Malaysian politics, serving both the PM and chairman of UMNO. Inherent in this PM thinking is that he/ she is the one most responsible to drive Malaysia through its economic hardship, including to take tough decision such as domestic reform, as a way to bring the country to the ‘next level’. It is PM Najib who launched the New Economic Model (NEM) in 2010 to replace the old-fashioned NEP. Different from the discriminatory policy entailed within the latter, namely to correct ethnic imbalance by imposing Bumiputera policy, the former embeds itself with a stronger ‘level the playing field’ principle, inclusiveness, transparency, and merit-based approach (O’Shannassy, 2013, p. 440). NEM basically consists of three main ideas: 1) to make Malaysia a developed economy in 2020; 2) to create a more service-based economy; and most importantly 3) to create a private-led economic development, with the government serves only as facilitator (Lee, 2014a). Moreover, the NEM is designed to move up Malaysia on higher value chain as it loses competitiveness in the lower-wage manufacturing sector (US’ Department of State, 2012).³⁹ By taking such bold move toward domestic reform, then NEM should be seen as a parallel policy with the TPP to bring Malaysia to the next level.

Najib’s economic reform agenda should be seen in parallel to the political reform he wishes to pursue. Recognizing the danger if the UMNO keeps discriminating the ethnic Chinese and Indian, he introduced the *IMalaysia* rhetoric as a way to gather more vote from the two ethnics. *IMalaysia* basically serves as a platform for a more balanced approach among the three biggest ethnics,

³⁹ The NEM is also ambitious enough to be the regional hub for manufacturing sector, which is a direct challenge to Singapore (Lee, 2014a, p. 47).

comprising of: 1) continued affirmative action to the Malays; and 2) incorporation of 'healthy' competitive element with the non-Malays (Wariya, 2009, pp. 184-185). O'Shannassy (2013) describes it as a way to gain new legitimacy among the constituents, namely to give more weight to the *Ketuanan Rakyat* (people supremacy) than to *Ketuanan Melayu* (Malay supremacy). Economically speaking, such agenda is important as it encourages more competition in the Malaysian economy, including to addresses the rent-seeker problem. Najib stated that "...the best way forward, for their interests and for the interests of this nation, is to adopt open competition, be it amongst *Bumiputera* or free competition for all..." (quoted in Wariya, 2009, p. 185). Such approach is also important to mitigate the brain drain issue that Malaysia faces nowadays, where there are more educated and skilled ethnic Chinese and Indian looking for overseas jobs due to unfavorable circumstances at the domestic level.

IV.3.2 The Anti-TPP Groups

At the other side of the coin, there are even more various actors within the anti-TPP groups. First, there are several bureaucratic bodies who feel concern on FTA with the US. The Ministry of Health and Ministry of Agriculture, for example, did not feel comfortable with the deal, as it potentially triggers rising medicine cost and liberalizing the long-protected agriculture sector (Smeltzer, 2009, p. 19). Other agencies are several government agencies that were established for the NEP in the 1970s to develop rural areas, therefore carrying protectionist ideas, such as the Federal Land Development Authority (FELDA)

and the Federal Land Consolidation and Rehabilitation Agency (FELCRA).⁴⁰ However, their role within the debate is quite moderate if not non-existent. Perhaps disagreements occurred within these government bodies, but it has never come to the media or general public yet, unlike the NGOs.⁴¹ Moreover, they do not have significant influence since they are more to be an administrator rather than a distinct political actor. In Malaysia, everything is already planned within the development plan, and they only need to follow.⁴² Another agency is the Ministry of Finance, which is said to be protectionist as it has the authority over the procurement policy (Dhillon, 2009; Tham, 2014). However, now PM Najib himself chairs the ministry, therefore reducing the potential protectionist stance it can carry. In fact, several agencies indeed join the negotiation process along with the MITI, such as the central bank (the *Bank Negara Malaysia*) on financial service and Ministry of Finance of government procurement.⁴³

Second, a relatively more active role is played by opposition parties. Usually, they are mostly active in giving press statements and in the parliamentary caucus meeting. Due to the case's high profile status, the latter is unprecedented in Malaysian history as the TPP is the only FTA to be discussed in the parliament and to be tabled for 'parliamentary mandate' (The Star, 2013).⁴⁴ Usually, they question secrecy issue in which the government only circulates information among themselves, especially before the caucus was made in July 2013. Member

⁴⁰ Interview with two economists from ISIS, *Op. Cit.*

⁴¹ Interview with an IR specialist from Monash University Malaysia, in Selangor, Malaysia, 25 February 2015.

⁴² Interview with two political scientists from UKM, *Op. Cit.*

⁴³ Interview with two economists from ISIS, *Op. Cit.*

⁴⁴ Under Malaysian current law, the executive has the authority over international trade negotiation.

of Parliament (MP) from PKR Nurul Izzah Anwar on 6 June 2013 made a specific press statement about this. She concerned on the fact that Malaysia's law gives authority to the executive to conduct international treaty without any participation from the public (Anwar, 2013). Therefore, she called for a 'parliamentary study group' to scrutinize every detail of the negotiation clause (Anwar, 2013). The stance of opposition parties also touch sensitive issues being voiced mostly by the NGOs (to be discussed later) such as the Investor Dispute Settlement (IDS), Intellectual Property Rights (IPR) and sovereignty. Among them is DAP MP Charles Santiago in July 2013 who referred to US-Jordan FTA that raised medicine cost to 20-30 percent (The Malaysian Insider, 10 Jul. 2013). He also feels concern about sovereignty issue since under TPP, certain domestic law can be bypassed by an international tribunal (The Malaysian Insider, 10 Jul. 2013). Several other opposition parties MP use the parliamentary caucus arena to voice their concern. This secrecy issue was again complained by MP from Parti Sosialis Malaysia (PSM) Michael Jeyakumar, at a TPP protest in Kuala Lumpur, 19 March 2014. He wished the government to open the original negotiation text to the parliament member, since right now they can only study TPP based on previous US' FTA experience and ask questions to the government whether the deal includes topic A or B (The Rakyat Post, 19 March 2014). Other opposition parties who are among the most active is Wong Chen from the PKR. On 17 November 2014, he directly criticized Minister of ISI Mostapa Mohamed for not releasing

the interim reports (in June 2013 and August 2014) and pending the dissemination of final report (Wong, 2014).⁴⁵

Third, among the anti-TPP group, the NGOs are among the most dynamic ones. They commented on many sensitive issues within TPP negotiation. Beside confidentiality issue discussed above, they also criticized many other areas, such as health and small and medium enterprises (SMEs). As voiced by Malaysia AIDS Council, they mostly criticize the very potentials of TPP raise medicine cost due to longer patent duration and data exclusivity (Rahman, 2013). In an interview with a policy manager from this NGOs, this applies, for example, to the Hepatitis C medicine that costs US\$ 1,000 per pill. It also has patent duration for 20 years (under the existing WTO rule) and to be prolonged for another 20 years under the TPP's IPR regime.⁴⁶ Economically speaking, higher medicine cost will bring negative impact to Malaysian federal budget since health service is highly subsidized.⁴⁷ On SME issue, NGOs concern on national treatment principle where SMEs should confront with US' big companies (Idris, 2013).

Moreover, various NGOs with different concern even join a grand NGOs coalition, namely the BANTAH TPPA (literally means AGAINST TPPA). At 21 May 2013, they released an open letter as an answer to MITI's press release; with

⁴⁵ Unsurprisingly, there is a contending argument to Wong Chan's view from Datuk Ahmad Hamzah, who is the Parliamentary caucus' chairman himself and happens to come from PM Najib's faction within UMNO. After the meeting of 30 September 2013, he commented that 'caucus members were satisfied' and that the government had shown 'initiative and dedication towards the interest of the nation'. Look at The Borneo Post (1 Oct. 2013).

⁴⁶ Another problematic area is the enforcement of patent to Braille-converted literature, which will potentially charge higher cost for the blind people. Interview with an NGO activist from Malaysian AIDS Council (*Majelis AIDS Malaysia*), in Kuala Lumpur, Malaysia, 23 February 2015.

⁴⁷ The TPP: Najib Razak's gordian knot – Shankaran Nambiar. (2014, July 2). Retrieved from <http://www.themalaymailonline.com/what-you-think/article/the-tpp-najib-razaks-gordian-knot-shankaran-nambiar>

this they stated their stances on various issues such as confidentiality, health, SMEs and many others. (Idris, 2013). Specifically on the investor-state dispute settlement, they challenged the government to develop Malaysian economy organically without any dependence from MNCs and sovereignty-threatening legal obligation. This coalition NGOs conduct regular demonstrations in Kuala Lumpur, including those on 22 May 2014 in the wake of Barrack Obama's visit. They also use media to raise awareness among general public, mostly the internet website, even since the bilateral Malaysia-US FTA talks. (Smeltzer, 2009, pp. 15-17).

Fourth, another serious contender from the anti-TPP group is the intra-UMNO business-politician. They are the one to enjoy the most leverage from Malaysia's *Bumiputera* policy, therefore, feel threatened by the possibility of dismantling it. Their causation has started even from the US-Malaysia bilateral FTA talks, such as from the Malay Businessmen and Industrialist Association of Malaysia (in Malay abbreviation, *Perdasama*), the president of which Moehammad Izt Emir is an important leader in UMNO (Smeltzer, 2009).⁴⁸ In August 2013, there was a headline from Utusan Malaysia, a Malay language newspaper owned by the UMNO, which labeled Malaysia's TPP negotiators as 'traitors' (Kyodo News International, 2013).

Arguably the most vocal contender from this intra-UMNO group is no less than ex-PM Mahathir Mohamad himself. He was Malaysia's longest serving

⁴⁸ Also within the anti-TPP group is the government-linked companies (GLCs), which are mostly owned by the intra-UMNO business-politician. They have similar concerns about liberalization, yet they do not release many statements. Interview with two political scientists from UKM, *Op. Cit.*

PM, the founding father of the NEP and *Bumiputera* policy and the strong advocate for government intervention. He made a lot of statement regarding the TPP. In August 2013, he openly called the Malaysian government to withdraw from the TPP talks as it reduces government's ability to implement socio-economic policies, especially the NEP (Kyodo News International, 2013, Oxford Business Group, 2014). He also commented that TPP will ensure smooth penetration from US' companies to enjoy market and government contracts in Malaysia's economy (Global Research, 2013), a comment that has strong resonance with his statement for US-Malaysia bilateral FTA, namely the deal as a US' way to 'politically and economically re-colonize developing and newly industrializing countries' (Smeltzer, 2009, p. 19). In July 2014, he openly criticized PM Najib himself by saying: "...the quality of a strong leader is his willingness to stand up against foreign pressure [the TPP] and protect the interests of the country. If you can't do that, then you are not considered a strong leader...".

IV.3.3 Assessing the Influence of Pro- and Anti-TPP Groups: Toward Consensus?

The contesting dynamic among the pro- and anti-TPP group have been ongoing. Each group has political power, and accordingly it influences how they can pursue their interest. The pro-TPP group, consisting mainly of the MITI and PM Najib, is understandably powerful. MITI has a good standing among the bureaucracies and is the forefront of Malaysian trade diplomacy, which is very important due to the country's trading nation status. MITI was established to

resemble the powerful Japanese MITI when Mahathir was inspired a lot from the Japanese experience. Japanese MITI has real authority on foreign investment and trade, even more than the Ministry of Foreign Affairs (Dhillon, 2009, p. 147). Meanwhile, PM Najib can be said as ‘person number one’ in Malaysia nowadays, as he not only serves as the current Prime Minister but also the chairman of the country’s most powerful and longest serving ruling party, the UMNO. Therefore, these pro-TPP group supporters are high profile in nature and have a very good political source to pursue their interest. Given their position as the same executive branch, they also work collaboratively, such as MITI to deliberate information and conduct consultation while the PM to provide political back up and to face the intra-UMNO resistance.

On the other side, the more various actors within anti-TPP group has a lot more varied political influence. For the opposition parties, general public tends to have only little information therefore the media coverage is not that wide. TPP case is also not comparable to other politically ‘sexier’ case such as the Anwar Ibrahim trial, therefore the level of importance is not of the toppest priority.⁴⁹ TPP indeed has a certain degree of sensitivity that makes it attractive to attack the government, yet at the current stage it is of mediocre importance. It is, therefore, understandable if their action is confined to delivering press statement and comments. On the parliamentary caucus, although it is an unprecedented event that TPP is being discussed in there, the role of opposition parties (and NGOs)

⁴⁹ Anwar Ibrahim is the leader of PKR and an icon of opposition parties. He was the UMNO deputy prime minister from 1993 to 1998 but ousted for challenging the power of Mahathir Mohamad. He has continuously faced many law charges, such as sexual misconduct, from the ruling government.

should not be overestimated. It is true that demands from them contributed to such outcome, yet we must also consider the needs of the government to open consultation with other stakeholders. The longer TPP is seen to be secretive, the more the government at a disadvantage. Therefore, the outcome should be seen as the result of the government's public communication purpose rather than the rhetoric 'to gather input from the MP' (Bernama, 2015). In fact, the government still determines the process of the caucus a lot. They still refuse to give the full negotiation text and instead only selectively deliberate information, as acknowledged by the MP themselves. Moreover, the claimed 'parliamentary mandate before signing the TPP' should not be overrated too. The government only promises for allowing debate in the parliament after negotiation concludes,⁵⁰ but not necessarily 'ratification'. Even more, the government only chose the word 'to mull' or 'to consider' rather than 'to get consent from' or 'to get ratification from' the parliament (The Star, 2013). In the end, the power to sign the agreement will stay on the executive branch again, just like any previous FTA that Malaysia signed. However, the true importance of these opposition parties is on their growing performance in the general election process, where they could force the BN coalition to lose two third majority in 1999 and 2008. Moreover, they made the UMNO lose Malay belt state in Kedah, Perak, Perlis, Kelantan, and Johor gradually. In connection to TPP, it means that the current UMNO government must constantly give a close eye on them. It also means the UMNO cannot antagonize the traditional constituent ethnic Malays, which, unfortunately, is the

⁵⁰ Minister of ITI Mustapa Mohamed even stated that it was the government's decision (not the opposition parties) to bring the TPP debate to the parliament (Bernama, 2015).

main controversy in the TPP debate.⁵¹ The current UMNO under PM Najib is not as powerful as in the Mahathir era who can comfortably take any measures he likes without fearing any backlash in the general election.

As for the NGO, despite their activism in advocating for the anti-TPP group, their very power is still limited. Malaysia is still an authoritarian country in which the state controls the community organization, just like labeled by Alagappa (2004) as ‘controlled and communalized civil society’.⁵² It is seen in the media tools where they can only access the alternative internet website such as the Malaysian Insider, FTAMalaysia.org, Malaysiakini, whereas the government controls the mainstream medias.⁵³ They also still face limited time, financial aid and capital resources, including other long lasting urgent agenda of democratization (Smeltzer, 2009, pp. 15-17). In an interview with an NGO worker, the *BANTAH TPPA* only used to meet regularly while nowadays it is difficult to meet the schedule of every member.⁵⁴ Despite this limitation, their role is still very important as one of the few channels for ordinary Malaysian to know about TPP as well as to continuously demand consultation and, therefore, improvement. Their role is also important as the source of technical knowledge to the government. As mentioned in an interview with an NGO worker, one of them is on Halal Food issue that was previously regarded as a technical barrier to trade. With *BANTAH*'s advocacy, the Malaysian government cleared it with the US'

⁵¹ Interview with two political scientists from UKM, *Op. Cit.*

⁵² Bertrand (2013), Weiss (2008), and Aspinall & Weiss (2012) discuss about the limited role of civil society organization in contemporary Malaysia.

⁵³ Mainstream medias, such as Bernama, The Star, and the New Strait Times, put sensitive issue on their coverage very occasionally. Such tendency is even recorded since the bilateral Malaysia-US FTA talks in 2007-2009 (Smeltzer, 2009).

⁵⁴ Interview with an NGO activist from Malaysian AIDS Council, *Op. Cit.*

government.⁵⁵ This role is coherent with what Weiss (2008) found in the democratization agenda, in which the NGOs may not trigger political change, but they have the power toward greater ‘compromise and openness’.

Interestingly, there is not much interaction among these anti-TPP actors. An NGO worker interviewed for this study commented that being apolitical is very important for *BANTAH* as being too close to the opposition will bring detrimental effect to the movement. They still want to engage both the BN and opposition to maximize the result.⁵⁶ For opposition parties, the opportunity to engage cooperation with the BN (or rather, intra-UMNO business politician) is also almost non-existent as shown in the differing statement of the parliamentary caucus.

A lot more powerful actor within this group is the intra-UMNO business-politician. This group is the greatest challenge that the pro-TPP group should confront, in fact since, especially for PM Najib he must confront a structural power that is maybe beyond his capacities. As mentioned before, since the 1980s the UMNO member mostly comes from Malay business sector. It is problematic since UMNO presidential election allegedly becomes full of money politics. Whoever wants to be or stay as the president he/ she must provide a generous policy concession in return, such as protection, government procurement contracts, and the likes. As argued by Dhillon (2009), this creates faction within UMNO in which the policy will benefit the president’s supporter and alienate his/ her contenders. Moreover, there are many examples in which UMNO President/ PM

⁵⁵ *Ibid.*

⁵⁶ *Ibid.*

must fulfill their needs to stay in power. In the 1980s, Malaysia had an economic downturn and the government conducted SOEs privatization as a response, but in reality the intra-UMNO business took over this lucrative opportunity for their benefit (Dhillon, 2009). With such situation, if a PM pursues a reformist policy such as the TPP, there is always a chance his party member will backlash against him. This has already appeared by a powerful icon like ex-PM Mahathir Mohamad. As the longest serving PM, he is the most respected figure and therefore still retains a very powerful grip within UMNO. In 2014, Mahathir was appointed as Chief Executive Officer (CEO) of Proton, Malaysia's long protected automotive company and also Mahathir's golden policy. It makes PM Najib's position at a disadvantage. Automotive sector subjects to liberalize under TPP along with other for-ethnic-Malay sectors such as the SOEs and government procurements. More importantly, PM Najib does not have a very strong grip on his party. Besides keeping an eye to the growing opposition parties, he must also worry on at least two intra-UMNO factions to stay in power.⁵⁷ Mahathir Mohamad is in one of the factions, where he still wishes to continue his strong interventionist policy as well as to put his son Mukhriz Mahathir to be the future UMNO president and Malaysia's Prime Minister. There is also another faction from Deputy PM Muhyiddin Yassin, who is known to be conservative with his clear preference to ethnic Malay over Najib's *1Malaysia* policy (O'Shannassy, 2013, P. 442).

