GO HUNGARY – GO INDONESIA: UNDERSTANDING ECONOMIC AND BUSINESS ISSUES

BOOK 1

Edited by Tamás Novák

Oriental Business
and Innovation Center
OBIC

BUDAPEST BUSINESS SCHOOL
UNIVERSITY OF APPLIED SCIENCES
2017

Go Hungary – Go Indonesia: Understanding Economic and Business Issues

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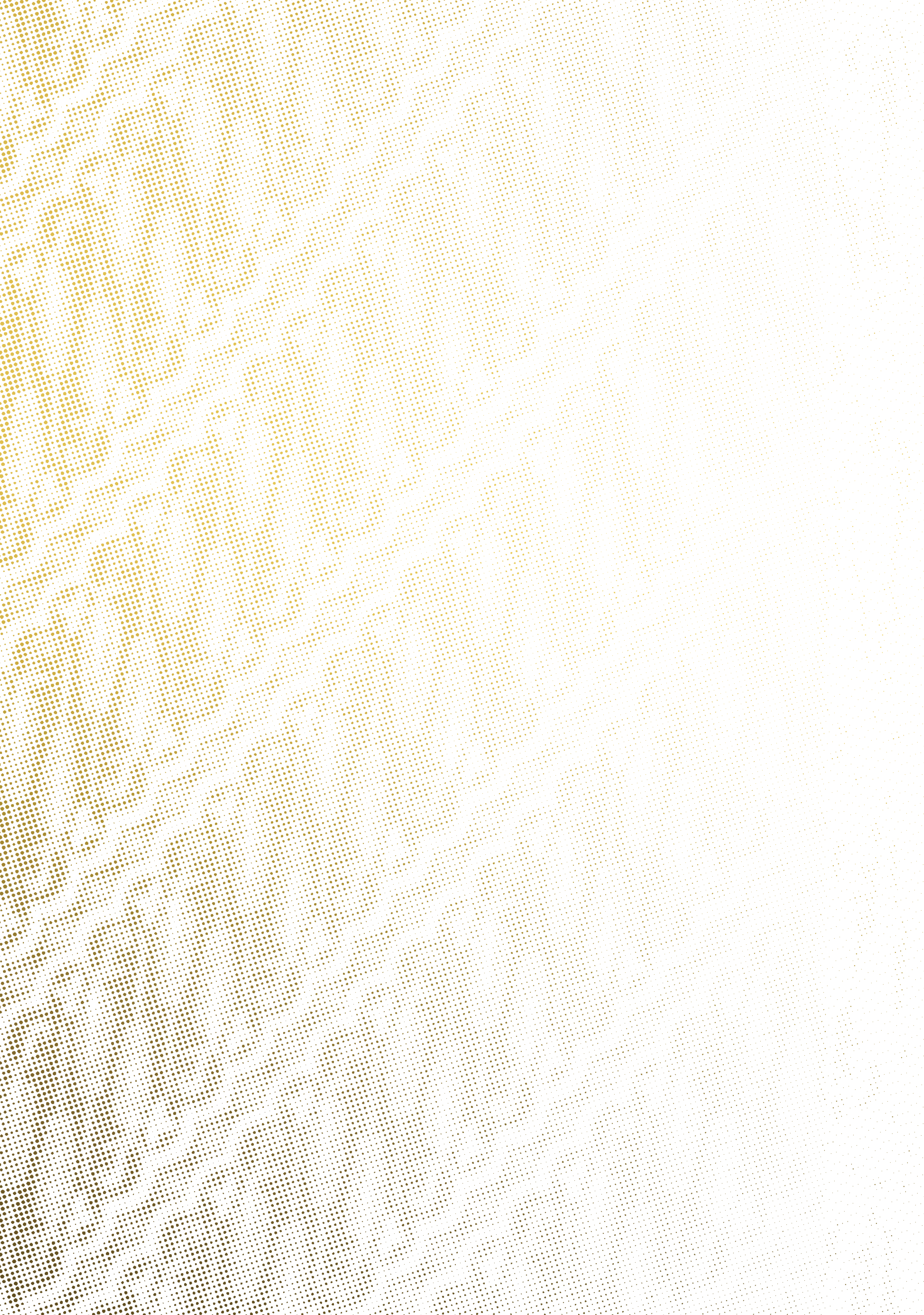


Preface

Improving economic, cultural and higher educational relations between geographically distant countries is never easy. But this generalization does not rule out exceptions, which means that long distances do not necessarily prevent relatively strong trade, capital relations and developing contacts in fields such as cultural and higher education cooperation and exchange. But in order for this to happen, several prerequisites must be met.

The first in the line of such prerequisites is the responsibility befalling diplomacy. Supporting bilateral relations at high levels always facilitates the expansion of all forms of international relations. Frequent high level meetings inspire active relationship building endeavors on a lower level as well, e.g. cooperation between chambers of commerce or universities. Political contacts may also help set up financial funds to facilitate grassroots business development with publicly funded projects.

The second important prerequisite is the existence of shared interests. In the 60 years of bilateral relations between Hungary and Indonesia, we have never witnessed such a constellation of common interests as we are witnessing today. And this interest is related to efforts of opening towards third countries in an era of global economic and power restructuring, when the competition between corporations and countries is steadily increasing. Growing pressure for improving competitiveness has developed along with growing opportunities: rapid economic development, improving transport and communication systems facilitate more and better business and cultural contacts.

But the third prerequisite is the most difficult one to meet. If we want to capitalize on the opportunities, lots of work and effort is required. This work must include the desire to get to know each other better, to understand the attitudes of the people and the cross-cultural differences, as well as to explore prospective fields of trade, capital and other business relations; and finally, we must facilitate the flow of information between the two countries. If these objectives are achieved, relations can reach a higher level. Without putting in this arduous day to day work, the existing window of opportunity will not be utilized.

Based on the above endeavor, this two-volume book "Go Hungary – Go Indonesia" is the result of joint efforts of Hungarian and Indonesian scholars. Through multidisciplinary perspective this book aims to review the key areas of relations between the two countries. Our objective is to cover the most important fields of mutual interest including economy and trade, investment opportunities, student and teacher mobility in higher education, cultural issues, such as the different but still somewhat similar messages of our folktales, or the special traditions of wayang – just to name a few. Each volume contains ten chapters, which – according to the expectations of the editor – would attract the attention of not only scholars, but open minded students and businessmen alike.

We wished to perform the pioneering work in the detailed and well-founded research of important and promising aspects of the Hungarian-Indonesian mutual efforts. By doing so we would like to contribute to the scientific underpinning of the eastern opening of the Hungarian economy and to the strengthening of the Central European focus of the Indonesian internationalization objectives. Since multidisciplinary research of the relations between the two countries hardly exists, we had to undertake a thorough fact finding and interest analysis in order to fully understand future perspectives. This volume – Book 1 – largely focuses on economic issues and business aspects.

The first chapter by Csaba Moldicz investigates the characteristics of the Hungarian economic policy. After giving a brief overview of economic problems and typical solutions before 2010 as well as of the effects of the Global Financial Crisis, the paper examines the key features of the new economic policies implemented after 2010.

Gabriella Imre provides an economic historical retrospective of Indonesia after gaining independence. Indonesia went through a period of stable and sustainable economic growth from the middle of the 1960s until 1997 and its benefits had successfully trickled over into various regions, sectors and socially marginalized groups. But the Asian Financial Crisis (AFC) in 1997 marked the end of this period and caused economic policy to change.

Muhammad Handry Imansyah joins with his chapter at this point describing the key features of economic development in Indonesia after the AFC which had very serious impacts on living standards and macroeconomic stability. After the crisis, stabilization-oriented economic policy was introduced along with a new political system that has been more democratic compared to that of the previous era.The next two chapters embark upon explaining the issues of regional economic integration in the case of Indonesia and Hungary.

Tamas Novak investigates the prospects of economic integration in Central and Eastern Europe. The patterns of economic integration between the already EU-member Central European countries are different from those of the post-Soviet area, not to mention the issue of economic relations between Russia and the "new" EU member states. Annamária Artner on the other hand looks at ASEAN; the past and the likely future role of Indonesia in the development of cooperation within this framework. It concludes that by now Indonesia has, by no means, ceased to have an interest in security political cooperation within ASEAN, but continues to have no interests in deepening economic integration because of issues of competitiveness.

A group of excellent researchers overview the current trends of Cultural and Creative Industries (CCIs) in Southeast Asia (countries such as Cambodia, Indonesia, Malaysia, Philippines, Thailand, and Vietnam) and Central and Eastern Europe (CEE countries such as Albania, Bulgaria, Croatia, Czech, Hungary, Poland, Romania, Slovakia, Slovenia, Estonia, Latvia, and Lithuania). Research on strategy and practice of CCIs is a rapidly emerging field. The comparison of these two regions offers a unique analysis opening up new perspectives.

Cungki Kusdarjito in his study asserts that Indonesia is probably one of the most diverse countries in the world and as a result, it rests on a set of compromises to maintain its unity. But there is a risk that too many compromises may hinder the realization of the developmental state model, which creates key challenges to the leadership of the country. The next chapter by Judit Kiss concludes that economic and trade relations between geographically distant countries are inevitably hindered. Hungary and Indonesia have developed a set of bilateral ties by sustained diplomatic relations which can promote economic interactions between the two countries. But in order to deepen trade relations, firmly rooted genuine business level contacts are the most pivotal of preconditions.

"Different fields have different insect, different ponds have different fish" – in other words, different countries have different people, different people have different values and different behavioral patterns. One of the biggest challenges of doing business in a foreign country is to learn the ways of operation in a different cultural setting. Judit Hidasi in her study gives several clues to minimize misunderstanding, miscommunication or culture clashes. In the last chapter of this book Issye Margaretha Kamal analyses the results of a survey conducted among Hungarian and Indonesian students. The objective of the survey was to get an in-depth understanding of the perception of Hungarian students of Indonesian higher education system, and vice versa. This study can also be used to formulate recommendations for the higher education sector in both countries.

In addition to our excellent authors, we must mention the work of peer reviewers whose comments and suggestions have contributed invaluably to the depth and clarity of every chapter in the book. Our reviewers included György Csáki (Szent István University), András Hrabovszki (former diplomat in Indonesia), Árpád Papp-Váry (Metropolitan University), Siti Daulah Khoitiati (Universitas Gadjah Mada), Pál Majoros and Amadea Balog (both from Budapest Business School). I also would like to thank my assistant editor, Ranin Barakat. We are thankful for the financial assistance of the Budapest Business School, University of Applied Sciences and the Central Bank of Hungary. Without the sustained confidence and support and the leadership of the Budapest Business School, it would have been impossible to publish this book. In addition, the diplomatic missions of both countries played a key role in finding the best strategy to implement this project. Special thanks is owed to APTISI (Asosiasi Pergurun Tinggi Swasta Indonesia – Association of Indonesian Private Higher Education Institutions) and to George Iwan Marantika, Vice-President of APTISI and Hungarian Honorary Consul of Yogyakarta and mid-Java for their continuous support. I am very much indebted to all the people who have helped the birth of this two-volume book within the framework of the Oriental Business and Innovation Center Book Series.

The editor of the book:
Tamás Novák

The Hungarian Economic Policy after 2010 – The Quest for the Holy Grail

Csaba Moldicz

The Holy Grail in economics symbolizes the search for a general recipe for solving the economic problems of developing middle income countries. Classic economists of the 18th and 19th century, focusing on microeconomics, did not pay too much attention to macroeconomic matters and questions of economic development. The Great Depression can be viewed as a turning point in economics since John Maynard Keynes and the Neo-Keynesian economists highlighted the overall and specific importance of state policies in economic crises. However, only after World War II, economists did start to address economic development issues by searching for reasons of backwardness, and policies to jumpstart the economic growth of nations. Thus, after 1945, development economics became one of the emerging subfields in the study of economics. Since then, its main goal has been to define the basic preconditions of rapid economic development, offering pragmatic answers to problems of underdevelopment.

The 1980s and the 1990s were dominated by neoliberalism which offered "one-size fits all" solutions. One of the most popular recipes was the Washington Consensus dating from 1989 and dominating the 1990s and the period up to 2008-2009. This paradigm that lost much of its popularity after the Global Financial Crisis, rested on two main pillars: more competition and smaller state (Ostry–Loungani–Furceri, 2016, pp. 38-41), whereas opening the economy often led to externally financed economic growth in many countries. This growth was fueled in good times by foreign direct investments and in tough times by foreign credits creating financial bubbles. The provisions stipulated by the Washington Consensus also included privatization, open trade policies and deregulation.

After the crisis, this approach has fallen from the pedestal. One of the main consequences has been the end of the growth model dependent on foreign finance, as in the case of Iceland and the Eastern European countries. Moreover, another element which has changed the economic policies of the post-Great Crisis period is the renaissance of industrial policies, bolstering the notion that competent bureaucrats are able to manage state involvement in productive sectors.

This paper investigates the characteristics of the Hungarian economic policy after 2010. First, the paper gives a brief overview of economic problems and typical solutions before 2010 as well as of the effects of the Global Financial Crisis. Second, I will examine the economic policies implemented after 2010 in order to summarize the key features of this new economic policy.

1. Economic policy before 2010

In the early 1990s, after the collapse of the planned economic and the non-democratic, centralized political system, Hungary underwent a painful economic and political transformation which led to the complete transformation of the domestic institutional system, the dominance of private enterprises, the integration of the newly emerging sectors into the global production networks and to a new economic structure. Between 1990 and 2010 the Hungarian economic policy could be characterized by a willingness to adapt the global mainstream approach to the main questions of the economy. Even though this view was based mostly on the Washington Consensus, Hungarian governments failed to reach a balanced budget, to modernize education and health care, and to implement other crucial reforms in order to enhance the economy's competitiveness.[1] After 2008, several framework conditions of the economic policy changed, which then was coupled with new emphasis on the economic policy unfolding after 2010. This fundamental shift in strategy today has created a new macroeconomic path, improved the country's financial balance and led to the transformation of the external economic strategy. Moreover, this change has also triggered fierce debates among experts regarding its suitability and the applied instruments.

After the painful economic transition, Hungary became one of the most globalized economies in the world. The very rapid and deep internationalization of the economy is probably the most important development creating a completely new framework for economic policy and business life in Hungary. According to the KOF index of economic, political and social globalization, Hungary ranked 11th in the world in 2015.[2] According to the sub-index measuring the scale of economic globalization, Hungary

1 These two elements are the first two points of the Washington consensus.
2 The index of the Swiss Federal Institute of Technology measures actual economic flows, economic restrictions data on information flows, data on personal contact, and cultural proximity. As it can be seen, the index is not confined to the economic sphere; it also includes the social and political dimensions of globalization.

moved into the 7th place in 2015.[3] Due to insufficient source of capital and technology domestically, the transition in the 1990s noticeably developed asymmetric dependence on Western European economies through capital and trade relations – not an unknown development in the history of Hungarian economy. This dependence clearly appears in the structure of regional supply chains, in which Hungary, mainly focusing on assembling, struggles to move up the added value chain.[4]

At the same time, it was not only the economy and the society that went through a dramatic transition, but the system of economic and security alliances also changed considerably. After the dismantling of the bipolar world, the country became part of Western Europe by joining the NATO in 1999 and the EU in 2004. This system of political and economic alliances has guaranteed stability and increased security against international political threats. Due to the lack of major conflicts, political disputes with neighbors, the country can be characterized by external and internal stability. Since the beginning of the nineties, Hungary has been the only country in the Central European region, in which every one of the elected governments has been able to fulfill their mandate (except for a few changes of government heads). Up to the global financial crisis in 2008, societal stability has been coupled with the continuous inflow of foreign direct investment in the production and services sectors alike, which are the cornerstones of the rapid structural modernization of the economy.