⁵⁷ Interview with an IR specialist from Monash University Malaysia, *Op. Cit.*

With this opposition and intra-UMNO faction, there is a limit on how far PM Najib can pursue his reformist policy. His policy can never be fully labeled as 'reformist' as he wishes to continue ethnic Malay affirmative policy (since they are the traditional constituent) but still tries to attract new voters from the non-Malays. The previously assumed *IMalaysia* policy he brought is left ill-defined, multi-interpreted and never be elaborated in actual government policy to capture these two seemingly impossible objectives (O'Shannassy, 2013, p. 436). More practically, Chin (2010) found that at 2010 PM Najib liberalized 27 sub-service sectors as an economic reform action, yet there is no actual Bumiputera participation in those sectors. PM Najib also increased the foreign ownership limit on unit trust segments and stock broking companies from 49 percent to 70 percent, yet he retained the 30 percent foreign ownership in local commercial banks. Economists from ISIS acknowledged such hardship for reform.⁵⁸ In the country, speaking about reform means shaking the very fundamentals that make up Malaysia today. Those proposing it sometimes are labeled as traitors that do not understand the history. They continued by saying that there should be a new consensus where reform should be understood as a way to modernize Malaysia and to bring the country's economy to the next level.

This limitation has made the MITI and PM Najib should make some concessions. There have been numerous verbal statements in which they will ensure that reform will not harm the ethnic Malay interests.⁵⁹ During US' President Obama visit to Malaysia in April 2014, PM Najib used this rare

⁵⁸ Interview with two economists from ISIS, *Op. Cit.*

⁵⁹ This is confirmed from an interview with IR specialist from Monash University Malaysia, *Op. Cit.*

opportunity to gain support from the Malays by saying that ‘Malaysia has not ready to sign TPP due to domestic sensitivities’ (Reuters, 2014). In May 2014, PM Najib also commented that TPP’s ‘content is more important than the deadline’.

MITI also addresses the issue more specifically on their various press releases. Some chapters are not so clear in showing this concession, such as the service sector and SOEs. On service sector, it is interesting to see that the government already concluded its negotiation without any elaboration on how the ethnic Malay’s interest being promoted (MITI Malaysia, n.d., p. 2). The same goes to SOEs chapter, in which the ministry only commented that the country is ‘looking for flexibilities’ as the SOEs are important for ‘the provision of public goods & services, development of strategic industries and implementation of socio-development program’ (MITI Malaysia, n.d., p.6). As secrecy shrouded the TPP negotiation, more update on these issues are to be awaited in the future. Some other sectors such as the SMEs and government procurement, it is very clear that government really looks for the middle line between the need for reform and for protection. On SMEs the government looks for ‘longer transition period’ while for the government procurement, there will be a ‘threshold’ in which international investors are allowed to join domestic bidding. Below is the statements for both SMEs and government procurement:

“...the TPP has taken a conscious decision to address all SME issues in all areas under negotiations. These concerns such as increased competition are addressed through longer transition periods for liberalization. It is also addressed in the form of carve-outs of GP [government procurement] activities and through threshold...in addition, the TPP has developed a Chapter that touches on SME-specific issues such as lack of information and through the Chapter hopes to look into ways how the TPP can facilitate the development of SMEs and promote SMEs into the international market...” (MITI, n.d., p. 8)

“...The Government will ensure that the extent of market opening in government procurement is guided by our stakeholders interests and concerns. The thresholds in our market access offers (i.e., the value of bids that will be open for bidding by companies from the TPPA Members) will be decided in consultations with our stakeholders...” (MITI Malaysia, 2013, p. 17)

IV.4 Conclusion

The decision of Malaysia to join the TPP coincides with the very future of the country itself: either to or not to reform its economy. While it is true that Malaysia needs stronger trade and investment linkage with the traditional partner, namely the US, the actual importance of TPP is that it serves as an international push to lock-in domestic economic reform. As the world’s economy is getting more and more market-oriented, Malaysia needs to adjust accordingly, especially since its long-standing positive economic profile is eroding due to stronger competition from countries like China. It is an effort, using Nambiar’s (2012) terminology, to make Malaysia remains ‘visible’ in Asia-Pacific.

However, the quest for economic survival also coincides with the domestic political survival of the ruling party, the UMNO. The party is no longer as strong as before when it brings the country to its current economic prosperity. As mass-level constituents can no longer accept long-standing corruption practices and scandals, opposition parties are getting stronger than ever. Moreover, the proposal for economic reform strikes very directly to the heart of UMNO’s power, namely

patronage linkage with domestic business. It is very reasonable to see that the current state actor in Malaysia is no longer unitary as assumed in the existing literature. Proponents for TPP are mostly the national leader (such as PM Najib) and the bureaucrat MITI while the anti-TPP are mostly the opposition parties, NGOs, and intra-UMNO business-politician.

As the issue still evolves, there are more to be seen from Malaysia's domestic response on the TPP. Domestic actors have yet to reach consensus, so there are still plenty of room for each group to influence the others. The debate most probably is going to peak when TPP finally concludes, maybe somewhere in July 2015 as the latest update shows. As the momentum for TPP grows, including the promised open negotiation at the parliament, then there will be an opportunity for the previously assumed less influential NGOs and opposition parties to be on stage. If they manage the media and public opinion well, there will be an opportunity for them to improve their bargaining position against the government. The opposition parties are expected to use the chance to appear populist. The NGOs will use it to raise awareness among general public, therefore, garnering more support for their movement. MITI and PM can also use the stage for their gains. Either way, whichever groups are winning the 'battle', their strategy will be of great importance.

Interestingly, there is always an opportunity in which Malaysia will drop its participation in TPP. As commented by political scientists from UKM, PM Najib will most likely drop the deal if he cannot satisfy the intra-UMNO business-politician. There is a precedent for this, in which Malaysia drop the previous

bilateral US-Malaysia FTA talks where government procurement issue did not meet expectation from both sides. PM Najib is still very much constrained by this intra-UMNO structural power if he still wants to remain in power. If it is the scenario, it does not necessarily mean that Malaysia will stop looking for locking-in opportunities from FTA. As mentioned by economists from ISIS, Malaysia will mostly likely turn to next big FTA, namely the RCEP which also has the high-quality rhetoric.

CHAPTER V - VIETNAM

Compare to other members in the TPP, Vietnam is the least developed one. With GDP per capita of only around US\$1,900, Vietnam is very far behind richer countries such as Singapore, the US, Japan and Canada, the GDP per capita of which more than US\$ 35,000. However, Vietnam's accession is important for two particular reasons (Elms & Lim, 2012, p. 30). First, the country has a huge market opportunity with a population of around 85 million people and remarkable economic growth in the last two decades. It makes Vietnam the third most populous country (after the US and Japan) but with the highest economic growth among the members. Second, Vietnam is important as it alters TPP's 'rich boy club' image. Vietnam is a good example to other countries as it is only lower-middle income country but with a commitment to the 21st century agreement.

Compare to the Malaysian case, there are not many debates inside Vietnam on the benefit of joining TPP. In fact, seeing the response of state actors and textile industry, Vietnam's local actors are very passionate on opening up the overseas market. However, different from the Malaysian case, Vietnam offers a more comprehensive story on trade policy behavior in Southeast Asia. There are four motives of Vietnam to join the TPP. First, Vietnam is a typical case for reaping economic benefits through FTA. Many studies forecast that the country will reap the most gain as compared to other members. Second, more importantly Vietnam has high political-security needs as it sees TPP as a way to forge closer relations to the US. Compare to other countries, Vietnam is much more sensitive

to China's rising phenomenon. Third and fourth, domestically decision to join the TPP is due to the influence of the ascendancy of pro-reform groups. They are the reformist faction from inside the VCP and the export-oriented business entrepreneurs from the non-state actors.

Choosing Vietnam as a case study is very important as there is only limited discussion in the academic literature. Some literature focuses on the economic aspect, yet the political aspect is largely missing. Vietnam's case is somehow underdeveloped from other earlier developing countries in Southeast Asia, such as Singapore, Thailand, and Indonesia. Also, a lot more attention has been given to China, a country that has the similar communist path, but develops earlier and has more influence in the global political economy. Vietnam is also still a very close country where political discussion is prohibited in the media and academics field. However, discussing Vietnam is very important as it has the potential, given its population and high performing economy, to be the next big thing in the Asia-Pacific.

The chapter consists of four parts. First, there will be a discussion on Vietnam's decision to join the TPP. Second, the international factor will be covered with a focus on economic gains and political-security needs. Third, the domestic factor will follow with emphasis on the reformist group and the silent resistance. Fourth, there will be a conclusion.

V.1 Vietnam and TPP Negotiation

Besides the P4 Southeast Asian members (Brunei Darussalam and Singapore), Vietnam is the first country in this region to express formal interest to join TPP. Soon after US' expression of interest in September 2008, along with Australia and Peru, Vietnam officially announced its interest to join the negotiation during APEC Summit in Lima, Peru, in November 2008. When TPP launched its first round of negotiation on 15-19 March 2010 in Melbourne, Australia, Vietnam attended the meeting with 'observer' status. The round itself was negotiated among seven countries, namely the P4, the US, Australia and Peru, making them well-known as the P7 or the original members of TPP. Vietnam became negotiating parties during the 3rd Round of TPP Negotiation in Brunei Darussalam, 4-10 October 2010. Due to this early accession, Vietnam appeared enthusiast on the prospect of TPP. Vietnamese President Nguyen Minh Triet expressed his eagerness and passion by stating that his country's accession would be important to 'integration, growth and prosperity in Asia-Pacific' (Vietnam News Agency, 14 Nov. 2010).

Seeing from the last two decades, Vietnam appears very passionate on having deeper trade relation with the US. The country conducts many efforts to do so, including signing the Bilateral Trade Agreement (BTA) in 2001, joining the WTO in 2007, and negotiating the Bilateral Investment Treaty (BIT) and the General System of Preferences (GSP) since 2008. TPP is another effort in these series in which Vietnam aims for US' large and lucrative market. Interestingly, this recent Vietnam's trade behavior is very different from its traditional approach,

which is very cautious. Before TPP, the country only signed ASEAN-based FTAs, which is widely seen as low-quality in nature. Also, it only has one bilateral FTA with Japan, which is the same with Indonesia and the Philippines. Vietnam's behavior is very different from other more enthusiast FTA followers such as Singapore or Thailand. Therefore when Vietnam joined the TPP talks, it seems that there is a changing perception of how the country sees FTA.

Vietnam follows all the negotiation talks until the latest recorded round in Brunei Darussalam, August 2013. After that when negotiation continues at lower levels, Vietnam also still joins. Vietnamese leaders are among other leaders who express firm commitment to continue TPP negotiation.

V.2 International Factor

V.2.1 Highly-Leveraging Deals: Vietnam Pursues Trade and Investment

Gains

Table V.1 – Trade/ GDP Ratio of Vietnam (Percent)

	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Trade/ GDP	18.1	79.7	65.6	89.5	120.1	127.8	143.7	144.7	119.8	135.5	150.3	146.5	154.1

Source: data.worldbank.org at 31 December 2014, 9:40 PM

Very similar to other East Asian countries, Vietnam follows an export-led economic growth model. It means that the country relies on the international market very much; it manufactures goods domestically and exports it internationally. A common indicator for this is the high trade/ GDP ratio. In Vietnam case, as can be seen from Table V.1, it increases very rapidly during the

last three decades. When it started opening up in 1985, the ratio was only 18.1 percent. However, as it liberalizes the ratio gradually becomes higher. In 1990, it reached 79.7 percent, in 2005 120.1 percent and 2013 154.1 percent. Vietnam trades heavily with developed countries such as the EU, Japan, and the US, as well as its developing fellows in the neighborhood, such as China and ASEAN. For example, in 2012 export to the EU made 18 percent of total export, followed by the US (17 percent), ASEAN (15 percent), and Japan and China (11 percent) (Lee, 2014b, p. 17).

Table V.2 – Vietnam’s Export and Surplus to the US

	2001	2013
Vietnam’s Export	US\$ 1.053 billion	US\$ 24.649 billion
Vietnam’s Surplus	US\$ 592.8 million	US\$ 19.636 billion

Source: Lee (2014b), p. 17

Trade with the US has a significance to the overall Vietnam’s export. During the 2000s, Vietnam got the most benefit from trading with this country. As seen from Table V.2, export to the US grows very tremendously. In 2001, Vietnam’s export only amounted to US\$ 1 billion, but in 2013 it reached US\$ 24.6 billion. This is such a remarkable performance that Vietnam’s export grows 24 times only in 12 years. Even more impressively, Vietnam benefits very much from this relation as it scores increasing surplus: in 2001 it was only around US\$ 600 million while in 2013 it almost reached US\$ 20 billion. Vietnam’s surplus consistently makes more than 50 percent of overall trade with the US. Seeing only from this number, it is understandable why Vietnam pursues an FTA

with the US through TPP. Vietnam almost secures all FTA with its important partners. With ASEAN, the country has the AFTA/ AEC while, with China, it has the ASEAN-China FTA. Moreover with Japan, it even has two FTAs, namely the Vietnam-Japan CEPA and the ASEAN-Japan CEPA. Therefore, FTA with the US is a natural choice that makes the country join the TPP.⁶⁰

For Vietnam, trade with the US is generated mostly from labor-intensive industries. Textile and footwear are among the most important products as they constitute as high as 50 percent of the overall export. Vietnam's textile export (knitted and woven apparel) contributed to 38 percent of total export in 2011 while footwear to 12 percent (Williams, 2013, p. 16). Textile export is so important that it diverts Vietnam's trade with Japan and EU. Before 2001, Vietnam exported textile and clothing (T&C) equally to Japan and the EU; yet in 2005 its export to the US was more than total volume of T&C export in 2001 (Thoburn, 2010, p. 253). Vietnam's reliance on T&C export explains why the country pursues FTA with the US. As argued by Thoburn (2010), the textile industry is a very tariff-sensitive sector that the producer always looks for countries with lower tariff access to international market. The lower the trade barrier, the greater the chance a country has for exporting T&C and attracting FDI.

Aware of its leverage, Vietnam has been consistently pursuing this tariff-reduction scheme. Prior to TPP, Vietnam engaged the US through the BTA in 2001 and the WTO in 2007. The significance of those agreements was to secure lower tariff rate from the US. Before the BTA and WTO, Vietnam's export must

⁶⁰ With the EU, currently Vietnam is negotiating the Vietnam-EU Bilateral FTA. It is expected to reach conclusion in mid-2015.

face very high tariff rate compare to other countries. Along with overall improving relations after the Cold War, in 1998 the US gave Vietnam conditional Normal Trade Relations (NTR) status. NTR is important as it gives designated countries a Most-Favoured Nations (MFN) status or, in other words, WTO-level tariff rate. It means that Vietnam's export, especially textile, will be treated similarly with goods from other textile-producing countries. However, since it is only conditional, there is always an unlikely chance that the US withdraws it. This is the reason Vietnam signed BTA with the US in 2001 as a way to secure a Permanent NTR status. BTA itself is not an FTA; it includes many liberalization measures that Vietnam must pursue, but not reciprocal to the US (Manyin, Cooper & Gelb, 2007, p. 12). Finally, Vietnam was granted Permanent NTR at the end of 2006, which consequently led to Vietnam's accession to the WTO in early 2007. Having Permanent NTR and joining WTO are important for predictability reasons. Vietnam will no longer need to be under the 'annual review and possible termination' from the US Congress, while at the same time it can take cover under the WTO's 'protection of multilateral system of rules' (Manyin, Cooper and Gelb, p. 3 & 9). Vietnam's exports to the US rose even higher after the WTO accession. It increased to 30 percent and amounted to US\$ 12.3 billion only within one year (Manyin, 2009a, p. 65).

It is in this logic that Vietnam pursues accession to the TPP. The deal will enable Vietnam to penetrate deeper into the US with tariff preferences of almost 0 percent. Vietnam Textile and Apparel Association (Vitas) announced that TPP would bring additional growth for Vietnamese textile and apparel's export from 7

percent to 12-13 percent in 2025 or worth to US\$ 30 billion (Asia News Monitor, 4 Apr. 2013). It is an achievement that will make Vietnam's share of the US market grow from 49 percent to 55 percent (Asia News Monitor, 4 Apr. 2013).