The relatively favorable domestic and international environment, however, changed after the economic crisis of 2008, and some very serious challenges started to surface, the facing of which required significant adjustments in the economic policy in order to restore the macroeconomic balance and meet the increasing global competition of recent years.

Despite early successes in economic transformation, the global financial crisis in 2008-2009 exposed long-term problems and deep imbalances in the economy. In the period before the Global Financial and the European Debt crisis, Hungary had betrayed several economic weaknesses, which could remain concealed under the surface due to a favorable international economic environment, low international interest rate, and international financial liquidity.

3 This sub-index looks into the indicators like trade, foreign direct investments, portfolio investments, income payment to foreign nationals in percent of the GDP and hidden import barriers, mean tariff rate, taxes on international trade and capital account restrictions.
4 However, this is not a novelty in the development of the Hungarian economy, since before World War II, the country similarly relied on the import of technology and capital in its development.

1.1. Large imbalances

Following the late 90's, economic growth continued to be robust in Hungary until 2005 (although average growth rates were lower than in the majority of the CEE countries), but this relatively favorable expansion was coupled with growing and large imbalances. The current account deficit was high (4-8 percent of the GDP), but up to 2004 and 2005, this deficit was financed by foreign direct investments. Around these years, however, the current account deficit began to be financed by foreign credits which brought about the growth of imbalances and financial vulnerabilities. Along with growing government budget deficits, private households and domestic firms started getting indebted first in domestic, later in foreign currencies which resulted in emerging exchange rate risks, too. The outcome of this change was a steady rise of public and private debt before 2008.

In the Hungarian economy, prior to the 2008 crisis, growth tended to coincide with imbalances on the current account and with growing indebtedness. After 2008, deficit financing became almost impossible, and it took severe financial and real economy adjustments to break this vicious circle and to turn the current account deficit into a surplus in 2009, and maintain it along with relatively favorable economic growth figures in European comparison ever since. However, it is not unique in the region, since current account surpluses have also characterized other countries (Slovenia and the Czech Republic) after 2008. What is unique, except for the Baltic States, has been the pace and the extent of the improvement which was mostly caused by the desperate financial situation of the country immediately after the collapse of the Lehman Brothers (See Figure 1).

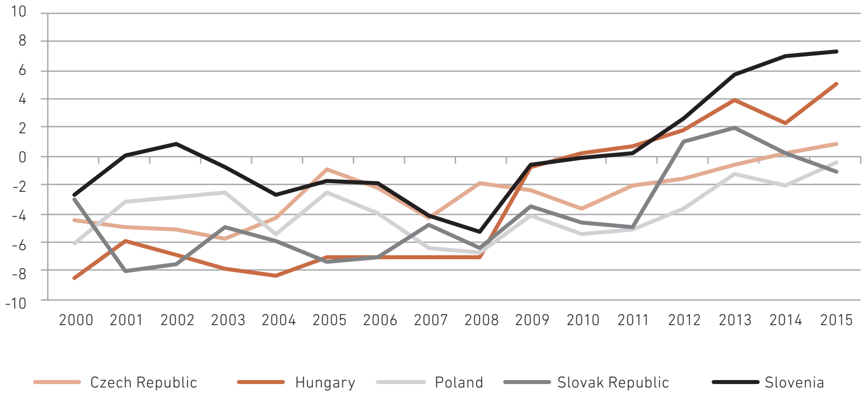
1.2. Growing debts

A similar problem was observed with respect to public deficit. Hungary persistently maintained a high budget deficit even during periods of rapid growth. This was different from several other countries in Central Europe where rapid GDP growth, in most cases, was coupled with improving budget positions and debt indicators. In addition, parliamentary election cycles cause budget deficit hikes from every four years, which is probably much more evidently than in any of the other Central European countries.

This structural weakness leads to another problem, namely, public budget deficits. Furthermore, following higher inflation rates induced the tightening of money policies. However, the Central Bank of Hungary failed to hit the target of lower inflation

Figure 1

Current account balances in CEE countries (% of GDP)

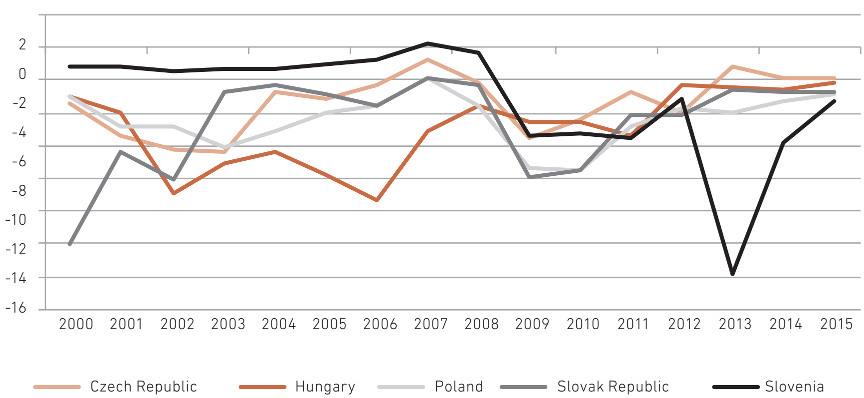


Source: IMF database

and of cooling off the economy, since deregulated financial markets allowed private households and firms to borrow foreign currencies on a massive scale. Big budget deficit followed by periodically returning austerity packages and high interest rates created a vicious circle as growing indebtedness became a prevalent feature of the Hungarian economy. This left Hungary vulnerable to international demand shocks before the Global Financial Crisis 2008-2009.

Figure 2

General government net lending/borrowing (% of GDP)



Source: IMF database

1.3. Fragile banking sector

The other feature of the pre-2008 period was the imprudent regulation of the banking sector which had led to the over-indebtedness of private households and firms. The competition among financial institutions for acquiring new clients, continuously exerted a downward pressure on the standards of credit risk assessment. After the eruption of the credit crisis, the lack of domestic savings and confidence in the international financial markets stopped the money flowing into the Hungarian economy, immediately leading to the strong deprecation of the currency. The international financial liquidity was of utmost importance for the country since a large share of its public and private debt was denominated in foreign currency. The excessive state and private indebtedness exposed the country to international financial risks.

1.4. Low employment rates, low potential growth

Another long-term problem which had not been successfully tackled by policy-makers for decades was the low employment rate. Large segments of the labor force had been hard hit by the economic transformation of the nineties, and their knowledge and skills were soon rendered obsolete in the new economic structure. Thus, they were unable to find a job or acquire new skills required by the business sector. Consequently, unemployment soared at a staggering rate, reaching 12.1 percent in 1993. The drop-in employment rate followed after 1990 immediately, hitting the bottom in 1996 (52 percent).[5] However, in spite of smaller advances, Hungary's employment rate along with Greece remained one of the lowest in the European Union before the Global Financial Crisis, thus condemning the economy to a relatively low potential growth.

1.5. High taxation rates

In addition to the need of relatively high budget revenues, the low employment and labor market participation rate was yet another important reason behind the relative over-taxation of the Hungarian economy in comparison with its competitors. The overall tax-to-GDP ratio in the EU28 stood at 39.2 percent in 2008, which was only slightly lower than the Hungarian indicator. In addition, it must be remembered that

5 KSH 2010: Magyarország a változások tükrében 1989-2010. p. 10. [online form:] https://www.ksh.hu/docs/hun/xftp/idoszaki/mo/mo1989_2009.pdf

developed countries usually have higher rates, thus in comparison with Poland, the Czech Republic, Slovakia and Slovenia, the position of Hungary was more negative. Another frequently used indicator is the tax wedge, which measures the shares of employee earnings taken by governments. This indicator also revealed weaknesses. The Hungarian tax wedge (54.1 percent) was the second highest among the OECD countries in 2008. Only Belgium (56 percent) overtook Hungary, but scores of more advanced economies (Germany, France, Austria, Italy and even the Scandinavian countries)[6] had lower tax wedges.[7]

Table 1

The overall tax-to-GDP ratio in 2008 and in 2012 (%)

	2008	2012
EU28	39.2	39.4
Hungary	40.3	39.2
Poland	34.3	32.5
Czech Republic	34.4	35.0
Slovakia	29.1	28.35
Slovenia	37.3	37.6

Source: European Commission 2014: Taxation Trend in the European Union. Data for the EU Member States, Iceland and Norway.

The economic model, which had been built on external foreign financing, was shaken by the credit crunch evolving from 2008. Hungary was one of the first countries to apply for IMF funds, almost immediately after the collapse of the Lehman Brothers in 2008. This step was a clear confession of the fact that despite the rapid modernization, which the economy had undergone in the previous two decades, the external vulnerability of the economy remained unchanged. It must be added that economic pressures had already been building up before 2008. Policies measures taken in 2006-2007 failed to achieve the desired effects of balancing the economy and curtailing the debt tide. All of these trends also suggested that, compared to other CEE countries, the GDP growth had been much less sustainable, and it had mostly been based on debt financing. Public dissatisfaction was clear, and it led to a change in the economic policy of the country.

6 The tax wedge was 52 percent in Germany, 49.3 percent in France, 48.3 percent in Austria, 46.5 percent in Italy and 44.6 percent in Sweden in 2008.

7 [online form:] http://www.oecd.org/ctp/oecdstaxingwagesshowssmallreductionintaxesonindividualwageearnersin2008.htm

2. New trends and economic policy changes after 2008

The crisis created a new external and internal environment, which led to the revaluation of the country's previous economic model. The following conclusions were drawn from the economic shock.

- Firstly, experience demonstrated the need to build economic development less on external debt generating funds in order to prevent an unsustainable current account position in times of unstable international financial liquidity.

- Secondly, it became clear that the economic growth must be based on a broader basis. International trade and the domestic demand factors – both investments and consumption – must be included into the growth model in a more balanced way, including active labor market intervention and sustainable credit financing.

- The third conclusion was that the macroeconomic balance must be restored by controlling the budget deficit and decreasing public and private indebtedness at any cost.

The focal point of all of these conclusions was to weaken international dependence and widen the room for the maneuvering of domestic fiscal and monetary policies. After the parliamentary elections in 2010, the newly formed government was able to implement and adopt regulations reforming the entire economy. After the growing political uncertainties of the post-2008 economic crisis, political stability became a very important factor and a precondition to making any major reforms. This political stability crystallized in the form of an unprecedented two-third majority the government enjoyed between 2010 and 2014, and this level of power was more or less maintained after the 2014 elections, too. It is not an overstatement that this economic policy had several new, previously unimaginable features and was accompanied by heated debates regarding its instruments. In order to manage the above-mentioned problems and achieve the new economic policy objectives, a number of priorities must be set up.[8]

8 For another summary on the basic principles of the new Hungarian economy see Novák, 2015, p. 7.

2.1. Preference of domestic firms

As mentioned earlier, the level of economic globalization in Hungary is very high in international comparison. Given the small size of the economy and the capital problems of domestic firms, this global integration was carried out by large international firms. This type of integration resulted in overwhelming dependence on foreign firms in almost every field including international and domestic trade, manufacturing and network services. Thus, it is no surprise that one of the arguments of the new economic policy is to explain the risks and the problems through the negative impacts of a liberalized international economic environment.

This rather protectionist policy seeks to have capacity, power and independence to define the directions of domestic development, give preference to domestic companies over stronger foreign competitors and provide protection against foreign monopoly or oligopoly situations. However, as the experience of advanced countries demonstrates, there is no difference in foreign or domestic monopoly and oligopoly situations, when it comes to their long-term adverse effects on competitiveness.

2.2. Re-industrialization

At the same time, the principle of preferring domestic firms acknowledges the importance of foreign-owned manufacturing firms in the Hungarian economy by concluding the so-called "strategic agreements" – instruments that express the government's intentions to promote their continued operation in Hungary. The logic behind the distinction between "bad" and "good" foreign firms relies on the principle of the country's re-industrialization. Re-industrialization is a key element of the Irinyi-plan,[9] which was formulated by the Ministry for National Economy (Nemzetgazdasági Fejlesztési Minisztérium) in 2016. The main goal is to raise the percentage of manufacturing in GDP from 23.5 percent to 30.0 percent in 2020.[10] At the same time, the Irinyi-plan highlights seven key sectors:

9 Nemzetgazdasági 2016: Irinyi terv. Az innovatív iparfejlesztés meghatározásáról. [online form:] http://www.kormany.hu/download/d/c1/b0000/Irinyi-terv.pdf

10 A stronger emphasis of manufacturing activities is in line with the industry policy goals of the European Commission. See European Commission 2014: For a European Industrial Renaissance. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions for a European Industrial Renaissance (Com/2014/014 Final)

1. Commercial vehicle industry
2. Specialized machine- and vehicle industry
3. “Health industry”
4. Food industry
5. “Green industry”
6. ICT sector (in particular shared service centers)
7. Defense industry.

The key sectors prioritized by the Ministry also include services. That is why it can be argued that the term “reindustrialization” is misleading, since it doesn’t reflect the changing nature of production and the growing importance of combining production and services. An additional problem is when it comes to the measurement of economic activities, and a distinction of manufacturing and services can be traced back to the growing servitization of the manufacturing sector. Servitization transforms simple production into value led manufacturing, emphasizing continuous service and support activities. Adding the fact that there is a new industrial revolution emerging based on a growing utilization of robots, the formulated goals are unlikely to be achieved. The new economic policy is well aware of the growing importance of technology, education and human resources.

2.3. Managing asymmetric dependencies

One of the economic policy goals was to strengthen the power of domestic economic policy decision-making and broaden its capacity for maneuver. The government’s role in shaping the economy increased after the crisis and included direct and indirect involvement in economic processes. The primary objective of this approach is to increase independence from international influence, which was, for example, demonstrated by the early repayment of the IMF loan in order to get rid of any form of control from international financial organizations and the adoption of a more critical approach to EU decision-making practices. The easing of dependencies was also a crucial factor behind the growing emphasis on trade and economic relations with countries which had previously been neglected or had not been considered important to the external economic relations of Hungary.

The new economic policy after 2010 also addressed the country’s external economic strategy. After 2008-2009, fiscal and monetary policies of large countries of the world economy (US, China, Russia, India, Indonesia and Western Europe etc.) had successfully mitigated the risks of another global credit crisis. In the Eurozone, however, this could not prevent a new wave of crisis which deepened with the financing problems of Greece in early 2010, a crisis that also hit other Eurozone countries (often called PIIGS[11]). This crisis affected the Hungarian economy adversely through two channels:

- the demand for Hungarian exports remained relatively weak;
- the European financial uncertainties curbed the demand for Hungarian assets, which contributed to exchange rate volatility.