Table V.3 – TPP-Induced Economic Benefits in 2025

Country	Welfare Benefit (US\$ billion)	% of GDP in 2025	Export Benefit (US\$ billion)	% of GDP in 2025
The US	13,9	0,07	55,7	2,0
Australia	2,4	0,17	9,1	2,8
Canada	2,3	0,12	6,7	1,1
Chile	2,3	0,78	4,6	3,0
Mexico	11,7	0,58	15,9	3,1
NZ	1,7	0,83	3,2	5,7
Peru	6,6	2,12	10,2	11,0
Brunei	0,1	0,48	0,2	1,8
Japan	30,7	0,58	61,2	4,9
Singapore	1,4	0,35	1,5	0,6
Malaysia	9,4	2,24	16,4	5,0
Vietnam	33,5	14,27	68,0	25,8

Source: compiled from Petri, Plummer and Zhai (2011), pp. 26 & 29

The researcher in the East-West Center projected an even more remarkable result, by estimating that Vietnam would enjoy the most benefit among TPP members. As seen from Table V.3, Vietnam will get US\$ 68 billion of export benefit in 2025 or 25.8 percent of its GDP in 2025. It far exceeds the gain of other Southeast Asian countries such as Brunei, Singapore, and Malaysia which will only get US\$ 0.2 billion, US\$ 1.5 billion, and US\$ 16.4 billion. The same goes for welfare benefit in which Vietnam will get US\$ 33.5 billion or around 14.3 percent of its GDP in 2025. At the same time, the US will only get US\$ 13.9 billion or 0.07 percent of its GDP and Japan will get only US\$ 30.7 billion or 0.58 percent. With such high leverages, it is no wonder if Vietnam's government official stated

explicitly that their interest to TPP is the US market. As said by Tran Quoc Khanh, Deputy Minister of Industry and Trade and Head of Vietnam’s TPP Negotiation Team:

“...we have joined the TPP to seek a similar agreement with the US, through which Vietnam can further **expand its export markets** and thereby **attract more foreign investors**...the structure of US exports was complementary to Vietnam’s import-export regime rather than competing directly...”(Bangkok Post, 17 Dec. 2012; emphasis added)

Table V.4 – Share of Industrial Production (Percent)

	1995	2000	2005	2010	2012
State-owned	50.3	34.2	25.1	18.2	16.4
Domestic non-state	24.6	24.5	31.2	39.3	37.3
FDI Sector	25.1	41.3	43.7	42.5	46.3

Source: Lee (2014b), p. 32

Another advantage that Vietnam can expect from TPP is FDI. Vietnam relies greatly on FDI for its economic development, such as for export-import activity, technology build up and employment creation. FDI increased significantly in Vietnam from US\$ 428.5 million in 1991 to US\$ 11 billion in 2011 (General Statistic Office of Vietnam/ GSO, 2012a). Cumulatively, Japan ranked 1st as FDI source during 1988-2012 by investing US\$ 28.7 billion (GSO, 2012b). Taiwan and Singapore ranked 2nd and 3rd during the same period by investing US\$ 27.1 billion and US\$ 24.8 billion (GSO, 2012b). The US ranked 7th by investing US\$ 10.5 billion (GSO, 2012b). FDI contributes very importantly for industrial production, as seen from Table V.4, and even exceeds contribution from SOEs and domestic enterprises. It has increased from only 25.1 percent in 1995 to 46.3 percent in 2012 while SOEs decreased from 50.3 percent to 16.4 percent. Foreign firms also contribute to export performance where it made 53-63 percent of total Vietnam’s export between 2009-2012 (Lee, 2014b, p. 36). For

employment creation, foreign-invested firms provided job to 20 percent of labor in the manufacturing sector in 1999 and 38 percent in 2005 (Athukorala & Tien, 2010, p. 221).

In anticipation to TPP, FDI is expected to enter Vietnam. The situation is comparable to what happened after Vietnam's accession to WTO in 2007, where FDI inflow grew tremendously. One even calls the country to expect second massive FDI flow due to TPP (Asia News Monitor, 4 Apr. 2013). Especially due to the prospect of tariff reduction cut, there are many foreign firms to invest more investment projects in Vietnam. Texhong Group and TAL company from Hongkong will invest US\$ 300 million and US\$ 200 million, while Unisoll Vina Company of Hansol Textile from South Korea will invest US\$ 50 million with factory's capacity of 90 million pieces per year (VCCI News, 27 Mar. 2014). Some other firms expressing interest for more investments are Toray International from Japan, Sunrise from China and Lenzing from Australia (VCCI News, 27 Mar. 2014). Moreover in November 2014, during a meeting between Lefaso and Footwear Distributors and Retailers of America (FDRA), there would be flows of American firms moving investment from China to Vietnam (Thanh Nien New, 11 Nov. 2014).

Another economic advantage that Vietnam will enjoy is on economic restructuring. However, it must be admitted that the enthusiasm toward this advantage is far behind the trade and investment benefits. Government officials seem less enthusiastic than foreign and local economists to articulate this particular issue. According to Robert Lawrence from Harvard Kennedy School,

TPP will be the 'foundation for economic reform', especially on SOEs, as it introduces 'natural competition' between foreign and local companies and transparency on company's operation (Thanh Nien News, 26 Mar. 2014). Moreover, Tuong Lai, a sociologist and former adviser to Vietnamese PM, said that Vietnam should move from being the producer of natural resources and low-technology industrial product to a higher development ladder. He also mentioned that TPP gives a road map to do so, yet he does not elaborate on the content of the roadmap itself (Tuong Lai, 2015).

V.2.2 Political-Security Needs: Vietnam between China and the US

After the Cold War, there has been a changing foreign policy perception in Vietnam. The country can no longer afford to rely too much on the Soviet Union, especially since the latter's power was weakening. VCP must also maintain its relevance as the remaining several communist parties in the world. The momentum was culminated in the 6th VCP Congress in 1986 when Vietnam decided to open its economy but maintained the one-party system.⁶¹ Moreover in terms of foreign relations, the country conducts the so-called 'multidirectional foreign policy' and moves away from the aligned-to-East-Bloc policy. For Vietnam, it is important to keep a stable and friendly environment to continue economic development. From now on, Vietnam fosters cooperation with as many countries as possible without any ideological limitation. In the words of Ciorciari (2010), Vietnam transforms into a relatively neutral or a 'non-aligned' country.

⁶¹ Vietnam might adopt these dual systems from China as the latter has been implementing it since 1978 with tremendous success (Khong, 2010).

By doing so, Vietnam also looks for independence and autonomy that it wishes for so long time. Different from dependency policy in the Cold War era, integrating with the world and foster cooperation will result in balance relations with any external powers. It gives Vietnam a necessary space for maneuvering actions for the sake of its national interest.

Vietnam engages many countries in this policy. Among the first priority is the Southeast Asian countries that happen to be Vietnam's close neighbors and have a good international profile (mainly through the ASEAN). Therefore, Vietnam found it important to be part of ASEAN in order to secure a conducive neighboring environment, to create Vietnam's friendlier international image by using ASEAN's reputation, and to use AFTA as a necessary stepping stone to integrate with the world economy (Thayer, 2007, p. 37). Vietnam also engages in numerous economic and political cooperations with countries in Northeast Asia, such as China, Japan and South Korea. Vietnam is even willing to forge limited security cooperation with medium powers such as Russia and India. Vietnam signed separate security cooperation agreement in 1999 and 2000 with the two countries to foster defense training and technical cooperation (Ciorciari, 2010, p. 112). For Vietnam, security cooperation is acceptable as long as it meets the three no's policy: 1) no military base; 2) no military alliance; and 3) no taking sides with any countries (Storey, 2011, p. 122). Vietnam also engages closer relations with the two Great Powers, namely China and the US. With the latter, as mentioned before, the cooperation benefits Vietnam very much that it seeks numerous agreements, such as the BTA, WTO and more recently the TPP.

Vietnam also negotiates the BIT which is expected to secure continued US' FDI to Vietnam and signs the Trade and Investment Framework Agreement (TIFA) which is a platform for economic cooperation and regular meeting among senior officials (Office of the US Trade Representative, n.d.). Therefore, Vietnam's desire toward the TPP should be seen in relations with its 'multidirectional' objective. The more Vietnam takes advantage from the global economy, the more the country survives in the capitalist world and accordingly ensures the VCP's existence.

Discussion about the Great Powers leads to the second argument of Vietnam's political-security needs. There is a 'China factor' here that makes TPP a lot more important than just ordinary economic agreement. Different from other countries such as Malaysia and Indonesia, Vietnam shares land border with China, making it much more sensitive toward an external threat. Also different from Malaysia and Indonesia, the country had a history of being China's colony and tributary, therefore making current China's threat theory much more viable in Vietnam's case. Vietnam is also one of the country having conflicting interest with China in the South China Sea. As known, China is getting more assertive since the end of the 2000s. In this situation, Vietnam has two priorities on its China's policy. First, the country wishes to maintain a stable and peaceful relation. This is why relations among the countries are pretty close despite the threat perception, as seen from the signing of Comprehensive Strategic Partnership in 2003 and China becoming one of Vietnam's largest trading partner. Moreover, the communist parties in both countries, namely the VCP and CCP, are among the

minorities in the increasingly globalized (and democratized) world (Khong, 2010). Second, it is very important for a smaller country like Vietnam, especially since it adopts multidirectional foreign policy, not to provoke China. The country must be very careful in maintaining relations with other countries, especially the US, which is seen as China's rival.

However, it is not that Vietnam only bows to China's supremacy. The country also takes precautionary measures such as improving its own military. After 2007, Vietnam bought several military equipments from Russia, such as frigates missile boats and SU-30 jet fighters, and ordered six submarines valued to US\$ 2 billion (Storey, 2011, p. 120). Even more importantly, Vietnam also engages a much closer relations with the US, even though this country is Vietnam's former enemy in the Second Indochina War. The US is the only country that can stand face-to-face with China's military might, which Vietnam finds that it is necessary to conduct closer relations. There are many notable improvements in this relations, such as exchange of visit among US presidents and Vietnamese PM, the incorporation of Vietnam in the US-backed International Military Education and Training Program (IMET) in 2005, the permission of US naval supply ships to be repaired in Cam Ranh Bay in mid-2010, disaster relief cooperation, and many others (Storey, 2011, pp. 121-122). The US also allowed Vietnam to access its non-lethal defense in April 2007 and currently there is a consideration to lifting arm sales ban (Manyin, 2009b, p. 160; Benedictus, 2014). Vietnam is also one of the largest US' aid recipient in Asia-Pacific, especially on the AIDS-related sector. In July 2014, Vietnamese President Truong Tan Sang

and US' President Barack Obama signed the Comprehensive Partnership, agreed to conduct US-Vietnam Summits and incorporated Vietnam into the Proliferation Security Initiative (PSI) (Tiezzi, 2014).

More importantly, Vietnam makes sure not to provoke China in this relation. Intensifying relation with the US is conducted through less threatening ways or in low-level security cooperation. Vietnam does not pursue US' security alliance or military base for this particular reason ⁶² Various economic cooperations that Vietnam pursues are coherent with this logic. Engaging the US via BTA, WTO, BIT, TIFA and currently TPP are categorized as less-threatening ways.⁶³ Vu & Nguyen also recognized the importance of TPP in this regard. They argued that:

“...in fact, the debate among Vietnamese pundits goes even further, with some arguing that the TPP is the most appropriate framework for the time being to propel Vietnam-US relations both bilaterally and multilaterally. That may be reasonable. There are still several impediments to closer ties between Vietnam and the US. For one, Vietnam's political affiliation with China is still a consideration. The long-time ‘Three No's’ – Vietnam's non-alliance policy – are also an issue. This is where the TPP comes in as a ‘softer’, multilateral approach, which focuses more on trade to help minimize unexpected consequences...” (Vu & Nguyen, 2014)

If we put the economic element in this China-Vietnam-US relation, it becomes more obvious for Vietnam to pursue stronger relations with the US. As mentioned above, for Vietnam, China is among the biggest trading partner where it makes 11 percent of Vietnam's total trade in 2012. Trade with China even

⁶² It must be admitted that Vietnam and the US can no more be than just a ‘good friend’, since there are limits to their cooperation. Vietnam is suspicious on its partner's intention, especially the US' democratization agenda, and still wants to maintain independence and autonomy from external powers. See at Storey (2011). From the US side, an issue such as the human right is still a big challenge (Auslin, 2012).

⁶³ Interestingly, China is reported to warn Vietnam about becoming too close to the US as a result of the TPP (Tuong Lai, 2015). However, it is not clear how it is carried out, to what extent of influence, and the response from the Vietnamese government.

reached US\$ 20.2 billion in 2008 and US\$ 50.2 billion in 2013. The problem here is, as it sees China as a threat, Vietnam is not satisfied with the quality of the bilateral trade since it is mostly for China's favor. China mostly exports intermediate goods, textile and machinery to Vietnam, while Vietnam only exports natural resources such as oil, coal and rubber (Vu & Nguyen, 2014). Even more importantly, the trade balance is in China's favor in which Vietnam suffers deficit for the last 15 years. In 2001, for the first time Vietnam had US\$ 0.2 billion deficit and it grew to an 'alarming level' in 2008 to US\$ 11 billion (Storey, 2011, p. 112 & 115). For Vietnam, this is not a comfortable situation. Domestically, there has been many dissatisfactions directed to China's economic activity.⁶⁴ At the end of 2009, there was a demonstration from environmental activists, Catholics and political protesters on China's bauxite mining activity in Central Highlands. Mostly, they concerned on China's growing economic influence in Vietnam (O'Flaherty, 2011). In May 2014 when China moved oil rig in the disputed water of Paracel Island, there were 15 factories set on fire in Bin Duong Province, north of Ho Chi Minh, accused of being Chinese or look-like-Chinese brands (BBC, 14 May 2014).

Therefore, Vietnam sees moving away from China's economic might as an important thing. TPP is a very important tool as not only it can compensate trade deficit with China, but also it can bolster closer relations between Vietnam and the US (Vu & Nguyen, 2014). Another important consideration is China's power works best if it faces an economically failing state with a corrupt institution (Lee,

⁶⁴ It must be noted that in an authoritarian country like Vietnam, where the regime controls the civil society and stability is of utmost priority, demonstration becomes a very rare activity.

2014b, p. 48). Vietnam's effort to integrate with the world economy, including through TPP, is, therefore, an important step to avoiding such situation. Vietnam has been doing well in its integration and multidirectional foreign policy, because it means that the country diversifies its relations with other powers, therefore limiting the situation in which China becomes the only source of aid (as was the case of Myanmar before 2011 or Vietnam to Soviet Union during the Cold War).

Interestingly, TPP also gives an important tool to reduce economic dependency from China. TPP entails yarn-forward rule, i.e. tariff reduction will only be given if a country uses materials from its own domestic or fellow member countries. This is problematic for Vietnam since most of its textile materials actually come from China. However, there is a strategic consideration for this since the US helps Vietnam rechanneling its material source. If Vietnam can homegrown its own textile sources, it will tremendously improve the country's standing vis-a-vis China. This is the current progress in which Vietnam benefits largely from the incoming FDI, so that the country no longer needs to import from China (Brown, 2014; Tuong Lai, 2015).

However, there is still a problem in this line of argument. Chinese firms are among those coming to Vietnam in anticipation to TPP, along with the Singaporean, Korean, Taiwanese, Japanese and American. If Vietnam does not manage it well, somehow China's firm can take stronger benefit from this rule; something that will be again at Vietnam's loss. There is another complication in this issue since Vietnamese own firms do not fully prepare too in anticipation for this rule. As articulated by Nguyen Anh Kiet, a textile expert from Vinatex, local

players have not synchronized well to each other and suffer funding difficulties to conduct backward linkages, whereas at the same time foreign players (including China's firms) have much better funding resources (Thanh Nien News, 13 May 2014). For example, Jiangsu Yulun Textile Group from mainland China got licensed worth of US\$ 68 million in Nam Dinh Province while Gain Lucky Limited, a subsidiary of China's Shenzhou International, planned to invest US\$ 140 million in Ho Chi Minh City (Thanh Nien News 13 May 2014). If the government lets it that way, the local player will be sidelined from the gains of TPP. Strategically speaking, if more Chinese company invests in Vietnam and the locals cannot compete with them, it will create another sensitivity among the two countries.

V.3 Domestic Factor

Discussing TPP issue within a domestic setting, it is important to see the context from where the issue evolves. For Vietnam case, it is beneficial to see the political setting: Vietnam is an authoritarian country with a one-party system. It means that the most important actor, with the degree of hegemonic status in relations to other actor, is the VCP. Other actors operate on the basis of 'mercy' of this particular actor, which means that they can function if the VCP allows them to. The situation means that the general mood in Vietnam will reflect the general mood of this party. It also means that other dissenting voices, such as from civil society or the media, are limited since the state controls them at great extent. It explains why TPP discussion within Vietnam is relatively calmer without any

noisy resistance than another country such as Malaysia. TPP in Vietnam is seen as a very elitist issue without any interaction from, or even flow of information to, the general public.

However, Vietnamese state cannot be seen as a coherent unit in which all policy from the central can be transferred easily to other actors. In fact as Masina (2006) argued, Vietnam should be seen as a decentralized case in which party in the central cannot always exert control to the subnational level. Prior to the famous *Doi Moi* policy, the initiative to liberalization comes from the subnational level, which was then recognized by officials in the Central. In terms of TPP, this is where we can expect to observe a ‘silent resistance’, which can greatly hamper the central’s economic reform commitment.

V.3.1 The Rise of Pro-TPP Groups in Vietnamese Politics

When Vietnam opened itself for the first time under the *Doi Moi* policy in 1986, there were observable changes within the VCP, namely the death of Le Duan and the rise of pro-reform faction. Le Duan was a powerful figure who had the capability to sideline many other powerful leaders such as Ho Chi Minh and Vo Nguyen Giap (BBC, 14 July 2006). He also retained a very ideologist vision of Vietnam with pro-Soviet Union stance and favored the Maoist-Stalinist economic model (BBC, 14 July 2016). His death led to the ascendancy of a pro-reform faction inside the party, such as the Secretary General Nguyen Van Linh. He had the vision for economically liberalized Vietnam for the sake of countering the diminishing economic assistance from the Soviet Union (Masina, 2006). *Doi*

Moi policy was introduced as a set of liberalization policy to give more autonomy to the SOEs, to eliminate state's monopoly on international trade, to welcome the FDI, to give private entities more space, create joint venture and own private assets (Masina, 2006, pp. 59-70). After that, this faction seems to continue in power as many other liberalization and reforms are recorded in Vietnam's policy. After the Asian Crisis 1997-1998 when Vietnam suffered slower economic growth, many reform policies are introduced to speed up economic development. Among the most important one is the FDI Law on 9 June 2000 which allows foreign-invested enterprises (FIEs) to fully own their operation (Athukorala & Tien, 2010, p. 210). This is an important development since previously Vietnam was a lot more hesitant about introducing such aggressive policy, as it the communist idea of resisting globalization still lingers. This is why since the *Doi Moi* they must every FIEs operate on joint venture basis with the SOEs, the latter is an important symbol of the social market system that Vietnam adopts. However, this FDI law allows FIEs not to arrange joint venture again and fully operates on their own. In 2001, wholly-owned foreign firms made 80 percent of total approved FIEs and 65 percent of registered investment from FIEs (Athukorala & Tien, 2010, p. 214). The reform continues through many other reformist policies, such as a new Investment Law in 2005 which treats foreign and domestic companies equally, abolishing export performance and local content requirement policies and providing easier business start-up procedures (Athukorala & Tien, 2010, p. 210).