In response to this challenge, a concerted policy to diversify Hungarian trade relations was implemented. The main goal of this policy change was to boost Hungarian exports into fast-growing regions and economies and encourage investments from these countries in Hungary. The “Eastern opening policy” was based on the idea that China’s, Indonesia’s and other emerging Asian markets’ resilience to the external financial shocks had the potential to mitigate the devastating effects of the economic crisis in Hungary effectively. After the launch in 2011, the strategy was revised in 2012 by adopting a broader growth strategy in the so-called Széll Kálmán plan.[12] The strategy points out the importance of trade and investment diversification. The goal is to double the export of Hungarian small and medium enterprises to the targeted regions where China, Russia and India are the most important partners. Since the launch of the Eastern opening policy, there have been several initiatives, academic conferences, and political meetings to encourage different forms of economic cooperation between China and the Central European region. Still, there is a strong controversy and criticism around this policy, arguing that the main trade patterns have not changed since 2011. Why the main trade patterns of Hungary are unlikely to be changed by a government policy, the answer can easily be found in the Hungarian exports structure in which the share of multinational companies is dominant. Nonetheless, the policy of Eastern opening is a long-term strategy, where cooperation in higher education, larger projects of infrastructure can bear fruits in the short run. (See for example the One Belt and One Road initiative of People’s Republic of China!)

11 PIIGS: Portugal, Italy, Ireland, Greece, Spain
12 [online form:] http://index.hu/assets/documents/belfold/szkt_2_0.pdf

2.4. Raising employment and labor market participation

In order to address one of the most acute domestic economic challenges, the economic policy attempted to find a solution to the low employment rate, too. In 2010, the employment rate was only 55.9 percent, while the EU average was close to 69 percent. By 2015, the difference was reduced to only 1.2 percentage points. (EU: 70.1 percent; Hungary: 68.9 percent). The cut of the average corporate tax,[13] introducing new forms of taxation, and deregulating the labor law were also important elements of the reforms designed to increase labor market participation. In addition to this, the other fundamental pillar of this policy was to transform social transfers into work opportunities and work-related benefits. As a result, a public works scheme was set up securing around 220.000 publicly financed jobs offering a minimum wage during 2015. The costs of the public work scheme were approximately 270 billion HUF in 2015, however, not because of the costs, the efficiency of the program is questionable, since 85-90 percent of those who took part in the program have not been able to enter the private labor market later.[14]

Still, even if we exclude those working abroad or in the framework of the public work scheme, the number of employees increased by 1.6 percent in 2015.[15] Including the above-mentioned groups of workers, the growth of employees reached 2.7 percent the same year. Improving labor market conditions are reflected in better unemployment rates, too. After a peak in 2010, the Hungarian unemployment rate recovered between 2010 and 2016 resulting in favorable data in EU comparison (EU: 8.2; Hungary: 4.4 percent in December 2016).

In order to reform the labor market and to increase participation rates, not only demand conditions were supposed to be altered, but the supply side had also to be uprooted. To this aim reforms in the educational system were also introduced. The major objective of this transformation from a labor market perspective was to adjust the output of the education system to better suit the needs of the labor market. Several changes have been introduced in order to reform the educational sector, which was followed by heavy debates and with subsequent modifications. The outcome of these changes still remains to be seen. One of the most important reforms was the growing role of the so-called dual education, which tries to get theoretical

13 The corporate tax is 19 percent, however, there is a reduced tax rate applied (10 percent) under a certain amount of revenues.

14 Pénzügykutató 2016: Lassuló növekedés, javuló egyensúly. A magyar gazdaság helyzete és kilátásai (2015-2006) p. 5 [online form:] http://penzugykutato.hu/sites/default/files/files/Penzugykutato_Prognozis_2016%20marc_Sajtotaj.pdf

15 According to the HCSO methodology, those who work abroad are included in the employment rate.

knowledge closer to practice by offering classroom education and work placement at the same time in higher education.

Special measures were also introduced in order to increase birth rates in Hungary. In Hungary, as opposed to Indonesia, currently the very low birth rates and their negative future implications on the labor market cause long term problems. A family-friendly taxation was implemented in 2010, in particular for families with more than two children. Since demographic trends are difficult to change, the challenge still requires a complex solution and this remains a challenge for the future, too.

It is clear that migration to other more developed EU countries and the shrinking population pose were a double challenge to the Hungarian economic policy in the long run; since the adverse effects of these trends can already be observed in labor scarcity in different segments of the labor market, especially in certain job categories, including both low and high skilled jobs.

2.5. Dealing with indebtedness

Low domestic savings coupled with high indebtedness have been further unfavorable features of the economic environment for the long term, which were extremely urgent issues to deal with after 2008. (High indebtedness in foreign currency was not only a characteristic in the housing market, but it was also apparent in other sectors of lending). To reverse indebtedness, since 2010, several saving schemes have been introduced and a financial process of deleveraging private households has been supported by different state schemes and policies. One of the most notable and successful measures was the stimulation of savings by relatively high (in international comparison) interest rates on government bonds.

Other measures aimed at the restructuring of foreign currency debt into domestic currency denominated liabilities. At the same time, the deleveraging process of the banking sector had already started in 2009. In order to prevent excess-lending, a new legislation was adopted restricting lending in foreign currencies and irresponsible lending practices. These measures have helped decrease the domestic financial vulnerability of the country, which has been a very important factor in economic stabilization.

As a result of these policy measures, the net savings of private households reached 8.0 percent of the gross domestic product, while those of the private enterprises reached 4.6 percent of the GDP in 2015. However, the net saving position of enterprises is inimical to economic growth. In this sector, the net borrowing position is to be favored, since it means more investments, jobs and higher GDP growth.

2.6. Taxation and economic policy priorities

Hungary was ill famous about high taxation of the economy, which, however, was coupled with low tax collection efficiency. In addition to this, high budget deficit always prevented the major reforming of taxation policy. Revenues always had to be high to cover the relatively high spending. The new Hungarian economic policy adopted a very important reform in the tax system, and it began using taxation as a stronger tool of economic policy. One of the major changes was to shift from direct taxation to indirect taxation including personal and corporate taxes. As an important instrument a flat rate of personal income tax was introduced with preferences given to families. At the same time, direct taxes, most importantly the VAT was increased. These steps were coupled with measures aimed at more efficient tax collection. After a few years of operation, tax revenues increased significantly, while the average taxation of the economy slowly but decreased.

Another important part of the policy was the introduction of special taxation in several economic sectors with high potential to generate revenues and profits in order to secure funds to finance the much-needed tax reduction on labor after 2010, and to manage the problem of high budget deficit, which was a burning issue in the years after 2010. The new sectorial taxes were levied on the banking-, energy-, telecommunication sector, and retail chains. Sectoral taxes had not been mainstream economic policy instruments in Europe prior to the economic crisis, and it was heavily criticized by the affected companies and at the EU level, too. Even if critics in some cases proved to be justified, since then several countries started to apply more or less similar measures (although their objectives may vary widely in the countries that have applied such instruments).

Here we must refer to another policy measure, which also aimed at managing the budget deficit. This was the nationalization of the private pension funds.[16] These private savings had made the financing of the public pension scheme difficult in view of the budget deficit reduction requirements during the period of low growth and recession after 2008. It was because pension contributions were paid into the state funds

16 Compulsory private pension fund system was introduced in several Central and Eastern European countries in the nineties in order to diversify pension savings.

and the private funds in parallel, but pensions were paid out only from the state funds given the short operation of the private scheme (since the late nineties). Of course, private pension funds would manage this financing problem in the long run, but the economy faced short term financial instability, which had to be managed somehow.

Table 2

Public debt (% of GDP)

	2011	2012	2013	2014	2015
EU28	81.0	83.8	85.5	86.8	85.2
Hungary	80.8	78.3	76.8	76.2	75.3
Portugal	96.2	111.4	126.2	129.0	129.0
Spain	69.5	85.4	93.7	99.3	99.2
Italy	116.4	123.2	128.8	132.3	132.7
Greece	172.0	159.4	177.0	178.6	176.9
France	85.2	89.6	92.3	95.6	95.8
United Kingdom	76.6	81.8	85.3	86.2	98.2

Source: Eurostat

The privatization of the pension funds was heavily criticized by international economic organizations, though not many viable options were offered instead. In recent years, several countries introduced similar, although slightly different measures (mostly because they did not find alternative and sustainable sources to increase budget revenues). As a result of this strategy, the country has been able to keep the budget deficit under control, and since 2012, the deficit has steadily remained below 3 percent of the GDP. This is a remarkable achievement after several decades of very high budget deficit, particularly in a period, when most EU countries are still facing the challenge of relatively high budget deficit and the problem of an incessantly spiraling government debt.

Table 3

General government deficit (% of GDP)

	2011	2012	2013	2014	2015
EU28	4.5	4.3	3.3	3.0	2.4
Hungary	5.5	2.3	2.6	2.3	2.0
Portugal	7.4	5.7	4.8	7.2	4.4
Spain	9.6	10.4	6.9	5.9	5.1
Italy	3.5	2.9	2.9	3.0	2.6
Greece	10.2	8.8	13.0	3.6	7.2
France	5.1	4.8	4.0	4.0	3.5
United Kingdom	7.7	8.3	5.6	5.6	4.4

Source: Eurostat

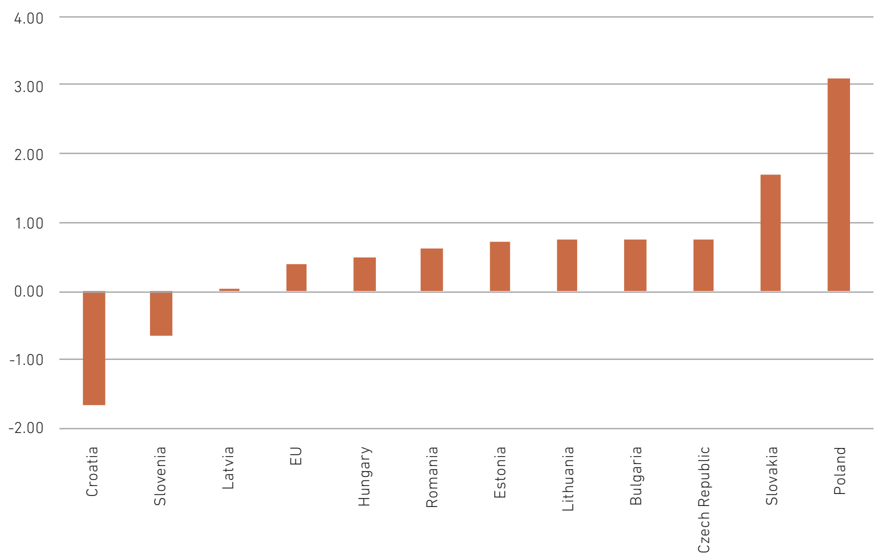
3. Current and future challenges

The measures and new priorities described above created a coherent economic policy framework. Although several elements of this framework can be criticized and the long-term outcomes may be questioned, the stability of the tools and objectives of this policy are remarkable after several decades of continuously changing strategies and policies. Given this backdrop and emphasizing the importance of the achieved macroeconomic stability, external and internal financial stabilization, it is important to consider those areas in which further reforms, new strategies and instruments are required, and locate those uncertainties that may jeopardize the currently relatively favorable path of economic development.

The GDP growth in the Hungarian economy between 2010 and 2015 was greater than the EU average, but it was less remarkable in comparison with some of the other Central European countries. In addition to the relative weakness of the growth after 2008, its volatility must be also considered. Overall, it must be emphasized, however, that the performance of the economy in the recent two-three years has been much more favorable in European comparison than in the preceding years.

Figure 3

Average real GDP growth between 2009 and 2015 (%)



Source: own calculation based on Eurostat data

The growth in recent years is due firstly to growing employment, while productivity could only grow marginally (0.3 percent), which demonstrates an extensive growth path. Another important factor was the changing role of demand factors in GDP growth. In 2014-2015 the role of investments was very important mostly due to the rapid inflow of EU structural and cohesion resources financing public investments. As the EU 2007-2013 financial frame ended, the sudden stop of inflow of EU funds caused GDP to slow down in 2015, and the role of private consumption and net export became more important. EU funds will increase again in the coming years, in order to maintain the growth rate. The Central Bank of Hungary launched credit programs to boost liquidity and investments over the last years. At the same time, new housing scheme was initiated with the objective of boost the construction industry. Although the coming years are burdened with several risk factors, but if no major external shock occurs, a 2-3 percent annual GDP growth can be realistically maintained. One of the risks that may bar a remarkable growth appears in connection with labor market trends.

Labor market trends seem to be an important risk factor for future economic growth and even for the competitiveness of the whole economy: "The number of employed rose to an all-time high and unemployment rate dropped to an all-time low in 2014" (European Commission 2015b). This positive development, however, was increasingly coupled with labor shortages in several sectors including both high skilled (e.g. ICT) and services sectors (e.g. plumbers, carpenters, etc.) This labor shortage in several sectors has been caused by several parallel factors including the negative impacts of the economic crisis, uncertainties in connection with the economic policy changes after 2010 and very low wages in international comparison. All of these sectors led to the growing outflow of labor to other EU member states. At the end of the day, the massive economic migration from the country started to push up wages in an increasing number of the economic sectors. This does not mean that Hungarian wages are high in international comparison at the moment, but in the coming years the further increase of incomes will definitely continue. We expect that the growing purchasing power provides excellent opportunities to foreign firms to export to or invest in Hungary in an effort to satisfy the growing domestic demand.

As described above, financial instability, large budget deficit and growing public debt have long been the most serious problems in the Hungarian economy. They not only caused vulnerability of the exchange rate, especially during international liquidity problems, but also caused growth problems through different channels, public investment barriers due to financing debts, etc.). In this respect, the country has been very successful. Not only was the growth of the government debt curtailed, but the trend was reversed after 2010. In 2010, the general government debt was 80.9 percent, while in 2015 it was only 75.3 percent. Independently from the instruments with which the government achieved this result, in international comparison it is a remarkably high performance, which has improved the international position of the country. Similarly, the government has been successful in balancing the government budget, and since 2012 the annual government deficit has been below 3 percent of the GDP – a major achievement in the macroeconomic stabilization, and it is better than the majority of the EU member states. This stabilization – which caused temporary uncertainties in the business environment – is a very important precondition for trends favorable in the future. Although we can list several concerns about the future sustainability of this financial stability, currently, risks originating from the domestic economy are negligible. International economic problems obviously can impact the country's financial stability, but due to the changes in the past few years (transition from external financing towards domestic financing, improving the efficiency of tax collection, cheap financing because of the very low interest rates) the country would be much more resilient to external shocks than it had been prior to the 2008 economic crisis.

Investments, most importantly large and continuous private capital activities are necessary conditions of sustainable growth and improving competitiveness. Trends in investments in recent years have both favorable and challenging aspects. Because of the scarce capital and high domestic interest rates in the nineties, which was coupled with close to unattainable public debt level, foreign direct investments became the major instruments of structural change and economic upgrading. Due to significant investments in manufacturing, the Hungarian industry became highly competitive, and today the automotive industry is the most important export sector of the country. Well-known car makers are assembling vehicles in Hungary making up very large portion of the Hungarian export (Mercedes, Opel, Audi, Suzuki). Skilled labor, modern infrastructure (the network of motorways is fully built up) and the central location in Central Europe have all been very strong incentives for foreign investors to show interest in the Hungarian economy. Other manufacturing sectors and services also benefitted from FDI, which is the most important channel of technology transfer to the country. After the economic crisis and the change in the economic policy after 2010, the inflow of FDI became very volatile. But recently the macroeconomic stabilization of the country started to attract an increasing inflow of foreign capital again. FDI will remain an important mechanism of economic development.

The deregulation of the labor market and the joint efforts of higher education and industry, the new tax schemes and the tax reductions also attract investors to the

Hungarian economy, sometimes leading to very concrete cooperation between large foreign firms and the higher education. A very important aspect of investment financing is that the European Union plays an important role in financing public investment projects in Hungary, and this will continue over the next five years. EU transfers to less developed member states and regions are a very important source of capital in managing development level differences across the European Union. In recent years, these transfers amounted to 4-6 percent of the GDP.

As a result, the country's infrastructural network is expected to further improve along with the overall competitiveness. Thus, FDI and the large EU funds together have contributed to the financing and modernizing the Hungarian economy tremendously in the past two decades. Parallel with this, in the last 5-6 years in line with the changes in the Hungarian external economic strategy, the objective of foreign capital investment diversification became a priority. As a result, an increasing number of Far Eastern investments have taken pace in the country in addition to traditional capital investors, like Western European firms. Since this diversification of FDI according to its origin is an important government strategy, this trend I expect this trend to continue in the future offering attractive opportunities for Eastern and South East-Asian investors.

In conclusion, regarding investments, there are several challenges and opportunities to be considered. Frist of all, although EU transfers are very important sources of development in the country, these transfers have a "crowding out effect" on private investments. This means that in many cases firms are investing in areas for which this money is available instead of sectors or demands coming directly from the market. This problem must be addressed in coming years, since EU-transfers are set to decelerate after 2020. To put it bluntly: EU transfers may cause firms to make efforts to secure EU public funds instead of taking risks and satisfying the market demand in competition. Secondly, private investments are linked to public and EU-funds, while investments not linked to EU transfers are declining. Due to these trends, aggregate investments increased only slowly in 2015. (In 2015 it was 3.8 percent compared to 2014; 2014: 19.3 percent compared to 2013).[17]

In recent years, the Hungarian economic policy changed enormously compared to the previous decade. This was partly caused by the unprecedented external global economic hardships. Similar to Indonesia's economic policy and strategy change due to the 1998 financial crisis, 2008 meant a turning point for Hungary, which forced

17 Based on KSH data

economic policy to change considerably and introduce several new instruments. Not only do these challenges force countries to seek new methods and instruments of crisis management, but they also question mainstream economic theories underpinning current economic policies. After the 2008-2009 crisis, the global debate of economists has revolved around the role of the state in the economy and the design of the best economic policy. Mainstream economic theory lost its credibility in recent years, but a new and effective economic theoretical framework has not crystallized yet. Neo-Keynesian policies of the post-crisis period soon found their limits due to the once again ballooning public debt. To counterbalance a growing debt and boost economy, there are two main lines of policy measures which also characterize the Hungarian economic policy.

1. The American style quantitative easing (QE) and extreme low interest rate policy has begun to be implemented in advanced countries where there has been room for such a policy and in Hungary after 2010.[18] Up to this point, QE and low interest rates have been successful in countries, where they could be linked to a competitive business environment and/or to the improving of competitiveness (US, Canada Australia, Germany). This is not the case in Hungary, where reforms have only been partly successful.

2. The other channel of adjustment has been a more frequent usage of exchange rate policy. Apart from Eurozone countries, measures to weaken own currency can be found in most of the advanced and emerging countries, leading to a counterproductive global business environment. Nonetheless, the main argument against weak currency policy is that its anticipated benefits are less likely to show up in a globalized world economy where due to the emergence and dominance of global supply chains, exports are often preceded by substantial amounts of imports. This applies to countries where the internationalization of domestic economy is high and to countries where scarcity of natural resources is an inherent feature of the economy. Both of the above-mentioned conditions can be found in Hungary: the economy is globalized and there is a lack of natural resources, hence weakening the own currency can only produce partial and short-time results.

There are other special elements which distinguish the Hungarian economy policy from those of mainstream advanced countries. The preference of domestic firms and the policy of re-industrialization are policies bound to fail since they cannot be aligned

18 Members of the eurozone have been more restricted in their policies, since they do not own an own currency.

with deep internalization and servitization processes, which push countries further toward clever and green economies. The utilization of taxation as integral part of economic development can be more successful. However, there is always the risk that measures taken will distort the economic structure in the long run. Policy measures are more likely to be influenced by powerful business interest groups, and aspire to strengthen the rent-seeking behavior of market players.

However, the weakening of asymmetric dependencies mainly based on sound public budget and a deleveraging process in the private sector can bring more stability, creating the fundamentals of a fast catching-up process. The overhaul of the external economic strategy is a very long-term strategy; results can only be anticipated in 10-15 years' time. The measures taken until now to improve employment and labor market participation only pushed society towards higher labor participation. However, this special labor market is being subsidized by the state, and this policy has failed to help people enter the regular labor market.

It is not clear yet which strategies may be the best in this fast-changing economic environment. The Hungarian strategy seems to be successful in several respects at this moment (the financial stabilization especially), but there are several challenges remaining (most importantly sustainability concerns) which require continuous economic policy responses.

We cannot ascertain with full confidence that the Hungarian economic policy has found the Holy Grail of economics, the simple recipe of how to catch up with the most advanced countries, but it is clear that in the recent years the pragmatic approach of the economic policy did contribute to the restoration of the macroeconomic stability and help lay the foundations of a rapid economic growth path in the future.

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Economic Development in Indonesia from Independence until the Crises in the 90s

Gabriella Imre*

Indonesia is becoming an ever more decisive factor of the global economy due to the lasting growth and reforms introduced in the last decades. Nowadays, following China and India, Indonesia is the fastest growing economy in Asia; its GDP measured at purchasing power parity had exceeded 2.8 thousand million US$ in 2015. Accordingly, it is the eight biggest economy in the world. Today it covers almost 2.5 percent of the total production/gross output globally, however, this share will probably further increase in the future. With its 256 million inhabitants, Indonesia is the fourth most populated country in the world after China, India and the US, and the second in East-Asia after China. In addition, its population is relatively young, and the proportion of children and the elders compared to the working-age population is low, and the share of working-age population is increasing. These demographic features – considering appropriate workplaces – creates the opportunity for further GDP growth in the country in the next two decades (Elias-Noone, 2011).

1. The framework of development

One of the main research areas of international economics is the examination of what causes the changes in the economic performance of certain countries, and how these changes are effected. Due to the turning points and dramatic changes in the country's economic performance over the decades, an overview of Indonesia's economic development can provide economic researchers, as well as economic decision-makers of developing countries useful information and insights.

In the two decades following the proclamation of independence (August 19, 1945) Indonesia was considered to be a poor and insignificant country. However, by the middle of the 60s, as a consequence of the inward-looking, self-sufficient and anti-western politics of President Sukarno, the economic problems of the country became serious. Influential economists and prestigious experts of international organizations

* Transleted by Amadea Balog

gave up on any possibility of economic development regarding Indonesia, prejudging the situation as hopeless as in the case of the least developed countries (LDC) of Asia and Africa. From this desperate economic situation, the period of the New Order economic policy, named after President Suharto led out the country from the abyss, and Indonesia produced a speedy recovery thanks to the sharply declining inflation and sustained growth. The revenues from the oil sector also contributed to the recovery and the impressive poverty reduction in the 70s. After the two decade-long economic growth and the reforms of the 80s and the 90s, the financial and economic collapse of the country in the Asian crises of 1997-1998 surprised both academic researchers and analysts of international organizations. The crises affected several Asian tigers, but it made the most enduring effect on the Indonesian economy, which then turned to be from being a “star transition country” to a “sick man” (Stern, 2003).

This chapter introduces the economic development and the evolution of the economic policy of Indonesia from the independence till the Asian crises of 1997, primarily focusing on the government actions during the period of the New Order. It examines how Indonesia has switched over from a relatively closed, strongly domestic industry protecting economy to an open economic model and has become more and more competitive on the global market. According to the World Bank evaluation Indonesia thus became - one of the newly industrializing economies (NIEs) (together with Malaysia and Thailand) that successfully carried out export promoting industrial policy. In addition, the analysis of the processes leading to the outbreak of the crises provides us with further important lessons.

2. The early phase of independence (1949-1965)

It was only after an armed fight lasting for four years, under the presidency of Sukarno,[1] who was leading the wars against the Dutch, that Indonesia won its independence from the Netherlands on December 27, 1949. After gaining independence, the new nation was facing serious economic and political problems. The Japanese

1 President Sukarno, originally called Kusno Sosrodihardjo (1901-1970): the first president of the Republic of Indonesia that became independent from the Dutch colonial fate after World War II. He was serving as a president from 18 August 1945 until 12 March 1967. He studied in a Dutch school, and was fighting for independence since his youth. He was a founding member of the Indonesian National Party in 1927. During the Japanese occupation, he and his partners were cooperating with the invaders against the Dutch. By the end of the war in 1945, he realized that there was a reasonable chance for Indonesian independence. With the compliance of Japan, he established the committee preparing the independence, then on 17 August, 1945, with the company of Mohammad Hatta, he proclaimed Indonesian Independence, which was acknowledged by the Netherlands on 27 December, 1949

occupation under World War II (1942-1945) and the war of independence against the Dutch (1945-1949) significantly impoverished the population. The main objective of the new political leadership was therefore the increase in the living standards of the population, the rebuilding of the physical infrastructure, the reconstruction of the production base and the incentive of the commercial and industrial activities. The central budget was struggling with permanent deficit, and the repayment of the huge foreign debt received from the Dutch government put an excessive pressure on the country (Kain Wie, 2003). The latitude of the economic policy was heavily limited by the fact that the government was unable to control any important segment of the economy, because gaining political independence did not come along with the achievement of economic independence. The prevalence of foreign economic interests is well illustrated by the estimate, according to which 60 percent of the export of consumer goods was carried out by eight Dutch enterprises in Indonesia (Kian Wie, 2012).

The 15 years following the declaration of Independence can be divided into two phases; the period of parliamentary democracy (1950-1959) and the controlled democracy (1959-1965). During the period of parliamentary democracy, the economic policy of Indonesia was determined by pragmatic politicians of different political parties, who were trained abroad (Mohammad Hatta, Sumitro Djojohadikusumo, Sjafruddin Prawiranegara and Djuanda Kartawidadja). Although they were attracted to the socialist ideology, they did not join any rigid ideology. The economic stability and the aim to create the conditions of rebuilding the infrastructure and economic base constituted their priorities (Kian Wie, 2003). As a result of their policies, illiteracy among the population under 40 was eradicated within almost one decade, however, due to the under-qualification of local workforce and the lack of deliberate economic policy strategy breakthrough results could not be reached in the economy (György, 2008). The controlled democracy basically differed from the parliamentary democracy concerning its power structure and political relations. With the exception of the Indonesian Communist Party (PKI), the rest of the political parties lost influence, the parliament did not play a role in decision-making, and the political power was divided between President Sukarno and the army (Redfern, 2010). The abolition of foreign supervision over the Indonesian economic resources was a major target of the political leadership, which they found to be attainable by two means: firstly, by the establishment of state enterprises, secondly by the strengthening of private enterprises in the hands of native Indonesian owners (pribumi) (Kian Wie, 2012).

2.1. The nationalization of Dutch enterprises

In the 50s, one of the main goals was the birth of Dutch economic diplomacy. In the Financial-Economic Agreement (Finec) accepted in 1949 on The Hague roundtable meetings, the government of Indonesia guaranteed that the Dutch enterprises could continue their activities in Indonesia without any obstacles. However, as the Finec was ensuring the legal framework of the nationalization besides special conditions[2] the Indonesian government soon made steps towards the nationalization of economic institutions with key importance and enterprises with strategic importance. The first nationalized institution was the Dutch Java Bank, which had a decisive role during the colonial period. The nationalization was achieved through the acquisitions of shares, which went smoothly. On 6 December 1951, the law on the nationalization of Java Bank was officially accepted and the bank became the reserve bank of Indonesia under the name of Sentral Republik Indonesia.

The nationalization affected other Dutch enterprises as well, which had key importance in the Indonesian economy: the energy- and gas supplier companies were nationalized in 1945, and they were concentrated into two companies (Perusahaan Listrik Negara, PLN and Perusahaan Gas Negara, PGN). The Javanese Railways were re-established under the name of Indonesian State Railway Company (Perusahaan Negara Kereta Api, PNKA). The air transport moved from the Dutch airline to the Garuda Indonesia Airlines, which in the beginning worked as the joint venture of the Indonesian government and the KLM Royal Dutch Airlines (Koninklijke Luchtvaart Maatschappij). However, in 1954 it became fully controlled by the Indonesian government. The nationalization of the company dominating the domestic shipping market, KLM did not take place at the end, so in 1952 the Indonesian government established the Indonesian National Shipping Company (Pelayaran Nasional Indonesia, PELNI) with 200 million rupees of registered capital. Thanks to the financial assistance of the Indonesian government, the state-owned shipping company steadily increased its stakes in the trucking, as well as in the passenger transport industry. The establishment of the Central Trading Company, in 1947 the CTC could also be seen as an effort to reduce the Dutch economic influence. It was established as the first government trading company of Indonesia and was meant to restrict the monopoly of the "Big Fives" (the five biggest Dutch trading company) in the export and import trade of Indonesia (Kian Wie, 2012).

2 The agreement only allowed the nationalization of Dutch enterprises on condition that it is in Indonesia's fundamental national interest, and mutually acceptable for both sides. In this case, the amount of compensation for nationalization was determined by a court based on the real value of the nationalized enterprise (Kian Wie 2012).

The relations between the Netherlands and Indonesia deteriorated from the mid-50s as the Dutch government rejected the discussion of the status of the West New Guinea (Indonesian terminology: West-Iran, currently Papua Province). Subsequently, as the Indonesian government in 1957 failed to convince the UN Council to adopt a resolution in which they pressurize the Netherlands to regulate the issue, anti-Dutch demonstrations broke out in Jakarta. On 3 December 1957, militant unions and the activists of the Indonesian National Party captured the Jakarta seat of KPM shipping company that was considered to be the main symbol of the Dutch economy. In the following weeks, similar actions occurred in the suburbs, as well. Even though the Indonesian government was not encouraging these steps, it neither tried to stop them. Because of the economic and political mess due to the seat reservations, Sukarno – to maintain the internal order and in return of political support – surrendered the seized companies to the hands of the leaders of the army, who thereby assumed a key role in the economy besides their original function. In December 1958, the government created the legal basis of the nationalization of Dutch-seized enterprises, which took place in the first half of 1959. This single drastic move ended the Dutch presence in Indonesian business, which was established in the second half of the 19th century, and the economy had been left basically without local competence and management-expertise (Kian Wie, 2012; Kian Wie, 2003). A political system of patronage was established in cases where the seized companies were the biggest obstacle for the change-over to export-driven economic growth, because the import substitution and industrial relations with foreign countries – with the lack of competences – meant a more secure income resource for the supporters of Sukarno. While the nationalization of the Javanese Bank and other Dutch enterprises was based on a consensus in the beginning of the 50s during the time of democracy, in 1959, after the expansion of politically radical powers, nationalization became a unilateral measure taken by the Indonesian authorities, which indicated the depravation of the Dutch-Indonesian relations (György, 2008).