Politically, the event in which reformist faction gained momentum is the 9th VCP Congress in 2001, which gave rise to Secretary General Nong Duch Manh. Manh has no direct experience of Vietnamese independence war and is a university graduate engineer, therefore represents a more modern and professional figure in the party (BBC, 22 Apr. 2001). He is very different from his predecessor Le Kha Phieu who is a war veteran and represents an ideological faction. Upon his appointment, Manh made a vision for an industrialized Vietnam in 2020 and to fight corruption (BBC, 22 Apr. 2001). Important also here is the momentum of Vietnam to sign the BTA with the US in 2001. The US saw this event as the country's commitment toward reform (Manyin, Cooper, and Gelb, 2007, pp. 4-5).

On the 10th VCP Congress in 2006, such reform personnel were also on the rise. Secretary-General Nong Duc Manh was elected again until 2011. He outlined Vietnam's economic development agenda, including more integration with the world economy, securing 7.5-8 percent economic growth, pursuing 8 million job and lowering unemployment to 5 percent (Manyin, 2009a, p. 86). New Prime Minister (PM) and President were also elected, namely Nguyen Tan Dung and Nguyen Minh Triet, who both are seen as reformist figures from the South (Manyin, 2009a, p. 87). These three figures contributed to Vietnam's decision to join TPP in 2008. Nguyen Tan Dung is even more important as he was re-elected as PM in 11th VCP Congress in 2011 and, therefore, retains the position until 2016.

The global financial crisis also contributes to Vietnam's decision to TPP. Vietnam suffered slower growth as it depends very much on the international market. The country's growth has not recovered yet, in which growth

performance during 2008-2013 is only around 5 percent, compare to the previous era in which Vietnam could reach 7-8 percent (data.worldbank.org, n.d.). For VCP, 7 percent rate is a psychological limit for economic growth to maintain employment level and, therefore, public order. As has been mentioned before, after the Cold War, the VCP has the very interest to link economic performance with their survival so that they can continue to exist within the increasingly capitalized world. Moreover, continued reform is important if the government wants to provide job. There is one million people entering work field per year and half of the population is under age of 25 (Manyin, 2009a, p. 85). The slower growth created an alarm for the administration in which they must seek new growth strategy. TPP is part of this plan as it provides tremendous room for continuing high economic growth. Actually, TPP's negotiation also runs in parallel with other FTA commitment that Vietnam pursues, such as the Vietnam-EU FTA, Vietnam-EFTA FTA, Vietnam-Korea FTA, Vietnam-Russia-Belarus-Kazakhstan Custom Union FTA and the RCEP. Interestingly, all this FTAs was initiated when these trio icons were in power. PM Nguyen Tan Dung is especially important as he still serves until 2016 and therefore has the interest to continue TPP negotiation. When the talk keeps delaying its deadline, PM Dung, along with many other TPP leaders, keep repeating commitment to accelerate negotiation and to reach a deal. This is made in various occasion, such as in November 2014 when he met US' President Barrack Obama and in March 2015 when he met Australian PM Tony Abbott and New Zealand PM John Key (Embassy of Vietnam in USA,

2014; Prime Minister of Australia, 2015; Radio New Zealand News, 19 Mar. 2015).

Another proponent for pursuing TPP is the export-oriented business. Their preference to TPP is very clear as they are the one to reap the most advantage from accessing the US' lucrative market. Among them is the textile industry, which is an important sector in Vietnam that employs 2.5 million workers in 4,000 factories (Vietnam News, 21 Dec. 2013). According to Vice President of Vietnam Textile and Apparel Association (VITAS) Le Tien Trung in November 2013, TPP will increase the country's textile export to 13-20 percent between 2013-2017 and even hit US\$ 25-30 billion in 2025 (Vietnam Plus, 26 Nov. 2013). Another player such as the Vietnam National Textiles and Garment Group (Vinatex) launched an aggressive investment plan in anticipation of TPP. The plan includes 57 projects, including 2 projects on cotton farms, 8 projects in textile, 15 projects in fabrics and 24 projects in garment, with the goal to reach US\$ 5 billion turnover in 2016 (VCCI News, 27 Mar. 2014). Another enthusiast is from the footwear industry. Chairman of Vietnam Leather and Footwear Association (Lefaso) Duc Thuan in January 2012 stated that the US accounted for 30 percent of Vietnam's export market in this sector, but the country gets only 5-6 percent share while China gets 87 percent (The Saigon Times, 5 Jan. 2012). TPP will slash current tariff by 50 percent and, therefore, will improve Vietnam's export quite considerably.

Business associations, such as the Vietnam Chamber of Commerce and Industry (VCCI) and the American Chambers of Commerce in Vietnam

(AmCham), are also very active in dealing with TPP issues. Their role is mostly to spread out information, socialization and business preparation toward conclusion of the deal. VCCI, for example, conducts many seminar and workshops to prepare Vietnamese domestic business for entering the US market. In August 2013, they conducted a seminar called ‘TPP Negotiation Process – Requirements from Apparel, Leather, Shoes and Agriculture’ (The Saigon Times, 25 Aug. 2013). On 10-20 April 2015 they made a survey study program entitled ‘US Market – Challenges and Opportunitites for Vietnamese Business Ahead of TPP’ (VCI News, 22 Mar. 2015a). Meanwhile, the Amcham is also very active. The purpose is not only to prepare domestic business but also to meet various stakeholders such as the Ministry of Trade and Industry and foreign economists. They arranged CEO Forums, Export Forums, Seminar, Workshop, and Dialogue Meeting during 2013-2014 (AmCham Vietnam, n.d.).

Some other industries are more concerned on what will happen after TPP commences, although the tone is very moderate, adjusted to Vietnamese standard. As voiced by General Director of Vinh Hoan Corp, Truong Thi Le Khanh, a major seafood exporter, the government needed to consider labor allocation between the leading industries in Vietnam, namely seafood, textile, and footwear (Thanh Nien News, 1 Apr. 2015). The government can encourage textile and footwear industries to reallocate outside of Mekong river where the seafood industry is located (Thanh Nien News, 1 Apr. 2015). Another moderate tone is from SMEs Association, a sector that will be pretty much hurt by TPP. In which

in February 2015 its President Cao Sy Kiem said that the industry must prepare a lot if it doesn't want to lose domestic market (Voice of Vietnam, 6 Feb. 2015).

Other pro-TPP actor is the Ministry of Trade and Industry. Actually, they are of the main important actor since they negotiate internationally on behalf of Vietnam. Even their deputy, Tran Quoc Khanh is Vietnamese Chief of Negotiator himself. They have been active in giving socialization to domestic business, such as the one in November 2013 where they engaged VCCI Ho Chi Minh City branch for a conference called 'TPP Agreement and Vietnam's Participation Process' (VCCI News, 31 Dec. 2013). The conference was quite high profile since the speaker of which was the Tran Quoc Khanh himself along with the Minister of Trade and Industry Vu Huy Hoang. This ministry is also the one to conduct regular consultation or update with the VCP. After TPP negotiation meeting in Hawaii in March 2015, it is known that they met the Economic Commission of VCP's Central Committee for this particular purpose (Voice of Vietnam, 19 Mar. 2015). Interestingly, other ministry seems to support the Ministry of Trade and Industry in TPP negotiation, at least what appears on the surface. One of them is the Ministry of Agriculture and Rural Development, most probably because this Vietnam is a champion for agro-based export, therefore making FTA as an important tool to market the product abroad. Director of Agro-Forestry Processing and Salt Industry under this ministry said that Vietnamese agriculture products have been exported to 180 countries and earned a record US\$ 30.8 billion in 2014 (VCCI News, 22 Mar. 2015b). Included here is those

scoring more than US\$ 1 billion such as woodwork, coffee, rubber, fruit and vegetable, shrimp, cassava, and cashew (VCCI News, 22 Mar. 2015).

V.3.2 The Silent Resistance

The government of Vietnam has been actively conducting reform for meeting up the TPP's requirement. Actually, this had been done even when they tried to sign BTA and WTO commitment. On Labor issue, for example, there has been many measures that Vietnam already did: 1) rejoined the International Labor Organization (ILO) in 1992; 2) it has been working with ILO to draft new labor law; 3) it ratified five ILO most important convention on compulsory labor, income inequality, the worst form of child labor, minimum age, and discrimination; and 4) it considers ratifying two more conventions, namely on freedom of association and right to collective bargaining (Martin & Jones, 2009, p. 100). They also sped up the SOEs reform process, especially after the global financial crisis where Vietnam's economy slowed down. As expressed by Vu Xuan Thuyen, economist and senior officials from Ministry of Planning and Investment, SOEs must now follow PM's regulation to divest from 'non-core industries' (Thanh Nien News, 6 Jan. 2014).

No matter how committed the government is, in reality Vietnam always finds it difficult in terms of implementation. There have been many examples of many reform activities conducted with international donors in which Vietnam only does well on the paper, yet very lack for implementing it. For example, the United Nations Development Program (UNDP) helped the Vietnamese

government arranging the supposedly reformist development agenda, such as the 10-year Strategy for Socio-Economic Development 2001-2010 and the 5-Year Plan for Socio-Economic Development 2001-2005. Although they agreed to put on ‘goals and target’, in fact, there is only a little elaboration on how to achieve that (Masina, 2006, pp. 95-96). Gainsborough (2010a) argues that there is the so-called ‘take-the-money-and-run’ practice in Vietnam regarding donor aid. There are various donors in Vietnam seeking to implement neoliberal reform such as good governance and all. However, Vietnamese officials approach them by welcoming such assistance, agreeing to participate, but very lacking in implementation. Gainsborough (2010a) portrays that this is the case for the anti-corruption measure proposed by Swedish Development Agency. Vietnamese National Assembly passed the milestone law in 2005, however there has been only minor effort to investigate corruption cases to date.

There should be a more thorough work on this ‘silent resistance’ to measure to what extent it influences the reform commitment. However, a work by Painter (2006) gives a clue on from which actor it occurs. The problem lies in the practical decentralized nature of authority in Vietnam, in which subnational government (and actor) have a lot more space for their own policy. In the SOE reform, Vietnam conducted several policies on this particular issue, such as the one during 1986-1992 and 1997-2002 (under IMF’s and World Bank’s supervision). However, such reform is said to be only half-heartedly implemented because of the maneuver in the subnational level. They create the so-called ‘manager-owners of semi-privatised entities’, in which they see it more as an

opportunity to get more economic gains (Painter, 2006, p. 75). When an SOE is equitized, it is the manager that will buy the shares rather than the general public whereas subnational state remains as the major shareholders (Painter, 2006, p.75).⁶⁵

Although such silent resistance occurs, interestingly in some other areas it never appears to public. When other countries such as Malaysia and Australia give so much objection to the health issue, in Vietnam there is no actor voicing such concern (Brown, quoted in Chowdhury, 2014). There are only two articles from Thanh Nien News on this issue, but this is only English version and seen from the angle of foreign experts without any quotation from local expert's statement. In fact, health is a very big problem in Vietnam as, according to Oxfam International, the country is among twelve countries with the highest number of HIV patient. However, medicines are still very expensive (An Dien, 2014). Even more, Vietnam receives 90 percent of HIV/ AIDS' funding from donor, in which the US (as the biggest donor) plan to reduce it in 2015 as the country is now recognized as a middle-income economy (An Dien, 2014). The 'lack of voicing' problem in Vietnam is mostly probably caused by the controlled community organization under the Communist regime, making upholding such issue will be potentially considered as an insult against the government.

Recognizing this silent resistance, although it is safe to assume that it is only implicitly uttered, the Vietnamese government seeks to have flexibility in the

⁶⁵ Regarding this silent resistance, Gainsborough (2010a) argues that patronage is so engrained among the Vietnamese societies that it is considered to be the 'how-to-work' system. Even more, the patronage can be traced back to before the *Doi Moi* era, in which the communist Vietnam is falsely assumed as an egalitarian society.

negotiation process. They propose that their country is the least developed one among member and, therefore, call for recognition of ‘level of development of each country’. Many government leaders voiced this, including PM Nguyen Tan Dung himself, when he visited New Zealand PM John Key in March 2015 (Radio New Zealand News, 2015). This is also what is concerned by President Truong Tan Sang several years earlier during TPP summit in Honolulu, Hawaii, 12 November 2011 (BBC Monitoring Asia-Pacific, 2011).

Vietnam is reportedly asked for the a transition period for many of the TPP’s chapter. This is articulated by Chief Negotiator Tran Quoc Khanh himself when he visited the US in September 2014 (Voice of Vietnam, 19 Sept. 2014). On textile sector, the US will give Vietnam three years before applying the yarn forward rule so that it can build its own ‘domestic material supplies’ (The Saigon Times, 25 Aug. 2013). This also includes five years transition period for SOEs chapter, in which Vietnam is in the same boat with other SOE-bulk countries like Malaysia, Peru, and Brunei (Manthorpe, 2013). Vietnam is also reportedly looked for many exceptions in this particular chapter. So far, the SOEs negotiation still continues in which countries already agreed to the definition and general provision, but still works on the exceptions allowed (Fergusson, McMinimy and Williams, 2015, pp. 43-44). Among the exception here where Vietnam is supposedly fought for is whether the chapter will be included in the dispute settlement mechanism (Fergusson, McMinimy and Williams, 2015, pp. 43-44). In labor sector, Vietnam is also reportedly opposed to bringing this issue into the legally-binding dispute settlement mechanism (Fergusson, McMinimy and

Williams, 2015, p. 39). Vietnam is also expected to ask for capacity building. They are quite open in expressing their needs., such as in human resources on FTA negotiation and economic integration, competitiveness of domestic companies and, the necessary legal system (Ministry of Trade and Industry, n.d.b, p. 3).

V.4 Conclusion

Vietnam is a case with comprehensive reasons for joining TPP. Vietnam is a country benefiting so much from US' tariff elimination as it will boost textile, footwear, and other exports as well as invite a large number of FDI. Vietnam also has a very viable reason to approach the US in terms of politics and security as this country is very sensitive to China due to geographical proximity and historical subordination. For Vietnam, TPP is important as it is a less threatening way to approach the US. Vietnam does not want to provoke China and participation on TPP is coherent with the country's three No's policy. In the domestic level, the decision to join TPP coincides heavily with the rise of pro-economic reform group within the VCP. This group can be traced back to the 6th VCP Congress in 1986, 9th VCP Congress in 2001 and 10th VCP Congress in 2006. In TPP issue, they also collaborate with export-oriented business entrepreneurs.

It is not so much to say that pursuing TPP in Vietnam is surrounded by euphoria feeling. The country seems so passionate to take the promised lucrative economic benefits from accessing overseas market. The euphoria is largely

contributed by the relatively little resistance from the domestic arena, as the usually outspoken civil society elsewhere is suppressed by the one-party regime in Vietnam. The challenge is, as articulated by Shihoko Goto from Woodrow Wilson Center, whether the perceived economic benefits will actually outweigh the adjustment that Vietnam has to commit, therefore giving incentive for Vietnam to open up itself (Chowdury, 2014). It is also worth noting that despite the reform efforts by the government, such as in SOEs and labor sector, there is less passion for the 'lock-in-reform' agenda than for exporting labor-intensive products and receiving FDI.

CHAPTER VI - INDONESIA

Different from the previous two case studies, Indonesia is among the few that consistently shows reluctance to join the TPP. The behavior is quite surprising, given to the US' importance to Indonesia's economy. The US is one of Indonesia's biggest (and traditional) trading partner with decade-long surpluses. It is also from the US that Indonesia gets a significant amount of FDI. Therefore, one may assume that joining US-led TPP will be of logical consequences of Indonesia-US relations. However, it is not the case. Between 2010-2014, various Indonesian high-ranking officials have been voicing similar stance: Indonesia would not join the TPP, at least in the short-term.

Indonesia's reluctance is mainly due to economic competitiveness issue (or rather, protectionism). However, one must take into account the very political position that Indonesia has within the regional politics of Asia-Pacific to better understand its stance. In this chapter, Indonesia is a case where foreign policy heavily influences trade policy, therefore incorporating international politics is necessary. Discussion on Indonesia even touches the very strategic relations that Indonesia develops with the current superpower US and the Great-Power-in-the-making China. Specifically on TPP case, it is argued that Indonesia does not feel the need to forge closer relations to the US because it does not go hand-in-hand with its foreign policy. Seeing from the domestic angle, interestingly, Indonesian case also shows that long-standing unitary-state assumption in Southeast Asian trade politics is not always valid. It is the bureaucracy, represented by the

Ministry of Foreign Affairs (MoFA) and Ministry of Trade (MoT), that plays the key role as well traditional actor such as the domestic business entrepreneurs. Leader (mainly the President) also has their own agenda and heavily influences this process.

Indonesian case shows rich theoretical insight on the very nature of trade politics in Southeast Asia. A comprehensive approach, as proposed earlier in this research, is very important. The rest of the chapter discusses three issues. First, discussion of Indonesia's decision not to join TPP will be observed in closer detail. Second, the international aspect of Indonesia's motive will be discussed. As outlined in Chapter II, it will focus on 'economic gains' and 'political-security needs'. Third, domestic aspect will be the main focus in which the relations among domestic political actors heavily influence Indonesia's stance on the TPP. The last section will be the conclusion.

VI.1 Indonesia's Reluctance on TPP

Many Indonesian officials, no less than those in the high-level position, voice the not-to-join decision. This decision can also be consistently observed from 2009 to 2014, from President Susilo Bambang Yudhoyono (SBY) era to the current President Joko Widodo. On November 2009, it was no less than President SBY himself that announced Indonesia's position regarding the issue. He stated that Indonesia still preferred the WTO arena more than FTA since the WTO has more participants that Indonesia can arrange coalition with (Kompas, 17 Nov. 2009). He also made the reservation on Indonesia's readiness to join highly

competitive FTA like TPP. In 2010, commenting on the starting of TPP negotiation, Coordinating Minister for Economic Affairs Hatta Radjasa made a statement that Indonesia prioritized to prepare itself before entering high-quality FTA (Xinhua News Agency, 18 Nov. 2010). In 2011 during the ASEAN Summit and East Asian Summit (EAS) in Bali, November 2011, President SBY again made a comment that Indonesia had no immediate urgency to join TPP (Asia Pulse Pty, 21 Nov. 2011). In January 2013, Trade Minister Gita Wirjawan also made the similar statement, emphasizing that Indonesia would assess whether TPP would leverage the country's economic interest (Jakarta Post, 13 Jan. 2013). On May 2013, he made another statement on TPP, by saying that Indonesia would only join if other negotiation such as the RCEP and Indonesia-Korea Comprehensive Economic Agreement (CEPA) made a success (ASEAN Briefing, 8 May 2013). At the latest development during APEC Summit in Beijing, China, November 2014, the newly elected President Joko Widodo announced that Indonesia would not enter either the US-led TPP or China-sponsored FTAAP, on the basis that Indonesia did not want to be the mere market of big countries such as the US or China (Kompas, 11 Nov. 2014).

Actually, there are several domestic groups that ask the government to join the TPP. Among them are the Indonesian Textile Association and the neoliberal academics (discussed below). However, they are only of small groups. The general mood in the country is of not to join the TPP. It is not only voiced by the government, but also by other actors such as the pro-ASEAN academics and NGOs (discussed below, from various interviews for this research). In fact,

Indonesia's passion is more to be of participating on the AEC and RCEP than the TPP, as observed by an academic from ASEAN Business Advisory Council interviewed for this research. The position comes without many debates in the domestic setting. It is very different from Malaysia's 'noisy' case and bears much resemblance to Vietnam's consensual response. In fact, trade policy issue is still a very elitist that Indonesian general public almost has no knowledge.

VI.2 International Factor

Indonesian case shows that the country has a relatively little motive to forge closer relations to the US in regards to TPP agreement. There are two arguments pursue here. First, Indonesia has contentious economic benefits, given the prevalence of 'high-quality' element within TPP. Second, Indonesia has low political-security needs to engage the US because particularly in this TPP issue, the country feels that its regional profile is at stake. The success of TPP will potentially downplay Indonesia's ASEAN Centrality principle. Moreover in the lights of growing economic relations with China, Indonesia feels less pressing needs to reduce economic dependency, therefore, contributes to less motive to develop closer economic relations to the US. The case is different, for example, as in Vietnam in which China's economic might is seen as 'alarming'.

VI.2.1 Contentious Economic Benefits: To Gain or Not to Gain?

If one takes a look at Indonesia's economic relations to the US, one may anticipate that Indonesia has urgent needs to arrange FTA with the US. The US is

one of Indonesia's biggest FDI provider, along with other countries such as Singapore, Japan, and South Korea. As seen from Table VI.1, the US provided FDI as much as US\$ 930 million, US\$ 1,4 billion and US\$ 1,2 billion in 2010, 2011 and 2012, making it as the fourth largest FDI provider to Indonesia. In terms of trade, the US is one of Indonesia's biggest trading partner, with an overall share of around 9-10 percent in the late 2000s.

Tabel VI.1 – FDI Realization by Country (US\$ million)

	2010	2011	2012
Singapore	5,585.0	5,123.0	4,856.4
Japan	712.6	1,516.1	2,456.9
South Korea	328.5	1,218.7	1,949.7
USA	930.9	1,487.8	1,238.5
Netherland	606.3	1,354.4	966.5
UK	276.2	419.0	934.4
TOTAL	16,241.8	19,474.5	24,564.7

Source: processed from BKPM (Indonesia Investment Coordinating Board), 2009, 2012

Table VI.2 – Trade: Indonesia to the US

	2007		2008		2009		2010	
	Amount (US\$ mil.)	Share (%)*	Amount (US\$ mil.)	Share (%)*	Amount (US\$ mil.)	Share (%)*	Amount (US\$ mil.)	Share (%)*
Export	11,614.2	10.18	13,036.9	9.51	10,850	9.3	14,266.6	9.04
Import	4,787.2	6.43	7,880.1	6.10	7,084.0	7.32	9,399.1	6.93
Surplus	6,827.0		5,156.8		3,766		4,867.5	

* percentage of export to or import from the US to overall Indonesia's export or import.

Source: BPS (Indonesia Statistical Bureau), 2008, 2009, 2010

More importantly, the US serves as not only a traditional export market but also continued surplus. As seen from table VI.2, Indonesia enjoyed the surplus of around US\$ 3.7- US\$ 6.8 billion during 2007-2010. Most of Indonesian export product to the US is rubber, which makes around 12 percent of overall export to

this country (BPS, 2011). Labor-intensive products such as apparel and footwear are also among the most popular products. Altogether, such products amounted to US\$ 5 billion in 2010 or 35.4 percent of overall export to the US (BPS, 2011).

Opportunities to arrange FTA with the US through TPP are not without attention. At a public discussion in Jakarta in 2012, US think-tank Peterson Institute for International Economics released that Indonesia's economic growth would increase by 1.7 percent if it joins the TPP (SEADI-USAID, 2012). Specifically Gary Clyde Hufbauer, also from this think-tank, mentioned that Indonesia's export would rise to 20 percent in 202 and that Indonesia would have leverage against competitors such as Vietnam (Jakarta Post, 17 Apr. 2013).

However, seeing TPP from trade and FDI angle alone is only one side of a coin. What bothers Indonesia at most is the very WTO-plus commitment that Indonesia sees as too high standard to achieve. Indonesia's concern is actually a typical developing countries response to the demand of developed countries in the trade negotiation. For example, Indonesia does not feel likely to cope with 'competitive neutrality' principle within TPP, which outlines equal treatment between foreign and domestic companies. Indonesian business are still worried about the prospect of foreign competition, especially because after they are still in defensive mode after the Asian Crisis 1997-1998 (discussed in detail below). Even on a low-quality type FTA such as the ASEAN Economic Community (AEC), 44 percent Indonesian business feels threatened, as a study by Boston Consulting Group revealed in October 2014 (The Jakarta Globe, 7 Oct. 2014). Moreover, the SOE dismantling regulation within TPP is also problematic in this

regards. SOEs play the significant role in the Indonesian economy, especially as government's intervention tools to boost domestic economic development. SOEs also symbolize national pride and status. Therefore, its dismantling will trigger the nationalist backlash, as seen on privatization episode during the first half of the 2000s when IMF imposed such scheme. Another politically sensitive issue is the need to cut energy subsidy, which is seen as a clear discriminative action. Even when the Indonesian government can do it on the voluntary basis, such action is always difficult as it involves massive demonstration rally, reduction of public support to the president and political attacks on the parliament. One can imagine if an international treaty must Indonesia dismantle the policy; an even greater nationalist backlash can raise.

Table VI.3 – Contribution to Indonesian GDP, Demand Side (Percent)⁶⁶

Component	2010	2011	2012
Domestic Consumption (C)	56,53	55,58	55,08
Government Consumption (G)	8,49	8,23	7,84
Investment (I)	23,91	24,42	25,24
Export-Import (X-M)	10,51	11,32	9,20
GDP (Y)	100,00	100,00	100,00

Source: BPS (Indonesian Bureau of Statistics), n.d.

One must also take a look at the very structure of Indonesian economy. Different from its neighbors in Southeast Asia, Indonesia is not a trading nation. Indonesia relies less on trade than other countries such as Malaysia and Singapore. Whereas the two countries can achieve around 100 and 300 percent of trade to GDP, Indonesia's highest score was only 71 percent in 2000. (data.worldbank.org,

⁶⁶ The table refers to the common economic equation on factors contributing to GDP: $Y = C + G + I + (X-M)$. Y refers to the GDP, C to domestic consumption, G to government expenditure, I to the investment, X to export and M to import.

n.d.). It means that Indonesia relies less on trade for its economic development. It is understandable as different from Malaysia and Singapore, Indonesia has a lot more population, around 230 million in 2014, making it put a lot more emphasis on domestic consumption. Malaysia and Singapore only have around 25 million and 5 million people, such small population making them rely more on the international market. As seen from Table VI.3, trade (export-import) only makes between 9-11 percent of Indonesian GDP in 2010-2012. This is in large contrast to domestic consumption, which makes around 55 percent of the whole GDP. Therefore, in theory, Indonesia can still grow although the international market is at despair. For Indonesia, this is also the very factor making the country survived the global economic crisis in 2008-2009. Given the continuing growth of domestic consumption, Indonesia can still perform positively along with China and India at that time. Relating this structural factor to TPP issue, Indonesia is at less need to engage FTA in comparison to other trade-dependent nations like Singapore or Malaysia.

VI.2.2 Political-Security Needs: Defending ASEAN-Centrality

Perhaps one of the most important factor explaining Indonesia's reluctance is the country's foreign policy. Indonesia tends to see US' TPP proposal as an effort to be a dominant power in the regional dynamics of Asia-Pacific, something that Indonesia cannot afford. Discussion on this particular issue will begin by exposing Indonesia's foreign policy doctrine and evolution. On the other hand, although it is true that Indonesia suffers trade deficit with the Great Power China,

it is not that Indonesia seeks the US for a trade-off. In fact, Indonesia's response is more to be improving domestic economic competitiveness, therefore reducing the need to forge closer relations to the US.

Every Indonesian political science student is familiar with the so-called *Mendayung di Antara Dua Karang*. Translated as 'Row between the Two Reefs', it is basically a classic notion of Indonesia's foreign policy doctrine developed by Indonesia's first vice President Muhammad Hatta during independence day in 1945. It reflects the existing bipolar geopolitical setting in which the US was against the Soviet Union. Inspired by Indonesia's nationalist struggle to gain independence, the doctrine basically maintained that Indonesia should not belong to either bloc and stand by itself. It later developed into another doctrine, namely the *Bebas Aktif* or 'Free and Active Foreign Policy'. It means that Indonesia should be free or independent of any Great Power's influence and Indonesia should actively promote world peace. Throughout the history, it is true that the Indonesian government does not always strictly adhere to this doctrine.⁶⁷ However, it deeply influences the very conduct of Indonesia foreign policy until very recently. For example, ASEAN's idea of non-intervention comes largely from this ideas, as a way to make Southeast Asia free of any Great Power's influence.

Within Indonesian foreign policy, another important feature is ASEAN. Starting during President Suharto era, ASEAN evolves as an important association to create peace and stability in Southeast Asia, therefore, gives

⁶⁷ For example, under the charismatic and populist President Sukarno, Indonesia tended to be closer to the Soviet bloc, while under the anti-communist and development-oriented President Suharto, Indonesia welcomed US' partnership.

countries chances to develop economically. The success continued as ASEAN proved credible to solve regional conflict, namely Vietnamese invasion of Cambodia in 1975. As international community begins approving ASEAN's achievement, it further evolves from a mere association since its establishment in 1971 to be a full functioning regional organization by establishing a charter in 2003 (known as ASEAN Community). Indonesia tends to see itself as a natural leader of ASEAN, given its dominant geography, population, and economic size, as well as being its founding father.

In the contemporary era, Indonesia sees ASEAN as a useful tool to interact with the surrounding Great Powers. ASEAN's increasing international profile is in coincidence with the rising China, which creates uncertainties and regional tension, especially with Japan and the US. ASEAN quickly grasps the opportunity as both Great Powers (Japan and China) are more comfortable to give regional leadership to the credible small and medium power countries such as ASEAN. Nowadays, there exists ASEAN Plus mechanism, such as ASEAN+1, ASEAN+3, ASEAN+6 and ASEAN+8 (or East Asia Summit/ EAS), as a way to manage relations among the Great Powers. Therefore, ASEAN gains more international confidence as it spreads the culture of cooperation, dialog, and consultation among them, rather than letting them trap in realist ideals of continuous conflict. As the result, during the first decade of 21st century, the world sees a thick ASEAN-led regional arrangement in Asia Pacific. ASEAN even creates a 'Plus One' FTA with each of the Great Powers, namely the ASEAN-China, ASEAN-Japan, ASEAN-South Korea, ASEAN-India, and ASEAN-Australia-New Zealand

FTA.⁶⁸ For Indonesia, the more ASEAN gains regional profile, the more Indonesia has regional standing and recognition.

Seen from the strategic perspective, Indonesia combines the attainment of the ‘Rowing between the Two Reefs’ doctrine with ASEAN as the tools. The latter doctrine interprets that Indonesia should remain independent of any power’s influence although the Cold War was over. Contemporarily, given the increasing ‘superpower’ status between the US and China, the doctrine outlines that Indonesia should remain free of any of the ‘new reefs’ (Novotny, 2010). Since their very contestation involves the Asia-Pacific, Indonesia naturally interprets that the country cannot withstand a single power dominating the region. Therefore, as argued by Lee (2013), Indonesia quests for the so-called ‘strategic independence and autonomy’. After the pitfall of Suharto when the West (or the US) criticized Indonesia’s poor human rights record and supported IMF’s blatant economic recovery program, Indonesia seemed to move closer to China. At this time, the latter decided not to devalue its currency to help its neighboring countries and to provide US\$ 200 million loan to Indonesia. Even during President Abdurahman Wahid era, Indonesia devised the so-called ‘Asia-first’ policy by proposing triangular axis of Jakarta-Beijing-New Delhi. At other occasion, when China is seen to exert its regional power, such as by proposing the

⁶⁸ In the late 2000s, Indonesian Ministry of Foreign Affairs proposed the so-called ‘Natalegawa Doctrine’, which perfectly fits this kind of logic. Named after Indonesian foreign minister Marty Natalegawa, it describes East Asia as a multipolar and dynamic equilibrium site in which no single power dominates (Hadi, 2012). Interaction between actors is best described as a cold peace, in which it no longer confines to strict military relations, but more dynamic to include economic issue and cooperation (Hadi, 2012). In such situation, it is important to manage relations among the Great Powers so that it will not bring regional hostility and harm Indonesia’s interest. Therefore, ASEAN Centrality is important as it gives leadership to ASEAN and opens dialogue to all of the Great Powers (Hadi, 2012).

East Asian Community in 2003,⁶⁹ Jakarta quickly reacted (along with other power such as Japan), to invite more Great Powers to balance China, namely by proposing the ASEAN+8 scheme, or known as the EAS (Hadi, 2009).⁷⁰ Having more Great Powers, including the US, means that there will be more powers to check China's growing regional profile. EAS is also put here as part of ASEAN Annual Summit meeting, therefore ensuring that its host will always be ASEAN member countries (as an 'agenda-setting' attempt).⁷¹

TPP should be seen with US' pivot strategy in the Asia-Pacific. As addressed by State Secretary Hillary Clinton in January 2011, the US will not only involve in 'Asia-Pacific institution' but also provide leadership (Gao, 2012, p. 117). Here, Indonesia has the reservation since US' way is very different from ASEAN way. Actually, existing rules within ASEAN plus X frameworks, including ASEAN-centered FTA, adopt ASEAN way of doing things, namely consultation, consensus, liberalization with respect to each country's capability and so on. However, in TPP the US tries to change these rules. With TPP in mind, the US imposes comprehensive liberalization, tight schedule, and legally binding agreement.

⁶⁹ The EAC proposal attempts to formalize the previously informal cooperation between ASEAN, China, Japan and South Korea. By doing so, China tries to distinguish 'East Asia' of only consisting of ASEAN+3 countries, minus the US.

⁷⁰ Beside the ASEAN+3 countries, EAS also consists of India, Australia, New Zealand, the US, and Russia.

⁷¹ The Asia-Pacific is so important to Indonesian foreign policy that former President Megawati changed the country's foreign policy priority (called the concentric circle). Under President Suharto, the first priority is ASEAN, followed by Non-Aligned Movement (NAM) countries, and Western countries. Under President Megawati, the first and third remained the same, but the second circle changed into countries in the Pacific Island Forums (PIFs), Northeast Asian countries (China, Japan and South Korea), Southwest Pacific Dialogue, and tripartite consultation among Indonesia, Australia and Timor Leste. Look at Chandra, 2008, p. 111.

This geopolitical motive is the reason Indonesia feels very reluctant to join TPP. Indonesia fears that ASEAN role will be downplayed in Asia Pacific.