2.2. Attempts to reduce the Chinese economic influence

The Indonesian government took a significant step with the nationalization of Dutch enterprises with the aim of converting the colonial economy into a national one. However, the transformation was not completed with this step, because – similarly to Singapore and Thailand – the Chinese settlers had also played a dominant role in the economy besides the Dutch since the colonial times, especially in the intermediary trade, rice husking and lending.[3] Thus, after the restriction of the Dutch role in economic activities, the Indonesian government also took steps to reduce the Chinese influence. In order to achieve this aim, a decree was issued in 1954, according to which the Chinese rice husking mills had to be given over to the native Indonesians.[3] Another regulation with a similar objective was restricting the Chinese enterprises dealing with loading, port traffic and storage. Nevertheless, the measures on the restrictions of Chinese economic activities proved to be less effective than the abolition of the Dutch economic interests, because the Chinese outnumbered the Dutch, and their economic activities (intermediary trade, loaning) in the rural areas were more interwoven with the economic activities of native Indonesians than those of the Dutch. Besides, the large number of Chinese ethnicity consisted of Indonesian citizens, citizens of the Democratic People's Republic of Korea (DPRK), and a smaller group of citizens from Taiwan. The government simply could not take measures that affected all Chinese decent actors. Due to the difficulties in implementing the two aforementioned decrees had never taken force.

The most important regulation concerning the Chinese economic influence was issued after the expansion of radical political powers in 1959. It aimed at removing all foreign-born Chinese from the retail sector in rural areas, forcing them to hand over their business enterprises to Indonesian citizens by 1 January 1960. By the end of 1959 the army started the violent eviction of the Chinese population from the rural areas to the cities of Java, which then was followed by the repatriation of more than one hundred thousand Chinese citizens to the DPRK in the following years. As the business sector of native Indonesians and the developing cooperative system were not able to substitute the Chinese merchants efficiently, the decree resulted in great economic confusion in the supply of the rural areas. Although the 1959 regulation has never been revoked officially, its application was temporarily suspended. The informal role of the Chinese in Indonesian economy had not decreased substantially before Sukarno, or during his presidency (Kian Wie, 2012; György, 2008).

2.3. The Benteng program

In parallel with curtailing the Dutch and the Chinese economic dominance, there was an increasingly powerful attempt from the government to prioritize native Indonesian (pribumi)[4] entrepreneurs whose economic activity was limited to agriculture, small

3 To characterize the way the Chinese and Dutch economic democracy affected the modern sectors of the economy (agriculture, mining, manufacturing, bank system and public utility service) in the field of intermediary trade, Everett Hawkings – American professor, researcher of Indonesia – used the concept of "double colonization" in connection with Indonesia (Kian Wie, 2012).
4 The pribumi is the Bahasa translation of the Dutch word of inlander (inhabitant). The Dutch colonial administration differentiated between three ethnic groups; the Europeans, the "Eastern foreigners"

production, retail and small-scale industries (the art of batik, production of clove cigarettes). The government launched the so-called Benteng (fort) Program in April 1950, which besides the creation of strong domestic entrepreneurs, also aimed at breaking the monopoly of the Dutch trading house ("Big Fives") through the national control of import. The government gave a preferential treatment to native Indonesian importers within the framework of the program by limiting the issuance of import licenses – in a small number of easily sellable products (the so-called benteng products, eg.: yarn, fabric, paper, stationery, matches et) – exclusively for them. In order to facilitate their trading activities, the inhabitant entrepreneurs got cheap credits granted for them by the newly established Bank Negara Indonesia (BNI, Indonesian State Bank). The government hoped that through the trade activities, native Indonesians would accumulate capital that later could be invested in other sectors. As a result of the program, although 70 percent of the import trade was conducted by native Indonesian businessmen in the beginning of the 50s, the goals could not be reached due to several reasons. The major reason of the failure was that in most cases domestic importers receiving preferential treatment were closely related to political decision-makers. Many of them lacked capital or experience in business, therefore they simply sold their import licenses for the 200-250 percent of the nominal value or in the form of agency contracts to the companies of Chinese importers. As a result, the first strategic objective of Indonesia failed by the second half of the 50s, though it was never abolished. With the introduction of controlled democracy and controlled economy as well as with the call for the establishment of an Indonesian kind of socialism by President Sukarno, the assistance of native Indonesian private entrepreneurs faded into the background, because new state companies emerged from the expropriated Dutch enterprises aspiring to play a leading role in several sectors of the economy.

2.4. Economic decline during the controlled democracy phase (1959-1965)

In the beginning of the 50s, economic and political crises broke out in Indonesia. In 1956 two resource-rich regions with significant export earnings (West-Sumatra and North-Celebes) revolted against the central government.They decided not to transfer their foreign exchange earnings to the budget, therefore the foreign exchange reserves of the central bank drastically decreased. In March 1958, the two regions declared their independence (Woo-Glassburner-Nasution, 1994). Due to the economic crises and the national disintegration, President Sukarno proclaimed a state of

(Chinese, Arabians, Indians and the inhabitants (pribumis), because the partial privileges for certain groups helped to maintain the order and the political stability of the colonial society (György, 2008).

emergency making his control over the army complete. The gradual elimination of parliamentary democracy had started, which reached its peak on 5 July 1959 with the dissolution of the legally elected parliament and the constituent assembly. President Sukarno further strengthened his political leadership and with the restoration of the 1945 constitution, he became the head of state and the Prime Minister in one person. With the support of the army and the strengthening Indonesian Communist Party, President Sukarno introduced the program of controlled democracy and controlled economy (Demokrasi Terpimpin, Ekonomi Terpimpin) (1959-1965).[5] Indonesia was following the socialist path of development, aiming to be self-sufficient. Its foreign policy was characterized by an increasing and conscious turning towards anti-West and anti-capitalist behavior, as well as by a commitment to the countries of the Soviet block and the Democratic People's Republic of Korea (Kian Wie, 2012; Booth, 1998). By 1959, the possibility of external supervision of the Indonesian economy was practically eliminated and the autarky-oriented country quit the UN, the World Bank and Monetary Fund, too. From the beginning of 1961, the Indonesian Central Bank was ordered not to publish its weekly, monthly and annual report on the state of the economy. The implementation of the program of controlled economy barely met with resistance, because its first point was the nationalization of Dutch enterprises, however, other parts of the program remained unclear, which made the drafting of critiques difficult (Woo-Glassburner-Nasution, 1994; György, 2008).

The last years of Sukarno's presidency were characterized by an excessive deterioration of economic conditions. Poverty and starvation were general phenomena, and the infrastructure was crumbling. The most fundamental problem was the alarming pace of inflation, which increased from 19 percent in 1960 to 137 percent in 1964, and by 1966 it exceeded 600 percent causing the impoverishment of the population. The hyperinflation came about as a result of the increasing budget deficit, which the government attempted to finance by money printing (Kian Wie, 2003). The government spending was increasing in the 60s due to several reasons: partly because of military actions, as President Sukarno started two invasions stressing the ideology of "fulfilling of a national revolution" to regain West New-Guinea from the Netherlands in 1961-1962, then against Malaysia in 1963-1966. The expenditures on rice import (the

5 As the inner circles of the government essentially consisted of Javanese people after the independence of 1949, the inhabitants of Outer Islands (every island outside Java and Madura) many times felt themselves neglected and robbed (György, 2008).
The program of controlled economy basically meant increasing state control over the means of production, prioritizing policies aiming at self-sufficiency during the industrialization, managing the current account deficit with quantitative restrictions and multiple exchange rate, financing the increased budget deficit - due to prestige investments and military actions – through money printing (Woo-Glassburner-Nasution, 1994).

production volume of rice and other cereals was not sufficient for the nourishment of the population) and expenses of prestige investments and payments for political supporters of President Sukarno all contributed to the overspendings. Moreover, the growth of government spending was not matched by an increase of national budget revenues. During the 50s the government revenues mostly originated from the taxation of foreign trade, nevertheless, these incomes diminished by the early 60s, because of the weakening of the world demand for rubber (the main export item of Indonesia) and other export products. The other problem was related to the overvaluation of the rupee exchange rate (Kian Wie, 2012; György, 2008).

In the beginning of the 60s, the production and investment in most branches of the government declined continuously, except for government services. In the beginning of the 20th century, the production of sugar – considered to be the most important export item of Indonesia – had been sharply declining, and in the decades after the war it only added up 3 percent of the country's export revenues. Without significant investments in the sector (better quality of seed, the reparation of the irrigation system, the broadening of refining capacity), there was little chance of significantly increasing the performance. The development of the manufacturing industry, that added up to less than 10 percent of the GDP, was quite slow compared to other Asian countries, because, due to the low foreign exchange earnings, Indonesia was not able to finance the import needs of the sector (raw material and spare parts).[6] Only the volume of crude oil production increased mainly because the significant investments of Caltex, one of the biggest oil companies.

In the first part of the 60s, the average growth of the Indonesian economy was lower than in the 50s. According to the data of the Indonesian Statistical Office, the annual average growth rate of net national product between 1958 and 1965 was only 1,7 percent, which lagged behind the 2-2,2 percent population growth rate. Thus, the GDP per capita declined gradually and continuously during the mentioned period, and in 1965 it was lower than it had been in the last year of the Dutch colonial era.

The economic crisis of Indonesia in the mid-1960s took place in the last years of Sukarno's presidency, and was mainly caused by domestic factors, first of all the dominance of political interests over economic considerations. The economic crisis was also followed by a deep political crisis, which caused the fall of the first

6 However, the manufacturing was characterized by a significant overcapacity as, according to the estimations, it only utilized 30 percent of production opportunities in the middle of the 60s (Kian Wie, 2012).

Indonesian president: in March 1966, General Suharto took the power from him with a military coup, and on 12 March 1966, he also took the presidency (Kian Wie, 2012).

3. The economic development of Indonesia during the period of the "New Order" (1966-1998)

General Suharto[7] inherited a nearly bankrupt economy from his predecessor. In 1966, the economy of Indonesia was characterized by 600 percent inflation, dramatically reduced foreign exchange reserves, and external debts of more than US$ 2 billion owed primarily to the Soviet Union and socialist countries. Besides the troubled political affairs, the creation of relative material wealth – higher incomes – seemed to be the only tool for keeping the power (György, 2008). Facing the serious economic problems requiring urgent treatment, Suharto turned to five young economists of the Economic Faculty of the Indonesian University (Widjojo Ali Wardhana, Sadli Subroto and Emil Salim) for economic advice. The literature usually refers to the advisory group as the, "Berkeley Mafia", because many of them were studying at the Californian Berkeley University, but the "economic technocrats'" appellation also spread, as they were led primarily by rational considerations during the planning of the economic policies[8] (Kian Wie, 2003).

Besides the "technocrats", responsible for the macroeconomic policies, the group of engineers or "technologists" (managers with engineering, military advisory and economist background), responsible for the industrialization and economic development had a major influence. The technocrats had neoclassical principles and – relying on the theory of comparative advantages – supported the export sectors in addition to the oil production (the labor-intensive sectors, e.g.: agriculture and manufacturing). At the same time, the "engineers" considered the import substitution economic policies to be efficient and represented the reinforcement of state enterprises in the interest of the Chinese predominance of private economy. The "technocrats" led the Ministry of Finance and the National Planning Board (Bappenas), while the "engineers" managed the Ministry of Commerce, the Ministry of Industry and the National Investment

7 Haji Mohammad Suharto (1921-2008): the second president of Indonesia, who was in power for almost 31 years, from 12 March 1967 until 21 May 1998.

8 Young economists could successfully implement their ideas, because they had a special connection with President Suharto: Suharto unconditionally trusted them, since he had studied economics from them in the Command and General Staff School. Widjojo was the real leader of the group, he was the most determined figure during the elaboration of the economic policy of the New Order (Kian Wie, 2003).

Coordination Committee. The often contradictory economic policy of Indonesia, seen in the period of 1966-1998, was the consequence of the fact that two groups, following cross-purposes, were in charge of the two separate area of economic management. While the decision-making mechanism of the Suharto-era wanted to position the foreign creditors and investors through the technocrats, the internal elite gained power through the engineers (György, 2008).

3.1. The program of stabilization and reconstruction (1966)

After Suharto gained power, he asked for the elaboration of a stabilization program from the group of technocrats. The main aim of the stabilization program was to cut and manage the high inflation. The economic advisory group wanted to reach this objective by a balanced budget policy. They fixed the principle by law, that the government cannot use to the tool of printing money in order to finance the deficit (Kian Wie, 2003). In 1973, the government also abolished all restrictions concerning foreign currency transactions, because the open capital account was expected to make the monetary policy more flexible, considering that the foreign exchange outflow immediately unveils the poor fiscal management (Stern, 2003). A further step of the stabilization in 1966 was to change the compulsory reserve ratio requirement and to freeze soft loans given to state enterprises by the central bank, to increase interest rates, to liberalize the prices of the consumer products, and to abolish the quantitative import restrictions (György, 2008; Woo–Glassburner–Nasution, 1994).

The government of the New Order gave up the inward-looking policies of the previous cabinet and its anti-Western attitude. They rebuilt the good political relations with the Western countries and Japan, which was crucial in terms of the repayment of the huge foreign debt inherited from Sukarno's government. Therefore, they managed to obtain further foreign aids and attract FDI. In December 1966, the new government signed an agreement in Paris with the Western countries and Japan on the rescheduling of debt payment obligations. With the initiation of the Dutch government in 1967, they established an international aid consortium for Indonesia.

The new government gave up the conviction of the Sukarno government, according to which the state was a dominant actor in the economy. In order to support further economic growth and employment, private entrepreneurs were encouraged (both locals and foreigners) to invest in different fields of the economy. In accordance with the changing attitude towards foreign direct investment, in January 1967 a new law came into force that included different incentives and guarantees for foreign investors. This opening up policy resulted in significant FDI flows into the oil industry, mining and manufacturing, but the law also comprised several restrictions, which were only slowly abolished later. In 1968, a law came into force concerning local investments. As investments were needed for the revival of the economy, the authorities made the legalization of incomes possible for the new local investors, primarily in order to encourage Chinese businessmen with Indonesian citizenship to bring back their harbored home capital during Sukarno's presidency. This "legalization policy" seemed to be efficient in the stimulus of local investments (Kian Wie, 2003).

After the devaluation of the national currency, the government was striving to maintain the actual value of the rupee and introduced an adjustable fixed exchange rate system. This system was aimed at the exchange rate stability together with the preservation of some flexibility. The nominal exchange rate of the rupee was based on its weighted average against the American dollar, the Japanese yen and the German mark.

This exchange rate system granted enough flexibility for the Indonesian management in the beginning, however, in 1973, 1983 and 1986, significant modifications became necessary due to the changes in the world prices of the oil industry. Nevertheless, after the devaluation of 1986, further significant adjustments of the rupee's exchange rate proved to be avoidable (Stern, 2003; Booth, 1998).

While the stabilization program was aimed at preventing hyperinflation, the reconstruction program targeted the rebuilding of the physical infrastructure and production capacities. The government treated the reconstruction of the infrastructure related to food production and distribution as a priority, namely the reparation of roads, bridges and irrigation systems. In this period, the government devoted greater attention not to the manufacturing, but to the agriculture, especially to the subsidization of grain growing (Kian Wie, 2003).

However, the economic policies of the technocrats could not be coherent completely, due to the conviction that the "engineers" are responsible for microeconomic policies. For instance, the technocrats could prevent neither the creation of the import subsidies' system, nor the state luxury investments. Thanks to the economic prosperity, the "engineers" succeeded also in spending the increased budget revenues on raising the state offices' remuneration and on food subsidies (primarily rice petrol and kerosene for poorer classes) (György, 2008).

3.2. The uneven impacts of the oil price explosion in the 70s

Between 1974 and 1981 the Indonesian economy increased with a 7.7 percent high and sustainable annual rate, which was mostly due to the favorable terms of trade development caused by the sudden increase of oil prices. Calculated at nominal value, the price of the Indonesian crude oil increased from US$ 1.60 per barrel in 1970 to US$ 35 by 1980. The growing global demand significantly raised the value of Indonesia's net energy export from the US$ 1 billion in 1973 increased to US$ 13.3 billion by 1980. Besides, the country also benefited from the higher oil prices through the growing tax revenues paid by foreign oil companies.

The oil boom changed the prospect of Indonesia not only for a short term, but also for a medium term. The monetary restrictions and exchange rate controls that used to impede the room for maneuver of government budgetary policy disappeared. In addition, large sums of foreign development aid arrived in the country in this period. The improving financial circumstances made the launching of several ambitious development programs possible: the physical infrastructure expanded in the remote regions of the archipelago too. Furthermore, the establishment of state-owned heavy industries started and an increasing share of the budgetary receipts were used to promote social development, especially in education, healthcare and programs on family planning. Government spending also increased on sugar- fertilizer- and rice subsidies, further reducing poverty. On the other hand, the increase in the revenues originating from oil had negative effects as well. The oil boom speeded the inflation up, made the maintenance of the budgetary discipline harder and took the wind out of the sails of reform initiatives concerning government taxation, given that 70 percent of the domestic budget revenue originated from the taxes paid by oil companies. The increasing dependency of Indonesia on oil- and gas products raised another concern about the declining export of non-oil products in the same time (Kian Wie, 2012; Booth, 1998).

3.3. Effects of the oil price drop: reforms of the 80s

The sudden plummeting of the oil's world price in 1982 made the vulnerability of Indonesian economy quite clear. The falling oil prices drew attention to the dependency of Indonesian economy on oil revenues. This development was an incentive for the introduction of economic policy reforms, the elimination of restrictive rules on economic activities.

The Indonesian government reacted quickly to the deteriorating external conditions: in the beginning of 1983, a far-reaching adjustment program was introduced, which aimed at the restoration of economic stability. In order to moderate the current account deficit, the government devaluated the rupee in March 1983. The budgetary problems were also expected to be stabilized by the shutdown or postponement of many large-scale public projects (building of strategic industries, government constructions). The reforms of the 80s targeted three areas: the increase of budget revenues; the liberalization of foreign economic relations as well as financial markets; and the promotion of non-oil derivatives export sectors and job creation (Stern, 2003; György, 2008; Kian Wie, 2012).

The fiscal reforms were also aimed at modernizing the tax-system. The government realized that the situation of the budget heavily depends on the tax revenues from oil companies, which meant a significant risk. Thus, in December 1984 a new tax system was elaborated, the aim of which was to increase taxes from non-oil sectors (e.g.: personal income tax, corporate income tax, value-added tax and property tax) and to establish a new tax system that is less dependent on the energy sector. As a response to the budget deficit, the government curbed its spending: it stopped several public constructions, postponed or finally deleted the implementation of many large-scale state projects, and decided on the reduction and cancellation of several aids for poor people (e.g.: agriculture subsidies). The most disputed step of the tax reforms was the elimination of the tax relief provided for foreign investors, however, after the initial decline, the FDI inflows increased and dynamically expanded similarly to other Asian economies that, however, still provided tax reliefs. Despite the deficiencies of the budget reform, the above-mentioned provisions significantly increased the government revenues and led to the diversification of income sources. Probably the most remarkable change was the growing share of the non-oil and gas industry revenues in the percentage of GDP, which were at around 8 percent in 1985-86, and by 1994-95 increased to 12 percent. During the same period, the income tax revenue increased tenfold, exceeding the oil and gas sector revenues (Kian Wie, 2012; Stern, 2003).

The reform in the financial sector started in 1983, when several deregulation measures were introduced in order to improve the bank system's efficiency. The bank system of Indonesia was based on the dominance of state-owned banks, and only those market actors could get loans who had political influence. As a consequence of the reform, the state banks could decide freely on their interest rates, while the restrictions of loan distribution were eliminated and credit ceilings increased. At the end of 1988, the government initiated the deregulation of financial markets. They facilitated the licensing procedure for establishing new private banks and they authorized the market entrances of foreign banks in the form of joint ventures. These reforms basically changed the growth potential and structure of the banking system. The less strict conditions concerning ownership and the relatively small capital that was necessary for the establishment of banks brought about an increase in the numbers of banks and a significant decline in the market share of state-owned banks. Several new financial services appeared, and the privileges and responsibilities of state-owned financial institutions declined. The deregulation contributed to the growth of national savings, and the larger deposits managed by banks gave further dynamism for investments (Stern, 2003).

The third group of the reform measures targeted the liberalization of the trading system. By the middle of the 80s, Indonesia was following the road of import substitution,[9] which sought to rule out competitive foreign products either by high tariffs (the value-based import duties spread from zero till 200 percent) or several non-tariff barriers. These measures affected almost 35 percent of the import's total value. At the same time, the export of several products was limited, partly in order to stimulate domestic processing (for example in the case of rattan). This trading system gave no opportunity for the growth of the manufacturing exports, therefore Indonesia remained strongly dependent on revenues coming from the export of oil and gas products.

As the result of a considerable decline of oil revenues between 1982 and 1986, the government was forced to eliminate the highly protectionist, anti-export trading system. The aim of the adopted deregulation measures was to increase the export of non-oil (especially manufacturing) products, stimulate the development of an efficient and competitive private sector and to boost the efficiency of the economy. The reforms included the general decrease of tariffs and the licensing of import activities of export oriented companies[10] that were introduced in May 1986. The latter regulation allowed the producing exporters to import raw materials without tariffs and tax liabilities. Moreover, the government adopted several regulations concerning the facilitation of administrative headquarters' export-, and import activities (Stern, 2003). The efficiency of the trade reforms was supported by the exchange rate policy,

9 After the phase of the "easy" import substitution of the mid 70s – during which the aim was to subsidize the already imported consumer goods with local products – at the end of the decade, Indonesia started its second, more ambitious phase of import substitution. However, due to the decrease in the oil revenues in the beginning of the 80s, the government had no other choice than convert to an export promotion industrial strategy (Kian Wie, 2012).

10 Initially, an export oriented company was the one that exported 85 percent of its production, however, later this proportion was decreased to 65 percent (Stern, 2003).

too, and the 4-5 percent annual devaluation of rupee optimized the export's international price competitiveness.

The other group of deregulation measures was aimed at improving the investment climate. It included the rationalization of the regulatory environment both in the case of domestic and foreign investors in order to promote the activities of the private sector. The revived confidence in the private sector's investments was accompanied by the decrease of budget revenues. The government eliminated the restrictions on foreign investments to stimulate the inflows of more export oriented investments to the country. The deregulation measures proved to be successful, and after 1986, the number of local and foreign enterprises producing for export continuously grew, and the export of manufacturing goods showed a spectacular growth. While the manufacturing export only added up to 4 percent of Indonesia's total export, by 1996, it added more than 50 percent. Since the end of the 80s, the export was pulled by manufacturing, especially the labor-intensive sectors requiring low-skilled workers, such as the textile, clothing and shoe industry that Indonesia had a comparative advantage in. Until the Asian economic crises, the manufacturing export further expanded, though later at a slower pace. The sector then, in a relatively short time became the main engine of economic growth (Kian Wie, 2012).

3.4. The results of the "New Order" economic policy

The stabilization and reconstruction program of the 60s resulted in a remarkable economic growth in Indonesia. The hyperinflation was brought under control partly thanks to the strict fiscal and monetary policy, and partly to the large amount of foreign loans. The inflation rate dropped back from an annual 636 percent in 1966 to 9 percent by 1970 (Woo–Nasution–Glassburner, 1994). After the restoration of economic stability, the country entered the path of rapid economic growth, which could be maintained throughout three decades, until the outbreak of the Asian economic crisis of 1997. The sustainable growth of the gross domestic investments – made possible by the high rate of domestic savings – formed the basis of the sustained economic growth between 1967 and 1997. A crucial factor behind the 4.7 percent annual average GDP per capita growth was the successful family planning program, due to which the population growth rate did not exceed the rate of economic expansion.[11]

11 The population growth rate of 2.4 percent between 1965 and 1980 dropped to 1.8 percent in the period of 1980-1996, so for the whole period the population growth rate was 2 percent (Kian Wie, 2012).

The rapid economic growth was followed by the constantly decreasing share of the population living in absolute poverty, both in the rural and the urban areas (Table 1). While 40 percent of the population was living below the poverty line in 1976, this rate fell to 11 percent by 1996. Given the population growth, the number of people living below the poverty line decreased from 54.2 million to 22.5 million during the examined period[12] (Kian Wie, 2012).

Table 1

The reduction of absolute poverty in Indonesia (1976-1996)

The percentage of people living below the poverty line compared to the total population (%)

	Urban areas	Rural areas	Total
1976	38.8	40.4	40.1
1978	30.8	33.3	33.3
1980	29.0	28.4	28.6
1981	28.1	26.5	26.9
1984	23.1	21.2	21.6
1987	20.1	16.1	17.4
1990	16.8	14.3	15.1
1993	13.5	13.8	13.7
1996	9.7	12.3	11.3

Source: Statistics Indonesia (BPS, Badan Pusat Statistik)
www.bps.go.id

The significant reduction of poverty at the end of the 70s and the beginning of the 80s was partly the result of the successful stabilization of food prices (especially that of rice). In this period, the government treated rural development as a priority, which also contributed to the success of poverty reduction policies. The spread of new production technologies led to the continuous growth of crop production (especially rice production) and resulted in new employment opportunities. The two oil-booms of the 70s (1973-1974 and 1978-1979) also had an effect on the changes in the number of

12 Despite the impressive statistics concerning the reduction in the number of poor people, several analysts think that the data do not mirror reality and the sustained economic growth barely did anything to improve the situation of the poor. However, several other index numbers (the increase in life expectancy at birth, the reduction in infant mortality, the increased access to health services and to healthy drinking water, the decrease in the rate of illiteracy, the increase in enrollment rates, etc.) support the process of social development. An explanation for this contradiction can be that the poverty threshold in Indonesia is admittedly low, lower than the 1 USD/ day poverty threshold of the World Bank. Thus, even besides a significant reduction in the number of people living below the poverty line, many households in Indonesia still have to face extremely difficult circumstances. Despite the methodological shortcomings of the Indonesian poverty estimates, it is still this source that is the best to examine the prevalence of poverty, because the measurements in the long run (from 1970 till today) use consistent definition and estimation techniques (Stern, 2003).

people living below the poverty line. The additional revenues from oil exports made it possible for the government to spend an even larger sum of money on rural development (Kian Wie, 2012; György, 2008).

The number of people living below the poverty line continued to decline even after the drop of oil revenues in 1982, but – especially in the rural areas – at a lower rate. One reason for this is that due to the smaller oil revenues, the government was forced to resort to a strict fiscal and monetary policy in order to maintain economic stability. On the other hand, during that period, the development of capital- and technology-intensive manufacturing gained priority, and the support for agriculture fell considerably. Besides the reduction of poverty, several other indexes indicated (enrollment rates, infant mortality rate, the proportion of the population accessing healthy drinking water) that Indonesia was able to redistribute resources coming from the rapid and sustainable economic growth (primarily from the increase of oil revenues) to promote social development during the Suharto-period.

During the three-decade all three sectors of the economy (agriculture, manufacturing and services) experienced rapid growth. The greatest expansion was produced by the manufacturing sector, while the other two branches expanded in a more modest scale (Table 2).

Table 2

Economic growth in Indonesia in the period of 1965-1996 (Average annual growth rates, %)

	1965-1980	1980-1990	1990-1996
Agriculture	4.3	3.4	2.8
Manufacturing	12.0	12.6	11.1
Services	7.3	7.0	7.4
GDP	7.0	6.1	7.7

Source: Kian Wie 2012, p. 72. (The World Bank, based on the database of World Development Indicators)

Manufacturing underwent a more rapid growth than the rest of the economy, and the economy went through a significant structural change and slowly became a newly industrialized country (NIE) by the beginning of the 90s. The manufacturing industry's contribution to the GDP also reflects this structural transformation, and its share increased from 8 percent of 1965 to 25 percent by 1996, while during the same period, the agriculture's contribution to the GDP decreased from more than 45 percent to 16 percent. Due to the sustainable double-digit growth in manufacturing for three decades, the manufacturing sector of Indonesia became one of the most significant in Southeast Asia. The manufacturing industry's contributions to export revenues also increased substantially: while in 1965 it only added up to 4 percent of Indonesia's total export, this share increased to 51 percent by 1996. As a result of the considerable restructuring of the export structure, the manufacturing industry became the main source of export revenues in just one decade. This change was due to those deregulation measures the government had introduced after the declining of oil revenues from 1982, in order to modify the highly protectionist trade regime (Kian Wie, 2012).

3.5. The mistakes and problems of the "New Order" period

Despite the considerable results in the field of economic and social developments, the New Order regime of Suharto had several problems and led to growing concerns. One of these problems was the increasing level of corruption. In order to handle this issue a committee for investigation was set up. However, President Suharto was reluctant to support it fully and eliminate the abuses, because he was afraid of losing his political supporters. The corruption became even more widespread by the 80s: the KKN abbreviation (Korupsi, Kolusi, Nepotisme that is corruption, collusion, nepotism) became a synonym of the New Order both in the Indonesian common parlance and in the language of economics. The financial abuses of state enterprises (e.g.: the Pertamina state oil company, the Perhutani state forestry company) became natural, as well as the abuse of power by generals close to Suharto. There were strong interconnections between the political and economic elite. In addition, the restrictions introduced by the regional governments on domestic competition and trade also multiplied (e.g.: requirements for industrial licensing procedures, the illegal taxes on trade within the country). These issues and measures increased the cost of doing business, reduced efficiency and limited the production and economic opportunities for bona fide entrepreneurs, primarily for the small and medium-sized enterprises. Since businessmen with strong political connections (many of whom were Chinese-Indonesian tycoons) got preferential treatment, and profitable activities were provided for them, market initiatives also became distorted. Large conglomerates were established, which – differently than the Korean chaebolos – were not internationally competitive, because most of their production was sold in the protected domestic market. These conglomerates rapidly expanded their interests in several sectors (e.g.: forestry, land resources, manufacturing, banking, real estate market) and were meshing the economy like an octopus. The rapid growth of large conglomerates strengthened the perception of the population that the income gap was increasing between the poor and the rich, and between the Chinese-Indonesian minority and the native (pribumi) majority, which started to undermine the social cohesion necessary for political stability and national development.