Indonesia has two other agendas that it wishes to put more attention to. Both relate heavily to the ASEAN Centrality principle and run in parallel. First is the ASEAN Economic Community (AEC) which will start at the end of 2015. AEC is such a big agenda for ASEAN regionalism that the government wants to prioritize. In fact, joining TPP will divert attention from the implementation of this particular FTA.⁷² If the priority to AEC comes pretty naturally, Indonesia's second agenda needs a lot more explanation. Another Indonesia's respond toward TPP is supporting the creation of Regional Comprehensive Economic Partnership (RCEP). Launched in 2013, basically RCEP is a counter proposal proposed by China and Indonesia as a challenge toward US-led TPP. Indonesia has a lot of interests in its creation as ASEAN centrality is the main pillar within such negotiation. RCEP basically will serve as an umbrella of the existing ASEAN-centered FTA arrangements, namely ASEAN's FTA with China, Japan, South Korea, India, Australia and New Zealand. Underlying assumption on RCEP is that it should be ASEAN, rather than surrounding countries that should be the 'hub of developing wider Asia-Pacific regional architecture' (Basu Das, 2014, p. 25). RCEP is also meant to show that ASEAN can take the role of bringing in

⁷² The view is expressed by an economist from Paramadina University speaking in a conference in Jakarta, February 2015 (Habibie Center, 2015). The view is also expressed during an interview with an IPE Specialist from University of Indonesia, in Depok, Indonesia, 23 March 2015. The priority to the AEC than TPP is also conveyed by an official from the Indonesian Ministry of Foreign Affairs, during a Roundtable Discussion entitled '*Implikasi Kerjasama Trans-Pacific Partnership (TPP) Guna Meningkatkan Peran Indonesia di Kawasan ASEAN Dalam Rangka Ketahanan Regional*' [The Implication of TPP on Indonesia's Role in ASEAN and Regional Resiliency], in Jakarta, 16 July 2013, held by *Lembaga Ketahanan Nasional* [National Resiliency Institute] (Lemhanas, 2013).

cooperation, prosperity, and harmonization in Asia-Pacific. (Basu Das, 2014, p. 25). It is explicitly stated in the first Joint Statement of Ministry of Trade Meeting among RCEP countries in 9-13 May 2013 in Brunei Darussalam:

“...negotiations for the RCEP will recognize ASEAN Centrality in the emerging regional economic architecture and the interests of ASEAN’s FTA Partners in supporting and contributing to economic integration, equitable economic development and strengthening economic cooperation among the participating countries...”⁷³

Indonesia’s commitment in RCEP (and ASEAN centrality) is addressed by a senior official from Ministry of Trade, Imam Pambagyo:

“...Indonesia was currently focused on two priorities: The preparations for the establishment of the ASEAN Economic Community expected in 2015, and the talks for the regional comprehensive economic partnership...” (Jakarta Post, 31 Jan. 2013).

Another important thing here is the fact the Indonesia’s preference to RCEP does not necessarily mean that it is against the US. In fact, what Indonesia tries to do is to make sure that ASEAN Centrality (through RCEP) can live side by side with US’ TPP. This is why in their various statement Indonesian leaders and official never directly said that TPP will hamper ASEAN solidarity or centrality (let alone it is a sensitive issue). There is no blatant opposition in TPP, but Indonesia only ensures that ASEAN Centrality will still at play. Moreover, the growing discourse among academic and officials is whether TPP and RCEP can complement each other, which in the end will lead to the creation of Free Trade Area of the Asia-Pacific (FTAAP). By promoting RCEP, Indonesia makes sure

⁷³ Regional Comprehensive Economic Partnership (RCEP): Joint Statement the First Meeting of Trade Negotiating Committee. Bandar Sri Begawan, Brunei Darussalam, 9-13 May 2013. Retrieved from http://www.asean.org/images/2013/other_documents/Joint_statement_1st_RCEP%20TNC_08May2013_final.pdf

that ASEAN Centrality will still become relevant and not be downplayed by US-led TPP.⁷⁴

Table VI.4 – Trade: Indonesia to China (US\$ Million)

Description	2007	2008	2009	2010	2011	Trend (%) '07-'11
Total Trade	18,233	26,883	25,501	36,116	49,153	25.59
Export	9,675	11,636	11,499	15,692	22,941	22.45
Import	8,557	15,247	14,002	20,424	26,212	28.80
Balance of Trade	1,117	-3,610	-2,502	-4,731	-3,271	0.00

Source: Indonesian Ministry of Trade, n.d.

On the other hand, seen from Indonesia's economic relations with China, closer economic relations to the US is not a very urgent priority. It is true that Indonesia is increasingly dependent on China's market. China is currently Indonesia's number one trading partner with total trade reaching US\$ 49 billion in 2011 (see Table VI.4). It is also true that Indonesia feels discomfort given that since 2008 Indonesia has been suffering continuing trade deficit, which was then exacerbated by the full implementation of ASEAN-China FTA in 2010. Such discomfort is not without reason since China mostly exports manufacturing products similar to Indonesian, such as textile and footwear. Therefore, it jeopardizes Indonesia's competitiveness while Indonesia can only export mining and agriculture products to China at the same time (Lee, 2013, p. 19).

⁷⁴ Yet, Indonesia's preference on RCEP does not coherent with a smooth negotiation process. Until now, RCEP still has difficulty to find basic modalities from where RCEP will be carried out. Should it include many exclusion lists like the ASEAN-India FTA? Should it be a high standard like TPP or ASEAN-Australia-New Zealand FTA? Or should it include economic cooperation such as the Japan-based CEP? Is it possible to arrange a 'minus X' principle? The diversity among members makes it difficult to reach consensus. This is based on an interview with an IR specialist from ASEAN Advisory Business Council (ABAC) in Jakarta, Indonesia, 3 March 2015.

However, as argued by Lee (2013), there is nothing alarming about Indonesia-China economic relations. Although trade with China is huge, Indonesia's relative open economy makes China as only one important partner whereas there are other states such as Japan, the US, EU, or ASEAN members. Dependence on China is therefore not the case in the Indonesian economy. Moreover, seeing from other indicator China is far from dominant. As seen in Table VI.7, China's FDI in Indonesia is consistently in small number in comparison to other big FDI providers, such as Singapore, Japan, South Korea and the US. Even when China recorded highest FDI of US\$ 173 million in 2010, it is still a very small comparison, for example, to Singapore which recorded US\$ 5.5 billion (BKPM, 2009, 2012). Therefore, Lee (2013) sees that: 1) China has no intention to use its FDI charm to attract Indonesia; and 2) Indonesia's open economic structure helps reduce dependency possibility only on China's economy. The relative absence of dominant Chinese economy is then translated into relatively low needs of Indonesia to engage more balancing economic relations by approaching the US.

More importantly, Indonesia's response to this growing trade with China is not through seeking remedy from other countries. It is true that trade with the US is at Indonesia's favor and has the very potentials to reduce the deficit with China. However, Indonesia seems not to see it that way. Rather, they are keener on improving domestic competitiveness. Actors within domestic setting tend to see the issue as rooted in the country's economic weakness rather than to China as

a threat. This point will be discussed much deeper at the domestic subchapter below.

VI.3 Domestic Factor

Although Indonesia is a democratic country, its trade policy is still very elitist. As argued by Chandra & Hanim (2010), the Indonesian government opens up participation from non-state actors, yet the ‘difficult and technical issues’ of trade make only a handful of them join it. From NGOs, there are the Institute for Global Justice (IGJ) and Third World Network (TWN), from business sector, there are Indonesian Chambers of Commerce and Industry (the *Kadin*) and Indonesian Entrepreneurs Association (the *APINDO*), and from academics, there are the Centre for Strategic and International Studies (CSIS) and Institute for Economic and Social Research (LPEM). Even the Parliament has no influence on trade. Institutionally, parliament’s involvement in international trade policy is limited under the Law No. 24/ 2000 on International Treaty. The law disapproves the need for the parliament to debate on FTA as ratification is only needed for several issues, namely politics, defense, peace and security; territorial borders; state’s sovereignty; any international treaty requiring adjustment of domestic law; human rights and environment; and foreign debts or grants (Hadi, et.al., 2012).⁷⁵

As the result, influential actors within Indonesian trade policy-maker are only concentrated on several actors. There are two groups within the circle with significant influence over the posture of trade policy. First, the ‘pro-ASEAN’

⁷⁵ Only recently Indonesia introduced Law no. 7/ 2014 on Trade, which regulates the role of legislature to ratify a trade agreement (Article 84). However, all of Indonesia’s existing FTAs were signed before this law was enacted, therefore, it went without any scrutiny from the parliament.

group which consists of the Ministry of Foreign Affairs (MoFA), some academics and leader. Second, the 'protectionist' group occupied by the Ministry of Trade, most of domestic business groups and NGOs.

VI.3.1 The Pro-ASEAN Group

The very influence of pro-ASEAN group has been well analyzed in the previous section. The MoFA is the long-standing supporter of this particular preference, given the importance of ASEAN to Indonesia's foreign policy. The very pursuance of Independent and Active foreign policy are also part of the tradition of MoFA. As a political actor, MoFA is particularly important since President Suharto era, where foreign policy was designed only by several actors within his circle, namely the military, the MoFA, and the think-tank CSIS (Chandra, 2008, p. 143). As mentioned before, it was in this era in which ASEAN starts getting significant priority on Indonesia's foreign policy. Therefore, it is not too much to say that such pro-ASEAN stance has been highly internalized within this ministry. Moreover, ASEAN profile is even so important that all key ministries have ASEAN unit, such MoFA, Ministry of Trade, and Ministry of Finance (Chandra, 2008, p. 188). It must also bear in mind that within ASEAN affairs, which is basically a foreign affair, the very conduct of foreign economic relations is very apparent, therefore making intertwining relations among the two. For example, when ASEAN decided to strengthen their regionalism in the early 1990s, they did so by launching the ASEAN Free Trade Area (AFTA). Therefore, it is not uncommon for the MoFA to give much influence on Indonesia's trade

relations. In fact, the MoFA is one of the several ministries to negotiate Indonesia's trade issue, along with Ministry of Trade and Ministry of Finance. Moreover, many of Indonesian foreign ministers have a lot of ASEAN profile in their previous work. Ali Alatas, Hassan Wirajuda, and Marty Natalegawa all have retained an important position in ASEAN-related matters.⁷⁶ They even become the issue-entrepreneurs at domestic level, namely to connect ASEAN with domestic discourse.⁷⁷ Within Indonesia's domestic political affairs, the pro-ASEAN group is quite influential in determining a policy outcome. For example, even in a case in which domestic interest was hurt by the ASEAN commitment, namely the ASEAN-China FTA in the beginning of 2010,⁷⁸ no less than President SBY himself to state that the Indonesian government still maintained its adherence to ASEAN solidarity and refused to follow the populist demand to renegotiate the agreement (Viva News, 21 Jan. 2010).

In regards to TPP issue, at least on the media, this ministry maintains a low-profile behavior without commenting much on the issue. According to a diplomat in Indonesian Embassy in the US Ni made Ayu Marthini, Indonesia has yet to join the TPP but becomes only an external observer (Kompas, 9 Dec. 2013). MoFA seems to let the MoT to take the lead, not only because it is under the latter's authority (MoT is still the forefront of trade negotiation), but also most probably since they do not want to drag the issue into a foreign politics matter.

⁷⁶ interview with an IR specialist from University of Indonesia, in Depok, Indonesia, 11 March 2015

⁷⁷ *Ibid.*

⁷⁸ Massive surge of import from China, especially in labor-intensive sectors such as textile, toys and footwear, happened only a year after the ACFTA was implemented in 2010. Import volume increased by 34 percent in 2010, contributing to import deficit of around US\$ 5 billion. See at Viva News. (28 Apr. 2011).

Pointing out the potential negative problems that TPP may inflict to ASEAN centrality will not bring any goods to this ministry in particular or Indonesia in general, since it will put the country in direct opposition to the US.⁷⁹ Moreover, it is the MoFA's diplomatic style to maintain harmony and peaceful relations, rather than to harshly point out a vocal opposition to other country's action, let alone the Big Power like the US. At a less media coverage arena, the stance of MoFA is pretty much in line with the logic above. In a discussion in Jakarta in July 2013 on Indonesia's position on TPP, Indonesian Permanent Representative to ASEAN acknowledged the negative consequences TPP may cause to ASEAN centrality and the need for the country to focus more on AEC and RCEP. At exactly the same occasion, another official from Directorate for Cooperation in Asia-Pacific and Africa, Ministry of Foreign Affairs, expressed doubt on the conclusion of TPP at any time soon and pointed out other FTA beside TPP that may hamper ASEAN Centrality, namely the China-Japan-Korea (CJK) FTA, as it will direct attention from ASEAN-hub FTA into Northeast Asia.⁸⁰

The very view of ASEAN Centrality is also deliberated by various local academics, especially those with Politics or International Relations background. This view on ASEAN Centrality can be seen from the writing of Beginda Pakpahan, an IPE academic from the University of Indonesia in East Asia Forum website at November 2012, entitled 'Will RCEP compete with TPP?' (Pakpahan, 2012). Other academics voicing such concerns are Edy Prasetyono, a security

⁷⁹ This is acknowledged by the Indonesian Permanent Representative to ASEAN, who said that diplomatically Indonesia could not oppose to the TPP; it is more appropriate to say that it would join at a timely manner. The position was voiced during a Roundtable Discussion in Jakarta, 16 July 2013 (Lemhanas, 2013).

⁸⁰ This two comments from the MoFA are gathered from *Ibid.*

expert from the same university and Makarim Wibisono from ASEAN Foundation; both articulated the needs to defend ASEAN Centrality during a discussion in Jakarta, July 2013.⁸¹ Moreover, one academic from ASEAN Advisory Board Council (ABAC) also interviewed for this research also expressed similar concern.

Such high passions on ASEAN among the MoFA and local academics may be lead to the internalization of the ‘ASEAN Centrality’ argument into the government. This is acknowledged by Former Presidential Staff for Economic Affairs interview for this research in Jakarta on 13 March 2015. He not only pointed out economic reasons such as Indonesia’s unreadiness, but also political reasons such as the ASEAN centrality. Moreover, this can also be observed from the statement of officials from Directorate of ASEAN Cooperation, Ministry of Trade, during a conference in Jakarta, February 2015. This official, Reza Pahlevi Chairul, singled out the reason Indonesia choose RCEP instead of TPP is exactly because of this ASEAN first reason (Habibie Center, 2015).

Another actor that plays the role within this group is a leader (or the President). In a democratic presidential system of Indonesian politics, the president has big influences in determining the country’s policy, including foreign policy. In TPP matter, there are two views that the president expressed (either implicitly or explicitly). First, many academics interviewed for this research correlates decision on TPP with the President SBY’s personal attributes.⁸²

⁸¹ *Ibid.*

⁸² There are three academics expressing this view during interview sessions: Interview with an IR specialist from ABAC, *Op. Cit.*, interview with an IR specialist from University of Indonesia, *Op.*

President SBY is well-known domestically for his 'self-image' rather than policy's substance. In general, he will choose a policy that will improve his image. In foreign affairs, it is translated into Indonesia's activism and rising international profile, as can be seen from the Bali Road Map 2007 of United Nations Framework Conventions on Climate Change) and the G20. For TPP, these academics argue that if Indonesia joined it, then the country would no longer become the center stage like the ASEAN Centrality provides. The more ASEAN is on the spot, the more President SBY will be on media highlight. As TPP may somehow downplay the role of ASEAN, President SBY chose not to join.⁸³ Another view relates mostly to the economic sector.⁸⁴ President SBY seemed to have a concern about Indonesia's poor performance in ASEAN-China FTA in early January 2010, which made him not too ambitious in concluding FTA, especially the one with the high standard like the TPP. As an insight from his closer circle, former Presidential Staff for Economic Affairs mentioned that President SBY gave a direction that trade policy should promote not only free trade but also fair trade where developing countries should benefit. Particularly to TPP, the president mentioned that Indonesia must not enter any FTAs only because there is a pressure from a powerful country to open Indonesia's market. Along with this view, Indonesia under the current President Jokowi is also

Cit., and interview with an IPE specialist from University of Indonesia, in Depok, Indonesia, 23 March 2015

⁸³ However, one academician also pointed out that under the President SBY's slogan of 'million friends, zero enemy', somehow Indonesia's trade policy also moved beyond the ASEAN-concentric principle, such as the proposal for Indonesia-EFTA bilateral FTA. Interview with an IR specialist from ABAC, *Op. Cit.*

⁸⁴ Interview with an IPE specialist from *Bina Nusantara* University, in Jakarta, Indonesia, 5 March 2015; Interview with Former Presidential Staff for Economic Affairs in Jakarta, Indonesia, 13 March 2015.

predicted not to join TPP. He is more pragmatic and people-oriented, making him see TPP will put big pressure on Indonesia's economy.⁸⁵

VI.3.2 The Role of Protectionist Group

Domestically, it is not that there are not any groups supporting TPP. Indonesian Textile Association publicly supported the country's participation in the deal, as voiced by its Chairman Ade Sudradjat Usman in April 2014. He commented that as a non-party Indonesian textile product will be charged a tariff of 12-31 percent to the US, while a member will get the reduction to 5-12 percent (Kompas, 15 Apr. 2014). This is especially important since Indonesian competitor, namely Vietna, is already in the negotiation table. Another voice comes from neoliberal academic. Anwar Nasution, a professor in the traditionally liberal Faculty of Economics, University of Indonesia, mentioned that Indonesia must join TPP for market access to the US, reforming the market, and improving market efficiency (Kompas, 29 Jan. 2013). However, these actors are only a small group within Indonesian domestic setting with little political power. It is true that the neoliberal academic is traditionally important for the country's reform agenda, as they usually retain some economic-related posts (as a technocrat or economist) in the government since President Suharto ear, such as Ministry of Finance, Ministry of Trade, National Economic Planning Agency and Coordinating

⁸⁵ During an interview, an IR specialist from University of Indonesia mentioned that actually the US had a lot more opportunity to attract Indonesia to join the TPP when SBY still served as the president. After the Asian Crisis, President SBY is the most international figure of all presidents with his clear preference to Indonesia's rising regional and global role. The former ambassador to the US, Dinno Patti Jalal (also served under President SBY), also has a very strong linkage to the US. After these two figures stepped down, there is an even less chance for Indonesia to join the TPP, especially since the current government under President Jokowi is more domestic-oriented.