As in other East Asian countries, the rapid economic development during the New Order took place in a highly centralized, authoritarian and an increasingly repressive environment in Indonesia as well. The corruption and the utilization of public funds could not be openly criticized because of the lack of political freedom. The student protests to protect democracy and the media outlets reporting on corruption issues were banned claiming that they were threatening the political stability and the government's authority. Although the results regarding the economic and social development of the New Order government were indisputable, the mass violation of human rights, the concentration of political power in one hand and the economic wealth in few hands, led to an increasing public discontent and (e.g.: in Aceh and Papua provinces) therefore separatist movements became stronger. Finally, it was not the anti-regime forces that caused the fall of President Suharto in May 1998, but the Asian financial and economic crisis, which the authoritarian state could not handle. As a consequence of the lax fiscal policy during the 90s and the political and economic crisis, the country that foreign analysts considered to be a model for other developing countries, became a country, whose survival once again depended on international loans and aids (Kian Wie, 2003).

4. The end of the Suharto era: the outbreak of the Asian economic crisis of 1997-1998

Unlike the economic crisis in the mid-1960s, which was caused by internal factors and whose outbreak was predictable as a consequence of the complete neglect of rational economic policies, the Asian economic crisis triggered by external factors was surprisingly not anticipated by international organizations and analysts dealing with the region. The economic growth reached an average annual growth rate of 8 percent due to a strong investment activity during the period of 1989 and 1996, and the most important economic indicators of the country also seemed stable: the budget balance produced a surplus since 1992, while the national debt was reduced as a percentage of GDP, because the government spent the revenues coming from the privatization on the repayment of large sums of foreign debt. Looking back, some indicators can be identified that could have provided an explanation for the protracted crisis. Such was the rapid increase of the private sector's borrowings in the 90s: the great differences between the domestic and the foreign interest rate under the adjustable fixed exchange rate regime made overseas lending attractive to Indonesian enterprises. Consequently, by 1996 more than 40 percent of the debts of Indonesian enterprises were foreign currency denominated and more than the half of it (20 percent of the total debt) was short-term. Although in the second quarter of 1997 Indonesia's foreign exchange reserves were sufficient to cover three months' import, the sum of short-term foreign debts (US$ 34.7 billion) made the country vulnerable to external shocks given that foreign exchange reserves amounted only to (US$ 20.3 billion) (Kian Wie, 2012).

The immediate triggering factor of Indonesia's financial and economic crises of 1997-1998 was the Thailand currency crisis, which spread to more Southeast Asian countries (to Malaysia, to the Philippines). By the end of July, the Indonesian rupee was under an excessive pressure since first the foreign creditors and investors, and then the Indonesian companies, too withdrew their capital from the country. After that no attempts of the Indonesian Central Bank (e.g. raising interest rates or the floating of the rupee's exchange rate) could bring under control the continuous devaluation of the rupee, the government in October 1997 turned to the IMF for financial support. In exchange for the IMF standby credit, the Indonesian government started to implement a comprehensive reform program. The program included strict monetary and fiscal policies, the restructuring of the financial sector and the implementation of structural reforms (cutting government spending, increasing taxes, and maintaining high interest rates). Given this backdrop, the government had reduced, for example, the petrol, kerosene and food price subsidies for the poor. At the same time these measures led to riots (György, 2008).

However, the involvement of the IMF did not stop the rupee devaluation and the ensuing economic crisis. The market confidence did not recover even when the government decided to close sixteen insolvent private banks in accordance with the IMF program in 1997. In fact, this measure only worsened the situation and led to the destabilization of the financial system. The evolving bank-run then was expected to cause the whole banking system's insolvency rapidly. This way the currency crisis was coupled very soon with a serious banking crisis. Finally, the Indonesian Central Bank prevented the collapse of other banks by providing emergency loans. Meanwhile, the rupee devaluation continued (it had dropped to one-seventh of the value before the crisis compared to the dollar), in spite of the fact that President Suharto turned to the IMF again in January 1998. It became increasingly obvious that the recovery from the crisis was prevented by the president's reluctant efforts to implement the reform program suggested by the IMF, because several requirements conflicted with the business interests of his family. While the currency exchange rates stabilized and the stock markets began to recover in the Southeast Asian countries affected by the crisis by March-April 1998, the market confidence in the rupee had not recovered. The government was unable to deal with the crisis in an effective way, which by that time had become a political crisis along with the long lasting economic crisis, and led to the resignation of President Suharto in May 1998 (Kian Wie, 2012).

5. Conclusions

For developing countries, economic growth is one of the most efficient tools to reduce poverty and to improve the quality of life. However, the rapid and sustainable development is insufficient in itself to eradicate poverty (see the example of India). Indonesia went through a period of stable and sustainable economic growth from the middle of the 1960s until 1997 and its benefits – made visible by for instance, the declining poverty rates and other indicators of social development – were successfully spread to several regions, sectors and socially marginalized groups.

The results achieved in the area of economic and social development were primarily due to a talented team, experienced in crisis management, which is referred to as the "Berkeley Mafia" in literature. The other essential component of the success was the considerable financial support to Indonesia provided by international financial institutions (IMF, World Bank, Asian Development Bank) for three decades. Besides the competent economic policy and the support of international organizations, the stable political background and some luck also contributed to the remarkable economic results. The two oil booms of the 70s secured a substantial fiscal revenue surplus for the country with huge reserves (György, 2008; Kian Wie, 2003).

The most significant achievement of the economic technocrats was without doubt the stabilization and reconstruction program in the end of the 60s. The hyperinflation could be controlled and the economic system started to operate again. As a result of the friendly relations between the Western countries and Japan, the rescheduling of foreign debt inherited from the Sukarno-period became possible, and the country could also obtain new loans. With the liberalization of foreign direct investments, the country could attract fresh capital into the country. The favorable economic outcome was also supported by the promotion of family planning which contributed to the slowing down of the population growth. The prestige of the technocrats was further strengthened with the management of Pertamina crisis in 1975, when it turned out that a huge state-owned oil company had accumulated a US$ 10,5 billion worth foreign debt (out of which 1,5 billion was a short-term debt) (Woo–Nasution–Glassburner, 1994). The third political success of the economic technocrats was the economic adjustment and structural reform program implemented in the first half of the 80s, in response to the worsening trade balance as a result of the steep fall of oil prices between 1982 and 1986. The economic stability was basically achieved by 1985-1986, and several deregulation measures were introduced in the regulation of trade and foreign investments. This contributed to the successful diversification of the unilateral structure of the economy and export.

The stabilization and reconstruction program of the 60s and the wide-ranging reforms of the 80s mitigated the most serious distortions restraining Indonesia's economic growth. At the same time, these measures completely transformed the economic structure. The rapid expansion of the manufacturing industry was the key element in transforming an essentially agribusiness country into a newly industrialized one by the beginning of the 90s. The reforms had completely changed the functioning of the economy, but, on the whole, they were not strong and resilient enough against unexpected and sudden changes such as the devastating impact of the Asian financial crisis (Stern, 2003).

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Economic Restructuring and Development – The Case of Indonesia after the Financial Crisis of 1997/98

Muhammad Handry Imansyah

This chapter describes the key features of economic development in Indonesia after the Asian Financial Crisis (AFC) in 1997/1998. The crisis caused economic growth to drop by 13 percent in 1998 and the inflation rate soared to 70 percent, the worst figures since 1965. After the crisis, stabilization oriented economic policy was introduced with a new political system that has been more democratic compared to that of the previous era. The period of economic stabilization and consolidation with moderate economic growth was temporarily characterized by political instability. During this period, the presidential election system was changed from indirect election system to a direct one. Political stability started to improve in 2001, and after the first direct presidential election (2004) political stability was restored and economic growth accelerated from 3 percent in 2001 to 5 percent in 2015 with some fluctuations. In 2015 the per capita GDP was US$ 10,680 based on purchasing power parity and the country was listed No. 16 in global GDP ranking based on current price of US$ (US $ 861,934 billion) or no. 8 based on GDP purchasing power parity (World Bank Data, 2015). The economy has been very dynamic and kept growing at a faster pace compared to other emerging markets in the recent years. This chapter is divided into five sections. The first section discusses the real sectors (GDP, inflation, unemployment and poverty). The second and third sections are devoted to the analysis of the external sector and the financial sector. The fourth section analyses the country's fiscal policy, and the concluding remarks will be discussed in the last section.

1. Real sectors

After the Asian financial crisis, the economic growth was still slow during the period of political instability. After the fall of President Abdulrahman Wahid (also known as Gus Dur) in 2001, the power was taken over by his Vice President Megawati, and the country started to regain its political and economic stability. The recovery after the deep impact of the Asian Financial Crisis (AFC), however, proved to be very slow. Economy grew around 4-5 percent between 2001 and 2005. After the new, direct presidential election which took place in 2004, however, the political situation started to stabilize and economic growth speeded up. The economic growth stood at 5-6 percent in 2003-2005. Growth dynamics differed widely between sectors. High growth sectors included Transportation & Communication and Finance, while other sectors grew slower than the GDP. The worst performing sectors were mining and especially crude oil production. Since 2005, the GDP has grown rapidly, on average by more than 6.3 percent if oil and gas sector excluded and by 5.8 percent with oil and gas sector included. The commodity boom fueled economic growth between 2005 and 2015, even if financial turbulences such as the US subprime mortgage crisis and the eurozone financial crisis impacted the international economy significantly. However, the long financial crisis in the eurozone and the end of commodity boom affected negatively both the price and volume of Indonesian exports. In addition, the slowdown of China's economy also contributed to some slowdown of the GDP growth. Fortunately, exports accounted for no more than 22 percent of the GDP in 2015, so unfavorable demand factors could only have negligible effect on the GDP growth rate, much less than in countries with a more open economy.

During the 2000-2015 period, the structure of GDP was dominated by services and manufacturing sectors. Manufacturing sector is relatively stagnant. The share of agriculture declined from 15 percent to 12 percent of total GDP between 2000 and 2015. Despite the declining share of agriculture in the GDP, the employment was still dominated by this sector followed by Trade, Hotel & Restaurant. The shift of employment from agriculture to other sectors has been very slow. Services sectors absorbed significant labor during the transformation and structural change of employment. This might be an indication that manufacturing and other sectors failed to absorb the shift of employment from primary to secondary sectors which is a usual pattern of industrialization in rapidly developing emerging countries. Furthermore, it can also indicate that the demand of those sectors does not fit anymore with the skills of labor force. Limited job creation in manufacturing sector was partly due to the change of technology from labor intensive to a more capital intensive production (Aswicahyono, Brooks, and Manning, 2011; Manning, 2010). The lack of new investment in manufacturing sectors due to unfavorable business climate in the post-AFC period contributed to the low growth in manufacturing sectors (see Figure 5). Another explanation can be the emergence of the informal sector within services. Yusuf and Sumner (2015) argued that the less competitive manufacturing sectors and the existence of an early deindustrialization could be accounted for such conditions.

In terms of GDP by expenditure, the growth was mainly driven by exports, capital formation and household consumption parallel during 2000-2005 as well as government consumption. Among these sectors however, household consumption was still the most important booster of the economic growth, which may not be surprising given the size of the population. An interesting feature was that capital formation as well as government expenditure growth was higher, while the growth of other components was lower than the GDP growth rate. Export component performed the worst during this period, and in certain years, net export can be held responsible for the slow-down of economic growth. However, in spite of this moderate economic growth during 2000-2005, poverty rate decreased from 19.14 percent (38.7 million people) to 15.97 percent (35.1 million people). Unfortunately, in 2006, poverty rate jumped to 17.75 percent (39.3 million people) as inflation rate hiked to 17 percent in 2005. The increase in inflation was caused by growing domestic fuel prices attributable to government measures. The new President Joko Widodo cut the fuel subsidy leading to an increase in domestic fuel price in 2015. However, in 2016 after the increase domestic of fuel price of previous year, domestic fuel price declined several times after the decrease of world crude oil prices.

Managing poverty has always been an essential element of the Indonesian economic policy. Suharyadi, Hadiwijaya and Sumarto (2012) found that poverty reduction was slower in the post-AFC era than before. After the AFC, poverty rate was 18.2 percent according to the new revised method of the poverty shifting of poverty line.[1] Looking back to 1976, poverty level was 40.1 percent, and dropped to 11.3 percent in the pre-AFC era (Suharyadi, Hadiwijaya and Sumarto, 2012). In 1996, comparing poverty based on the old method to that based on the new method, Suharyadi, Hadiwijaya and Sumarto (2012) shows that poverty rate increased from 11.3 percent to 17.3 percent. On the other hand, the decrease in poverty was followed by a growing income inequality. Gini ratio increased from 0.36 in 1996 to 0.41 in 2013, which indicates that the income of upper middle class people grew at a higher rate than that of the lower middle class people. Dartanto 2013 mentioned that especially the top of the percentile distribution of income benefited from the economic growth in Indonesia.

The new government under President Joko Widodo introduced several social programs to manage poverty and inequality, although their efficiency is dubious. Cash transfer was given to the poor family at the amount of IDR 200,000 per family per month. Other than that, similar cash transfer was provided to 20.3 million poor school-age children with the amount of the budget IDR 15.5 trillion, which was so-called Indonesia smart card program. Of course, these programs are overlapping

1 Suharyadi, Hadiwijaya and Sumarto (2012) provided note that BPS revised the method of setting the poverty line in 1998, and under the new method, the poverty threshold increased. Then, the poverty rate jumped from 11.3 percent to 17.3 percent in 1996.

with others. Therefore, Yusuf and Sumner (2015) argued that social spending had been dominated by education and they suggested that if this social spending were directed towards the poorest families with two school-aged reaching Rp 200,000 per child including the near poor families, this could efficiently contribute to the reduction of poverty and inequality.

After the AFC, unemployment kept increasing till 2007. Job creation was very limited due to the relatively slow economic growth rate. In addition, the number of new job seekers entering the job market surpassed that of newly created jobs. Saraswati (2008) found in her study using Central Statistics Agency (BPS) survey data that the number of job seekers entering the job market on average reached 1.8 million, while the economic growth only created around 1 million additional new jobs. On average 800,000 job seekers would be accumulative onward. In addition to the relatively slow pace of economic growth, labor rigidities also contributed to this situation. The new Manpower Law (No. 13/2003) was one of the reasons behind these rigidities. The World Bank study (2010) has also showed that rigid labor regulations have hampered job creation, thus failing to give protection for workers, especially the most vulnerable ones. The study blamed the Manpower Law being the source of the tightening regulations.