Ministry for Economic Affairs. However, their very influenced is hampered by two conditions: first, if they are close to the dominant political actor; and second, if there are economic crisis. This was the case where they could impose reform during economic crisis in the mid 1960s, late 1980s, and after 1997-1998; in which on the first and second occasion they are close to President Suharto and on the third to the IMF (Murphy, 2000). However outside that factors other political actors can outmanouver them. For example, when the IMF-backed Indonesian Banking Restructuring Agency (IBRA) tried to re-sell assets, the protectionist domestic business group took actions (such as by manipulating nationalist demonstration) to re-claim their former asset and to avoid it being sold to foreign buyers (Hadiz, 2005). Another example is their effort to reduce the fuel subsidy but always faced with domestic populist resistance, making it politically costly.⁸⁶

On the other side of the camp, there is a lot more various group. One of them is NGO. In an interview with NGO worker from Third World Network in Jakarta, at 4 March 2015, there are several objections why TPP does not fit with Indonesia's economic needs: 1) data availability and reliability is still a very big problem in Indonesian service sector, making Indonesian cannot measure where they are or whether they will benefit from liberalization; 2) there is less transparency in FTA negotiation than during WTO meeting, where in the latter NGO can come and lobby; 3) liberalization in government procurement does not necessarily mean corruption practice can be halted, yet it simply means transferring the bribery actor from local to foreign companies; 4) Indonesian

⁸⁶ A good analysis on this pro-reform and protectionist group interaction can be seen at Rosser, 2002.

SMEs have no idea of going international, since they are too focus on surviving in the domestic market; and 5) the investor-state dispute settlement mechanism will undermine the sovereignty of the Indonesian government against the MNCs. This NGO worker also labeled TPP not as a ‘gold standard agreement’, but as a ‘bronze’ due to this imperfection to developing countries.

A lot more powerful actor is the domestic business group, which are by structure and history are inherently protectionist. By structure, it means that they were born given to Indonesia’s huge population, making Indonesia tends to be inward rather than an outward economy. As mentioned before, Indonesia’s economy depends more on domestic rather than the international market. Naturally, this makes business groups depends more on the domestic market too. By history, Indonesian domestic business group was born by patron-client relations under the regime of President Suharto. Hadiz (2005) gives a very useful account on this particular issue. He argues that Indonesian business centered and become dependent on state economic activity. During the 1970s to late 1980s where Indonesian economy got a windfall profit from the oil boom, the infant private business received considerable support from the support. During the late 1980s to 1990s where oil boom ended and the government needed to deregulate the economy, it was them to take the most advantage since they acquired what was previously monopolized by the state. Therefore over the time they become politically powerful and start influencing government policy-making process. They prefer protectionist policy and the extent of their influence can be traced to Indonesian trade policy in ASEAN. Nesadurai (2003, 2012) found that trade

policy in this region is made in a way that will serve the economic benefit of politically important domestic business sectors. This is the case in the early 2000s in which Indonesia postponed its AFTA's liberalization commitment on petrochemical, cloves, wheat and sugar. There was also a case where MoT responded to the appeal made by the Bogasari Company, who happened to lose market shares after the Asian crisis, by imposing standard regulation procedures for wheat import (Bird, Hill & Cuthbertson, 2008a).

Moreover, the relatively prevalent position of the protectionist, rather than pro-FTA business group within domestic political setting is due particularly to the defensive position they must hold after the Asian Crisis 1997-1998. Domestic business undergoes slow recovery process with a lot of limitations to expanding their business. Indonesian Institute of Sciences, a government-affiliated think tank, even warned that Indonesia showed deindustrialization symptoms, such a stagnant contribution of industrial sector to GDP (from 27 percent in 2000 to 25 percent in 2009) and slow growth of employment (1.1 percent during 2000-2009 against 5 percent during 1990-1999) (Kompas, 22 Dec. 2010). Domestic business climate never truly recovers as before the crisis. Infrastructure is a very acute issue in Indonesia in which congestion in the street, seaport and airport are very rampant, not to mention its poor quality and energy shortage. Non-economic factors such as poor law enforcement, inconsistent rules and regulation, inefficient bureaucracy and local autonomy also contributed as high as 60 percent of business loss, as compared to only 35 percent in Thailand and 23 percent in Singapore

(Basri, 2009, p. 251). Under such situation, it is very hard for a company to expand into another market since they still struggle to survive domestically.

Also strong proponents for this protectionist group comes from the government itself, namely the MoT and president. MoT is very important in Indonesian trade policy as they are the first line of negotiators for an FTA and have a lot of technical knowledge than other ministries. However, compare to the long-standing ASEAN-minded MoFA, this ministry lacks such consistency, the policy of which swings from liberal to protectionist and is very much influenced by the pressure group and the president's policy choice.⁸⁷ In the first decade of 21st century, and especially in the second decade, this ministry often delivers protectionist policy even though their minister usually comes from the technocratic background. Marie E. Pangestu, Trade Minister from 2004-2011, is an academic from Faculty of Economics, University of Indonesia, while Gita Wirjawan, Trade Minister from 2011-2014, is a former investment banker at Goldman Sachs and JP Morgan. On 2011, the Ministry of Trade launched a newly licensed policy to control import to Indonesia. In 2011 and 2012, there was export ban to unprocessed rattan and unprocessed mineral stipulated by this ministry. Even before that, protectionism has been recorded on Indonesian trade policy. Since 2001, it implemented import quota for producer to 26 textile products and in 2003 registration licensing for commodities under 500 tariff post (Bird, Hill & Cuthbertson, 2008b, pp. 9-10). Also in 2003, textile import should also be verified

⁸⁷ Another problem is the Ministry of Trade is very poor to coordinate with other stakeholders, such as business associations and NGOs. Until now, there is no concrete regularized system on this partnership; everything works only on ad-hoc and informal basis. Interview with an NGO worker from Third World Network in Jakarta, Indonesia, 4 March 2015.

in international port while the export tax was charged on leather products, cocoa, and rubber (Ray, 2003, p. 258). Since 2004, it imposed import ban for shrimp product from China as well as standardization and laboratory testing for wheat products (Bird, Hill & Cuthbertson, 2008b, pp. 9-10).

Especially in the second decade of 21st century, Indonesian trade policy is getting domestic oriented. This is partly explained by Indonesia's poor result in ASEAN-China FTA revealed in 2010 where President SBY was reported to be upset and decided to change Pangestu with Wirjawan.⁸⁸ His subsequent policy choice is more to be improving domestic industry's competitiveness, as seen from the export ban for rattan and unprocessed mineral ore. When the current President Joko Widodo was elected, he chose Rahmat Gobel as the new Minister of Trade. Rahmat Gobel is an important nationalist icon as he has a local company operating in the electronic sector under a joint venture with Panasonic Group Japan. Choosing a local entrepreneur for this new position, rather than an economist, President Jokowi gives a signal on the domestic-oriented trade policy of Indonesia in the future, coherent with his people-oriented economic agenda.⁸⁹ Therefore, it is not surprising that recently the MoT seeks to find non-tariff barriers (NTBs) for import restriction. One of them is the usage of SNI (*Standar Nasional Indonesia/ Indonesian National Standard*) for many kinds of goods, which is different from international standard.⁹⁰ The protectionist tendency is also voiced by an economist from the CSIS:

⁸⁸ Interview with an IR specialist from ABAC, *Op. Cit.*

⁸⁹ *Ibid.*

⁹⁰ Interview with an IPE specialist from *Bina Nusantara University, Op. Cit.*

“...There is a common perception among Indonesian policymakers and government officials that what Indonesia needs at the moment is to improve competitiveness, not to open the economy or expand market access. According to this line of argument, Indonesia should deal with its challenges and problems, such as inadequate infrastructure and high costs, before trying to maintain a more open trade regime and establish trade agreements. Otherwise, Indonesia will be unable to compete internationally and simply be an attractive market for its trading partners. This claim is reinforced by the perception that Indonesia’s domestic market is big enough to support domestic producers provided sufficient protections are granted and facilities made available for their expansion....” (Damuri, 2014)

Given such domestic political setting, it is understandable why Indonesia showed reluctance to join the TPP. TPP seems to be on the other extreme of the road with its ‘high-quality 21st century FTA’ rhetoric. As articulated by an IR specialist from ABAC, for Indonesia the problem is not whether Indonesia will join TPP, yet about when Vietnam and Malaysia will finally realize that it is too high standard for them.

Furthermore, such attitude toward TPP implicates to rather positive behavior on the RCEP, which is basically the contender of the former. It can be said that domestic business groups feel more relax with RCEP as it still entails ASEAN’s way of doing FTA, namely attention to domestic business development. RCEP negotiation is more flexible as it recognizes a different level of economic development among member countries, which, therefore, will result in different treatment and affirmative action for less-developed countries.⁹¹

VI. 4 Conclusion

The Indonesian experience shows a very significant linkage between trade and foreign policy. It also shows new finding in Southeast Asian trade policy,

⁹¹ Regional Comprehensive Economic Partnership (RCEP): Joint Statement the First Meeting of Trade Negotiating Committee. *Op. Cit.*

which focuses too much on domestic politics. Indonesian experience, in general, is more fit to the broader Asia-Pacific theoretical discussion. Here, international factor, namely political-security objective, fits closely with FTA behavior of Great Powers (such as the US, Japan, and China) and medium powers (such as Australia and South Korea) (Mochizuki, 2009). Practically speaking, Indonesia's strong adherence to ASEAN centrality principle brings implication to the country's commitment to ASEAN-centered FTA, rather than to engage in bilateral approach. Moreover, regional pattern of ASEAN-centered FTA (all partners here are the surrounding Southeast Asian neighbors) as well as the ASEAN plus X framework fit the overall political-security objective of Indonesia, namely to engage Great Powers within a peaceful conduct of relations (through dialogue and cooperation). Indonesia also actively conducts political balancing to these Great Powers whenever there are any attempts to dominate the regional dynamics. This is the reason behind Indonesia's reluctance to join TPP, seeing it as the US' attempt to be too dominant within the regional institutions. Moreover, this argument is equipped by less motive from Indonesia on economic benefits. Although it is true that Indonesia can get trade and investment gains just like Malaysia and Vietnam, the country's huge domestic consumption makes it less dependent on international market.

As for domestic factor, the case of Indonesia shows that within trade policy making the state is not a unitary actor. Two most prominent state actors within Indonesian domestic setting are the MoFA and the leaders (equipped with IR-background academics) who carry the pro-ASEAN interest. On the other side,

there are MoT and leaders (along with the domestic business entrepreneurs and NGOs) who carry protectionist policy. The Indonesian case also confirms the existing literature on the influential roles played by domestic business group, especially in pursuing protectionist policy. Therefore, they favor the ASEAN-centered FTAs (and multilateral) to bilateral FTA since the former is usually of low-quality ones with a long transition period, sensitive and exclusion list. It is not the case for the bilateral FTA, as well as the TPP, as it usually entails greater liberalization scheme, including the provision of WTO-plus arrangement where domestic business finds very hard to comply to.

Seeing from this domestic angle, it is interesting to see that so far the interest of pro-ASEAN and protectionist groups fit in with each other. Their desire for ASEAN-based and low-quality FTA are reflected in the various ASEAN-centered FTA that Indonesia signed so far. It is also confirmed once again in the case of reluctance to join the TPP. In the future, it is very interesting to see the nature of the relations between these two groups. For example, what will be the outcome of Indonesian trade policy if their interests confront each other? This is a very likely scenario if somehow the ASEAN-US TIFA resumes or the US joins the RCEP. For pro-ASEAN groups like MoFA, engaging the US through these two schemes are a very likely goal as ASEAN will be at the driver's seat. In contrast, it is against the interest of the protectionist group since any FTA arrangement with the US should always entail greater domestic reforms, as seen in the case of NAFTA, US-Jordan and US-Peru Bilateral FTA (Aggarwal, 2007, 2013). Whatever the outcome is, either to favor or to against, will largely reflect

the domestic political interaction between the pro-ASEAN and protectionist groups.

CHAPTER VII - CONCLUSION

In the existing literature on Southeast Asian trade policy, there are several assumptions worth mentioning here. First, it tends to be more of a domestic-based trade policy. Trade policy is always seen as the result of the linkage between a state on one hand and domestic business entrepreneurs on the other hand. Second, as they are mostly cautious to aggressive market opening, usually the resulting FTAs are relatively low-quality in nature. Low quality here means that there are significant exclusion list, transition periods and many other exceptions. This is typical of ASEAN-centered FTAs and many other bilateral FTAs conducted by countries in this particular region, except Singapore.

With this situation in mind, TPP came into world headlines in 2008. Contrary to the previous deals in Asia-Pacific, this particular negotiation is important for two reasons. First, TPP gives a different nuance as it is led by the current superpower: the US. It is true that it was first established by the P4 countries in 2005 (Brunei, Chile, New Zealand, and Singapore), yet as the US joined in 2008, it naturally dwarfed these smaller nations. ‘The US factor’ in TPP means that TPP should not be seen only as an economic deal, but also a political tool. This is especially true since TPP is part of US’ engagement or pivot strategy in the Asia-Pacific, therefore, it carries a substantial politics and security objective in the ‘Asia-Pacific integration’ rhetoric. Second, TPP promotes the so-called ‘gold-standard’ or ‘high-quality’ FTAs. Along with conventional tariff reduction in trade in goods, it incorporates the WTO-plus requirements, such as national

treatment principle, government procurement, investor-dispute settlement mechanism and labor and environmental standard. This is a lot more aggressive liberalization than Southeast Asia currently has.

For Southeast Asian countries, TPP provides an opportunity to observe their trade policy behaviors differently. The ‘US factor’ embedded within TPP means that it should be seen from the angle of political and security objectives of these nations. Theoretically speaking, it is not only the domestic but also international factors that play an important role in the Southeast Asian trade policy formulation. There is always a possibility of converging or diverging interests among them with the US, which then leads to the former's decisions to join or not to join TPP. At the same, the high-quality standard that TPP offers means that the ‘state is unitary’ and the ‘state-business linkage is most important’ assumption should be revisited. TPP’s high-standard should be seen in relations to a country’s domestic economic reform plan, whether it is converging or diverging. As economic reform plan is highly debatable due to its potential wealth re-allocation effect, a lot more various actors are involved in this policy process. Even within the state there are disagreements or even conflicts on whether reform should be carried out. In the non-state actors, business entrepreneurs are, of course, not the only important actor here as NGOs and academics also play roles.

With this situation, the research proposes four arguments on trade policy motives of Southeast Asian countries on TPP. The first two relate to international factor, namely ‘The Need to Forge Closer Relations to the US’ whereas the last two to domestic factor, namely ‘Support to Economic Reform’. The first

argument is basically ‘economic benefits’; the more a country enjoys economic benefit from TPP (or more appropriately from the US, as the largest market), the more likely it will join. The benefits are apparent from the trade gains, investment gains and lock-in reform opportunity (the potential to position TPP as an external push for domestic economic reform process). The second argument is ‘political-security needs’, comprising both foreign and security objectives. The more a country has political-security needs to the US, then the more likely it will join TPP. This variable consists of several indicators: a) coherency with foreign policy objective; b) security threat from neighboring country, especially China; and c) to reduce China’s economic influence. The last two arguments are ‘support to domestic economic reform’. They postulate that the stronger the support from state decision-maker and societal group to economic reform, the more likely a country will join TPP. It gives insight into various actors and their interests in the domestic sphere. Within the state body, it is important to see the stances of its leader (President, Prime Minister, Chairman of ruling party), the ruling party, opposition parties and bureaucracy, while from the non-state actors there are the domestic business entrepreneurs, NGOs, and academics.

Table VII.1 – The Motives on TPP: Experiences of The Three Case Studies

Case Studies	International Factors		Domestic Factors		Output
	Economic Benefits	Political-Security Needs	Supports from State Decision-Maker	Supports from Societal Group	
Vietnam	High	High	Strong	Strong	Joining TPP
Malaysia	High	Medium	Medium	Medium	
Indonesia	Medium	Low	Weak	Weak	Not Joining TPP

Table VII.1 gives a summary of the experiences of all three case studies, namely Vietnam, Malaysia and Indonesia. They reflect pretty much the abovementioned logics in their experience on TPP. Vietnam has the most motives to join TPP as it qualifies all four arguments. The country has high economic benefits and political-security needs as well as strong support from state decision-maker and societal group to conduct economic reform. Therefore, it is no wonder that the country decided to join TPP. Malaysia is at a lower level than Vietnam, but still sufficiently high to enter negotiation. Malaysia has high economic benefits with medium political-security needs and the medium level of support from both state decision-makers and societal groups to carry out economic reform. Indonesia presents an important negative case study as it is in contradictory position. The country decided not to join TPP, especially because it only has medium-level economic benefits, low political-security needs and weak domestic support for economic reform.

The following subsections give more detailed explanations of the international and domestic factors.

VII.1 International Factors

Table VII.2 – The International Factors: Experiences of The Three Case Studies

	Economic Benefits	Political-Security Needs
Vietnam	<p style="text-align: center;"><u>High</u></p> <ul style="list-style-type: none"> • Trade gains • Investment gains • Limited lock-in reform objectives 	<p style="text-align: center;"><u>High</u></p> <ul style="list-style-type: none"> • Coherent with Vietnam’s multidirectional foreign policy • High China’s threat perception due to geographical proximity and historical subordination • To balance China by approaching the US in a less-threatening way • To correct trade imbalance with China by pursuing trade surplus with the US • To reduce dependence on China for imported raw materials in textile industry
Malaysia	<p style="text-align: center;"><u>High</u></p> <ul style="list-style-type: none"> • Trade gains • Investment gains • Lock-in reform objectives 	<p style="text-align: center;"><u>Medium</u></p> <ul style="list-style-type: none"> • To serve interests as a trading nation • Coherent with overall Malaysia’s approach to the US • Relatively less viable threat from China (maritime Southeast Asian country) • Malaysia perceives economic relations with China positively (trade surplus)
Indonesia	<p style="text-align: center;"><u>Medium</u></p> <ul style="list-style-type: none"> • Trade & investment gains • No lock-in reform objectives • Indonesia is less dependent on international trade • Highly cautious with high-standard requirements 	<p style="text-align: center;"><u>Low</u></p> <ul style="list-style-type: none"> • TPP downplays ASEAN centrality principle • Relatively less viable threat from China (maritime Southeast Asian country) • To reduce trade imbalance with China by improving domestic industrial competitiveness

Table VII.2 gives a summary of the influence of international factors on the case studies’ experience on TPP. If we see from the economic benefits

variable, then it is clear that Vietnam and Malaysia have high economic benefits to joining the TPP. In fact, it is very interesting to note that Vietnam and Malaysia are among the countries projected to take the most economic benefits, as postulated by a study from the East-West Center. The two countries have similar traits as they are both trade-dependent nations where the international market is very important. For Vietnam, the US is currently the number one trading partner with significant growth especially since the signing of Bilateral Trade Agreement (BTA) in 2001. For Malaysia, the US is among the most important traditional trading partners besides China and Singapore. The two countries also continuously enjoy substantial trading surplus with the US but without any FTA deals, therefore bolstering the need to join TPP. Vietnam and Malaysia have already secured FTAs with their other trading partners, for example, the two countries engaged China through the ASEAN-China FTA and engaged Japan through ASEAN-Japan CEPA and bilateral Japan CEPA. As for Indonesia, it is true that the country also has those traits. Indonesia is also forecasted to gain much economically through the trade and investment channel and moreover it also has a substantial trade surplus with the US but without any FTA deal. However, structurally the country is very different from the other two. Indonesia is less dependent on the international market since its huge population makes domestic consumption much more important to propel growth (with a contribution to as high as 55 percent of GDP). In fact, it is this very factor that enabled Indonesia survive the global financial crisis in 2008-2009.

The investment and lock-in reform deserve special attention here as it is experienced differently in each country. Malaysia seems to have the most motive as the authority clearly links their participation in TPP to pursuing more aggressive reform. Currently, Malaysia struggles very hard not to be in the 'middle-income' trap situation. Incoming investment from TPP is expected to bring the country to the next level, both in terms of industrial technology and income level. In a way, it is interesting that Malaysia now chooses a neoliberal approach, like FTA participation, for their growth strategy, since in the past the country adheres very much to Japan-inspired developmental state strategy (or Looking East Policy). At the same time, while it is true that Vietnam also anticipates incoming FDI from TPP, their very expectation is different than in the Malaysian case. This country seems to have more expectation on the higher number of labor-intensive exports, such as from textile, footwear and food processing industries than to link domestic reform measures with the international agreement. Therefore, the anticipated FDI is expected to boost this low-value chain export products. TPP is less seen as a chance for external reform pressure like Malaysia does. However, this difference is understandable as they are in a different developmental stage. Malaysia is at the medium-level while Vietnam is at the low-level of the development ladder. In this case, Vietnam is in a similar position with Indonesia, which has no intention to treat TPP as an external push to reform.

In the political-security needs, comparison among the three case studies shows that all of them link decision on TPP with their foreign policy objective. In

the case of Indonesia, this reason is among the ultimate one causing the country not to join. In Indonesia's point of view, TPP somehow downplays the central role that ASEAN has played so far in Asia-Pacific regional dynamics. In TPP, ASEAN is no longer at the driver's seat. Consequently, it is understandable that the country pushes for the RCEP, another mega-regional trade agreement among ASEAN and six neighboring partners but with ASEAN in the central position. For Vietnam and Malaysia, on the contrary, participation in TPP is, in fact, coherent with the foreign policy priorities. After the Cold War, Vietnam engages multidirectional foreign policy to survive in the globalization era. Engagement with the US is one of the most important pillar here as it provides Vietnam with lucrative economic opportunities as well as a necessary hedging strategy to move away from being over-dependent to China (discussed below). For Malaysia, trading nation status is always an important element in its foreign policy, therefore pushing the country to seek international market opportunities constantly. Moreover, as a small country Malaysia needs a channel to engage the US constantly. For Vietnam and Malaysia, engaging the US in economic tools like TPP is also consistent with their overall approaches in political and security arena. Here, they have intensive low-level military cooperations in training, disaster management, and so on.

The threat element, namely how the TPP is positioned within the China threat dilemma, provides a different nuance among the three case studies. Actually, the whole Southeast Asia now feels uncertain on whether China will become an aggressive Great Power. There is indeed a wide consensus that China

is more likely to be, at best, a threat in the medium and longer term rather than the short-term. However, seeing from country to country basis there are clear differences in threat perceptions. Vietnam as a mainland Southeast Asian country perceives China's threat theory in a much stronger sense. Vietnam shares land borders with open terrain with the Great Power, which makes a military attack theoretically possible, especially since historically the former was the colony of the latter. Therefore, Vietnam sees TPP as a way to further approach the US, especially as it is a less-threatening means than the more vivid security treaty. Vietnam still has an underlying fear of provoking China, which is also another of Vietnam's foreign policy objective. Interestingly, the US through TPP also creates means for Vietnam to reduce dependency on China. First, Vietnam can compensate trade deficit from China with continuing trade surplus from the US. Second, the yarn forward rule in the textile sector gives way for Vietnam to reduce its dependence on China-origin raw material. Here, Vietnam can channel the supply through investment from other countries or more preferably through its own domestic supplies.

Malaysia and Indonesia somehow respond to this China threat differently. As maritime Southeast Asian countries, these two nations have a relatively lower threat perception than Vietnam especially since China's navy is still in under development. Therefore, the two countries do not position TPP as a way to mitigate China's threat. In fact, Malaysia sees closer relations with China as a positive impetus for growth with its continuing trade surplus. Whereas in Indonesia, although the country is just like Vietnam in experiencing trade deficit

with China, its overall response is to develop domestic industrial competitiveness rather than to channel it to the surplus-generating country like the US (discussed below).

VII.2 Domestic Factors

Table VII.3 – The Diverging Actors on TPP

	Level of Support (In General)	Pro-TPP	Anti-TPP
Vietnam	Strong	<ul style="list-style-type: none"> • Leaders (intra-VCP reformist faction); • Ministry of Trade & Industry; • Export-oriented business entrepreneurs 	<u>Silent resistance:</u> Subnational government & SOE manager
Malaysia	Medium	<ul style="list-style-type: none"> • Leader (PM); • Ministry of International Trade & Industry (MITI); • Export-oriented business entrepreneurs 	<u>Vocal Resistance</u> <ul style="list-style-type: none"> • Several bureaucratic agents; • Intra-UMNO business-politician; • Opposition parties; • NGOs
Indonesia	Weak	<ul style="list-style-type: none"> • Liberal academic; • Textile association (export-oriented business entrepreneurs) 	<u>Pro-ASEAN group:</u> <ul style="list-style-type: none"> • IR-background academic; • Ministry of Foreign Affairs (MoFA) <u>Protectionist group:</u> <ul style="list-style-type: none"> • Leader • Ministry of Trade (MoT) • Domestic business entrepreneurs

On the domestic side, Table VII.3 summarizes the situation in each case study. It is clear that there are variations among the observed cases on the level of support to economic reform. Vietnam and Malaysia have strong and medium level of support causing them to join TPP, whereas Indonesia only has weak support

leading to its not-to-join decision. In Vietnam, the voice for support is quite dominant from the state actors while the opposition is almost unheard of, probably because the one-party system causes the former to be the only ultimate voice. In Malaysia, the supporter and challenger are on equal par. The situation leads to a different domestic atmosphere in both countries. In Vietnam, it is no less than enthusiasm to TPP with its potential to export more labor-intensive products to the US, but without sufficient balancing views. After the global financial crisis that weakened Vietnam's economic performance, the country also aggressively engaged in many FTA negotiations along with TPP. Now, it negotiates the Vietnam-EU, Vietnam-EFTA, Vietnam-South Korea, Vietnam-Russia-Belarus-Kazakhstan Custom Union FTA and RCEP. It is important to note here that the perception of the VCP, especially from the reformist faction, that global economic integration will ensure the very survival of the regime. In their mind, it continually provides economic growth and employment and, henceforth, performance legitimacy in the eye of the Vietnamese. Vietnam seems to show a hasty, if not reckless, behavior in this regard since economic globalization does not always lead to the intended result. Unfortunately, without any challengers willing to speak up, there is nothing stopping, or at least moderating, the optimism and passion of the Vietnamese leader. The only challenge appears on silent resistance from subnational government and SOE manager, but only later when Vietnam finds it difficult to implement TPP's reform measures. Meanwhile in Malaysia, the nuance is of both optimism and skepticism. Optimism is casted by the leader (especially PM Najib) and MITI while skepticism is voiced by the

intra-UMNO business politician, opposition parties, and NGO. Therefore in Malaysia, there is a lot more balanced view on responding to TPP unlike in the Vietnam case. Malaysia appears to be a lot more cautious with many articulating demands for a longer transition period, flexibilities, or even rejection. It is also worth noting that in Malaysia, unlike in Vietnam, the leader has institutional constraints in two ways. First, as the opposition parties improve their electoral performance, the ruling party (UMNO) can no longer easily implement any desired policies. Sensitive issues like TPP that can be easily manipulated into a political attack. Second, as the high-quality TPP gives a potential threat to the intra-UMNO business politician, the leader (PM Najib) must also consider not antagonizing the traditional *Bumiputera* constituent if he wants both to remain in power and to sustain the political regime.

Another important finding is the fact that the state should not be seen as a unitary actor, as assumed before in many existing literature. In the TPP case, the state is far from unitary with many competing ideas and stances among their components. This is very clear in the Malaysian case where the leader and MITI are in one camp, while intra-UMNO business-politician, opposition parties, and several bureaucratic agencies are in the other. The so-called reform measures entailed within TPP actually trigger such division, which in the past state's components were in stable relations under the dual approach of export-oriented industry and bumiputera policy. The case is also very clear in Indonesia where there are two important views, the pro-ASEAN and the protectionist group, which luckily desire similar outcomes for not participating TPP. State apparatus like the

MoFA is on the pro-ASEAN camp while another like MoT and leader are on the protectionist (or nationalist) camp. It is interesting to observe other cases where these two groups have diverging stances and how it leads to the outcome.⁹² Even in the one-party rule of Vietnam, such state division is also observable although less clear. According to Masina (2006) and Painter (2006), Vietnam's authority is more of a decentralized nature than centralized one that leads to the silent resistance from the subnational government (and SOE manager). They might not articulate opposition to TPP by the time the decision was taken (pre-negotiation) since it would put them in undesired opposition with the leader. However, they are expected to cast resistance once TPP is implemented.

As for the non-state actor, there are several actors worth mentioning here, the domestic business entrepreneur, NGO and academic. For domestic business entrepreneurs, it is clear that their view on TPP is divided: the export-oriented industry supports the TPP while domestic-oriented one does not support it. This is very clear in Malaysia and Indonesia but only to a lesser extent in Vietnam. However, in the latter country there are still reservations on how TPP may affect the SMEs. The influence of domestic business entrepreneurs on trade policymaking is also worth mentioning here. Vietnam is a case where their voice is not very important since in their system such private entity only lives as the state allows them to. In Indonesia, they are of a lesser importance than the state since there are many precedences in which state can act on its own without full acknowledgment from a business. In Malaysia, business entrepreneurs have a

⁹² A potential case study for the diverging interest is the ASEAN-China FTA where, on one hand, protectionist demanded for renegotiation and, on the other hand, pro-ASEAN group wished for continued implementation.

much stronger position since they heavily intrude into the political sector by becoming a UMNO member. For NGOs, their very influence in the observed case studies is even less. This is very true in Vietnam and Indonesia. For the former, it is very understandable under the one-party system while, for the latter, there are other actors such as leaders and bureaucratic agents voicing their stances more vocally. However, it must be noted that the relatively calm behavior of NGOs in Indonesia in the TPP issue is not necessarily because they are impotent. It is more because they do not feel the need to put pressure as the state already acts in line with their interest. There is a possibility that they will be more active if the state commits a controversial action, such as joining the TPP. For Malaysia, although NGOs here are very dynamic in voicing opposition thanks to the government's decision to join TPP, their relative importance is quite moderate. They function well to give technical input to government and promote awareness to the people, yet not necessarily to influence the trade policy making itself as they face many constraints under the authoritarian system of Malaysia. As for academics, it is particularly dynamic only in the Indonesian case, especially within the pro-ASEAN group. In democratic Indonesia, academics relatively enjoy more room to exert their influence as opposed to Vietnam and Malaysia where academics must fully comply with the state's interests.

VII.3 Further Research

There are at least four areas where the research can be expanded in the future.

First, there should be follow-up research focusing on other countries in the region. With four arguments proposed here (the economic gains, political-security needs, and the level of support for domestic economic reform from state decision-maker and societal group), it will be very interesting to see how other countries respond to TPP, especially since they have their own international and domestic priorities. Within Southeast Asia, it is important to see the experience of the Philippines and Thailand. The Philippines is a country with a traditional alliance with the US, yet it decides not to join the negotiation until the time being. Thailand is also important as a country being equally close to both China and the US and has a trading nation status but without the decision to join TPP. Outside Southeast Asia, it will also be important to see how the framework is implemented in US-ally countries such as Australia, Japan, and South Korea. These three countries have rather different approaches on TPP, with Australia being so quick to announce participation in 2008, Japan being late to announce participation in mid-2013 and South Korea not joining until now. Another important country to observe is China itself, as it becomes the so-called constrained or left-out country. From studying these countries, there will be richer insights on how trade policy is being formulated in Asia-Pacific.

Moreover, adding more countries to the discussion is important for methodological consideration. Although using four independent variables ('economic benefits', 'political-security needs', 'support from state decision-maker' and 'support from societal group'), there are only three case studies used here. As the number of case is lower than the number of variables, then the result

of the thesis should be treated as a temporary finding. Therefore, more research is needed to test whether similar results can also be found in other countries.

Second, it is important to expand the role of other actors in influencing trade policy in Southeast Asia. Important in this regard is the role of foreign companies and foreign academics in influencing domestic stakeholders. The role of foreign companies especially is important as they are among the few actors possessing access to the TPP negotiation. They also retain a sufficient degree of power since the Southeast Asian development process relies pretty much on FDI, not to mention they have direct access to government officials as well. In this research, the focus is still largely on the domestic actors. Research on foreign academics will also be interesting in two important respects: a) in developing countries where there are only limited local human resources, foreign academics play an important role as a source of knowledge, and, therefore, they can cast ideological discourse such as neoliberalism; and b) foreign academics (or rather, economists) always links heavily with other powerful actors such as the World Bank or IMF as they share similar interests.

Third, as time goes by, there will be more areas that will be feasible for research activity. TPP is now committing a very secretive process without much information available to the public. In this research, this is part of the difficulty as it is not always easy to discover a state's stance in the negotiation process. However, as time evolves and more information is available to the public, it will no longer become a problem especially if TPP can finally reach the conclusion. Some areas like studies on negotiation process will be very likely. For the same

reason, it will be a lot more feasible in the future to conduct research on the issue-specific area. Several chapters in TPP, such as the IPR, investment, and government procurement are very likely to be research topics, given their ‘new trade issue’ nature and political aspect it links. Further research can focus on countries’ response on each of those issues, negotiation and bargaining process as well as the domestic political debate.

Fourth, there is a chance for another variable explaining the motive of trade policy in Southeast Asia. Especially the domestic factor, this research focuses mostly on agent-based approach. There is an indication that an institutional-based approach will also be important to influence this trade policy making. This is very apparent in the Vietnam and Malaysia case, the former being a one-party rule system and the latter being an electoral authoritarianism country. Even in this research, it is shown that agents are largely bounded by these institutional constraints. Vietnam’s strong support for economic reform is possible only because there is no strong opposition in the domestic arena. In Malaysia, the medium level of support can also be explained by the dual difficulties that the leader face from opposition parties and intra-UMNO business politicians. The dynamic role of academics in Indonesia in influencing policy making is also part of this process, as the country is under a democratic political regime.

APPENDIX – LIST OF INTERVIEWS

No.	Date	Place	Interviewees	Affiliations
1.	23 Feb. 2015	Office of Malaysian AIDS Council, Kuala Lumpur (KL), Malaysia	Ms. Fifa Rahman	Malaysian AIDS Council
2.	23 Feb. 2015	<i>Universiti Kebangsaan Malaysia</i> (UKM), Selangor, Malaysia	Mr. Ravichandran Dhakshinamoorthy Mr. Guido Benny	UKM
3.	24 Feb. 2015	Office of Institute for Strategic and International Studies (ISIS), KL, Malaysia	Ms. Juita Mohamad Mr. Firdaos Rosli	ISIS
4.	25 Feb. 2015	Monash University Malaysia, Selangor, Malaysia	Ms. Helen Nesadurai	Monash University Malaysia
5.	3 Mar. 2015	ASEAN Secretariat, Jakarta, Indonesia	Mr. Alexander Chandra	ASEAN Business Advisory Council (ABAC)
6.	4 Mar. 2015	Office of Institute for Global Justice (IGJ), Jakarta, Indonesia	Ms. Lutfiyah Hanim	Third World Network
7.	5 Mar. 2015	<i>Bina Nusantara</i> University, Jakarta, Indonesia	Mr. Tirta N. Mursitama	<i>Bina Nusantara</i> University
8.	11 Mar. 2015	University of Indonesia, Depok, Indonesia	Ms. Evi Fitriani	University of Indonesia
9.	12 Mar. 2015	Paramadina University, Jakarta, Indonesia	Mr. Firmanzah	Paramadina University (Former Presidential Staff for Economic Affairs)
10.	23 Mar. 2015	University of Indonesia, Depok, Indonesia	Mr. Beginda Pakpahan	University of Indonesia

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