Aswicahyono, Brooks, and Manning (2011) stated that the slower growth rate of job creation after the crisis was due to the slower pace of growth of manufacturing exports and the changing composition of exports from light industry and to more capital-intensive sectors like food processing industry, as well as the heavy and chemical industries. Manning (2010) argued that the slower pace of job creation at that time was also caused by specific wage regulations.

Meanwhile, Papanek, Basri, and Schydlowsky (2010) underlined that the fact that Indonesia had failed to create jobs had resulted in a high-cost economy, which makes it difficult to compete in the world market. High-cost economy is due to rigid labor regulations, limited infrastructure and red tape. Exports comprising labor-intensive products declined in terms of value. Therefore, those studies confirmed that synergistic factors such as rigid labor regulations, slower growth of manufacturing exports and the shift in exports from labor-intensive to more capital-intensive goods have affected the job creation and unemployment negatively (Papanek, Basri, and Schydlowsky, 2010; Manning, 2010; Aswicahyono, Brooks, and Manning, 2011).

After 2007, unemployment rate started to decline. The most important explanations to this phenomenon were sound macroeconomic policies and steady, higher rate economic growth. Especially the rapid expansion of the services sectors such as transportation and communication, along with construction fueled the huge job creation from 2007 onwards. Aided by the massive development of low cost airlines, the high growth in air transport is reflected in an average growth of 13 percent in departures by people using air transport in 2003-2014 (BPS, 2016). Its reason was that services sectors generally used labor-intensive technology and less-skilled employees. This development reduced the rate of unemployment considerably from 10.4 percent in 2007 to 5.8 percent in 2015.

Manning (2010) stated that the flow of workers from agriculture towards higher productivity activities in towns and cities follows the classical East Asian, which had begun to improve living standards in the pre-AFC era. In this period, as Radelet (1999) mentioned, there was a shift towards labor-intensive manufactured exports, especially beginning in the mid-1980s after the fall in world oil prices when government actively promoted export oriented policy. He added that the production of commodities for export such as textiles, clothing, footwear, toys, furniture and other products soared, providing thousands of jobs and establishing a conduit for the introduction of modern technologies (Radelet, 1999). Investment climate in some sectors were also conducive, thus foreign investments increased significantly during the late 1980s and early 1990s, as well as Indonesian firms quickly became more integrated with globalized production networks (Radelet, 1999). However, the condition of post-crisis period is a reversal of pre-crisis period. Most of the job creation affected footloose industries which tended to be vulnerable to both higher labor costs and more rigid employment arrangements, compared to the pre-crisis period.

Commodity boom has been fueling Indonesian economic growth since 2003. The soaring prices of energy and commodity such as crude oil, coal, crude palm oil (CPO), rubber, and copper also contributed to Indonesia's economic to grow. After 2005, GDP growth rate has increased beyond 5 percent.

However, a minor crisis hit in 2005 due to the government's belated response to high crude oil prices. Domestic fuel prices were subsidized in order to keep them low. When the price of crude oil went high, Indonesia as a net oil importer country had to spend more on fuel subsidy from its budget. The government's response to increase domestic fuel prices came very late, therefore the fuel subsidy reached an extremely high level, accounting for about 23 percent of total budget expenditure (2005). If the crude oil price in the world market increases substantially which in turn increases government subsidy for fuel, as a consequence of which at some point the government will have to raise domestic fuel price, otherwise the budget deficit would jump to a critical level. Due to belated government action the Indonesian budget faced high deficit risk even above the threshold level allowed by the Law No. 17/2003 on State Finance. According to this Law, the deficit cannot exceed 3 percent of the GDP. Consequently, business confidence declined and it also caused capital outflow. Therefore, the Indonesian currency, Rupiah (IDR), plunged to the lowest level since the AFC. Fortunately, this development had only minor impact on the GDP growth and inflation rate, however, annual inflation jumped to 17 percent due to the increase in domestic fuel prices in 2005. Otherwise, inflation remained moderate with an upward trend during the 2000-2005 period, averaging at 10.9 percent.

Another external shock came from sub-prime mortgage crisis in the US in 2007 which influenced GDP growth rate in 2009. The sub-prime mortgage crisis then spread over to the Euro zone and finally, due to the global economic and financial linkages, it reached the Indonesian economy too. Although this negative external shock impacted the economy in many ways, but commodity price boom and good fiscal policy saved the GDP rate from severely dropping. During 2006-2015 GDP growth rate fluctuated between 4.4 percent (2009) and 6.20 percent (2011) and averaged at 5.48 percent (see Figure 1).

Since July 2005, Bank Indonesia (Central Bank) has applied inflation targeting in its monetary policy. According to the previous policy, Bank Indonesia (Central Bank) had applied base money targeting and set base money growth every year. Inflation targeting was introduced because keeping inflation low in the long run turned out to be successful in many countries. The objective of this policy is to provide signal of Central Bank policy to the public. Therefore, by doing so, this policy can help the public to see and to form inflation expectations and reduce the risk of inflation shocks. Central Bank has been successful in maintaining low inflation rate between 2006 and 2015 with an average of 6.22 percent. During this period, the inflation rate varied between 2.78 percent in 2009 and 11.06 percent in 2008.

Sound macroeconomic policy such as prudent monetary policy and appropriate fiscal policy appears to produce strong business confidence. The several crises after the AFC hitting Indonesia did not affect its performance significantly as the rate of GDP did not fall significantly below of its performance in "normal" periods. Compared to other emerging market economies such as Brazil, India, China and Turkey, Indonesian GDP growth performed relatively well (see Figure 3) after the unfolding of the global economic crisis in 2008.

Table 1

GDP growth between 2001 and 2014 by sectors based on 2000 constant price (%)

Sectors	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*	2014**
Agri., Animal Husbandry, Forestry & Fish.	3.26	3.45	3.79	2.82	2.72	3.36	3.47	4.83	3.96	3.01	3.37	4.20	3.44	3.29
Mining	0.33	1.00	-1.37	-4.48	3.20	1.70	1.93	0.71	4.47	3.86	1.60	1.58	1.41	-0.22
Manufacturing	3.30	5.29	5.33	6.38	4.60	4.59	4.67	3.66	2.21	4.74	6.14	5.74	5.56	4.86
Oil and gas refinery	-6.24	2.52	0.82	-1.95	-5.67	-1.66	-0.06	-0.34	-1.53	0.56	-0.94	-2.80	-1.76	-2.27
Non-Oil & Gas Manufacturing	4.86	5.69	5.97	7.51	5.86	5.27	5.15	4.05	2.56	5.12	6.74	6.42	6.10	5.34
Food, Beverage & Tobacco	1.07	0.19	2.69	1.39	2.75	7.21	5.05	2.34	11.22	2.78	9.14	7.57	3.34	7.24
Textiles, Leathers & Footwear	3.40	3.23	6.18	4.06	1.31	1.23	-3.68	-3.64	0.60	1.77	7.52	4.27	6.06	2.35
Wood & Wood Products	0.54	0.62	1.19	-2.07	-0.92	-0.66	-1.74	3.45	-1.38	-3.47	0.35	-3.14	6.18	7.33
Papers & Printing	-4.78	5.26	8.41	7.61	2.39	2.09	5.79	-1.48	6.34	1.67	1.40	-4.75	4.45	6.15
Fertilizers, Chemicals & Rubber Products	0.50	4.73	10.71	9.01	8.77	4.48	5.69	411.46	1.64	4.70	3.95	10.50	2.21	1.27
Cement & Non Metal Mining	19.08	6.56	7.06	9.53	3.81	0.53	3.40	-1.49	-0.51	2.18	7.19	7.80	3.00	1.52
Basic Metal & Steel	-1.00	-1.28	-7.97	-2.61	-3.70	4.73	1.69	-2.05	-4.26	2.38	13.06	5.86	6.93	4.21
Transport, Machinery & Equipment	17.22	18.09	8.88	17.67	12.38	7.55	9.73	9.79	-2.87	10.38	6.81	7.03	10.54	6.05
Other Materials	12.64	-11.08	17.74	12.77	2.61	3.62	-2.82	-0.96	3.19	3.00	1.82	-1.13	-0.70	8.91
Electricity, Gas & Water	7.92	8.94	4.87	5.30	6.30	5.76	10.33	10.93	14.29	5.33	4.71	6.32	5.78	5.50
Construction	4.58	5.48	6.10	7.49	7.54	8.34	8.53	7.55	7.07	6.95	6.07	7.39	6.57	6.58
Trade, Hotel & Restaurant	3.95	4.27	5.45	5.70	8.30	6.42	8.93	6.87	1.28	8.69	9.24	8.16	5.89	4.64
Transportation & Communication	8.10	8.39	12.19	13.38	12.76	14.23	14.04	16.57	15.85	13.41	10.70	9.98	9.80	9.31
Finance, Rents & Business Services	6.76	6.70	6.73	7.66	6.70	5.47	7.99	8.24	5.21	5.67	6.84	7.14	7.57	5.96
Services	3.24	3.75	4.41	5.38	5.16	6.16	6.44	6.24	6.42	6.04	6.80	5.22	5.47	5.92
Gross Domestic Product	3.64	4.50	4.78	5.03	5.69	5.50	6.35	6.01	4.63	6.22	6.49	6.26	5.73	5.06
Gross Domestic Product w/o Oil & Gas	4.90	5.23	5.69	5.97	6.57	6.11	6.95	6.47	5.00	6.60	6.98	6.85	6.20	5.44

Source: BPS.
Note: * Preliminary; **very preliminary

Table 2

Growth by expenditure, 2004-2015 (changes compared to the previous year, %)

By Expenditure	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Consumption expenditures	4.6	4.1	3.8	4.6	5.6	5.8	4.0	5.1	5.4	5.7	4.7	4.9
Household Consumption	4.7	3.8	3.1	4.8	5.1	4.6	4.5	5.1	5.5	5.5	5.3	4.8
Government Final Consumption	3.8	6.2	8.8	3.7	9.4	13.6	0.3	5.5	4.5	6.7	1.2	5.4
Gross domestic capital formation	12.8	9.8	2.5	8.5	10.6	3.2	7.8	8.9	9.1	5.0	4.6	5.1
Export of goods and services	11.9	14.2	8.6	7.9	8.7	-10.7	13.2	14.8	1.6	4.2	1.0	-2.0
Import of goods and services	21.0	15.1	7.9	8.3	9.1	-17.6	14.8	15.0	8.0	1.9	2.2	-5.8
Gross Domestic Product	4.8	5.4	5.2	6.0	5.7	4.4	5.9	6.2	6.0	5.6	5.0	4.8

Source: BPS, various publications.
Note: 2001-2010 based on 2000 constant price. 2010-2015 based on 2010 constant price

Table 3

Sectoral distribution of GDP based on 2000 constant price, 2003-2014 (% of the total)

By Sectors	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*	2014**
Agriculture, Animal Husb., Forestry & Fishery	15.2	14.9	14.5	14.2	13.8	13.7	13.6	13.2	12.8	12.5	12.3	12.1
Mining & Quarrying	10.6	9.7	9.4	9.1	8.7	8.3	8.3	8.1	7.7	7.4	7.1	6.7
Manufacturing	28.0	28.4	28.1	27.8	27.4	26.8	26.2	25.8	25.7	25.6	25.5	25.5
Electricity, Gas & Water	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Construction	5.7	5.8	5.9	6.1	6.2	6.3	6.4	6.5	6.5	6.5	6.6	6.7
Trade, Hotel & Restaurant	16.3	16.4	16.8	16.9	17.3	17.5	16.9	17.3	17.8	18.1	18.1	18.0
Transportation & Communication	5.4	5.8	6.2	6.8	7.2	8.0	8.8	9.4	9.8	10.1	10.5	10.9
Finance, Rent & Business Services	8.9	9.1	9.2	9.2	9.3	9.5	9.6	9.5	9.6	9.7	9.8	9.9
Services	9.2	9.2	9.2	9.2	9.3	9.3	9.4	9.4	9.4	9.3	9.3	9.4
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BPS, various publication.
Note: * Preliminary; **very preliminary

Table 4

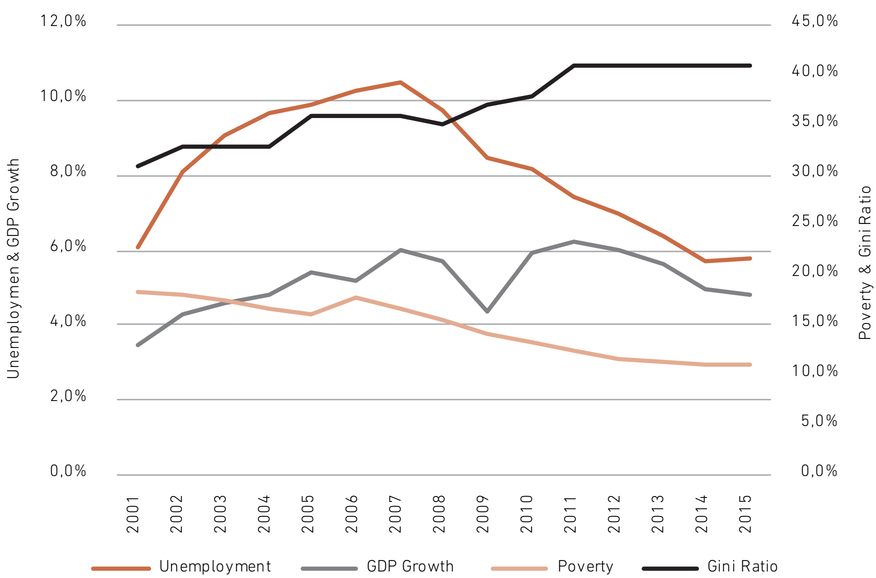
Employment by main sectors, 2003-2015 (% of the total)

By Sectors	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Agriculture, Animal Husb., Forestry & Fishery	46.38	43.33	44.04	44.47	43.66	41.83	41.18	39.87	37.89	36.53	35.16	34.55	33.20
Mining & Quarrying	0.79	1.10	0.85	1.00	1.05	1.04	1.09	1.11	1.21	1.42	1.34	1.37	1.18
Manufacturing	12.39	11.81	12.27	12.16	12.39	12.19	12.07	12.15	12.38	12.62	12.94	13.02	13.56
Electricity, Gas & Water	0.16	0.25	0.20	0.22	0.25	0.20	0.20	0.19	0.23	0.26	0.22	0.26	0.26
Construction	4.37	4.84	4.65	4.60	4.51	4.64	4.41	4.51	5.04	5.39	6.00	6.10	6.38
Trade, Hotel & Restaurant	18.59	20.40	19.90	19.50	19.91	20.27	20.90	20.68	20.96	21.32	21.80	21.84	22.05
Transportation & Communication	5.32	5.85	5.85	5.74	5.71	5.89	5.69	5.42	5.04	4.59	4.56	4.51	4.30
Finance, Real Estate, Rent & Business Services	1.41	1.20	1.10	1.21	1.28	1.41	1.42	1.53	1.87	2.46	2.63	2.70	3.02
Services	10.60	11.22	11.14	11.11	11.23	12.52	13.03	14.54	15.37	15.41	15.35	15.64	16.06
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: BPS, National Manpower Survey (Sakernas)
Note: Data 2011-2013 uses back-casting of Weighted Projection Component .
In 2000, excluding Maluk

Figure 1

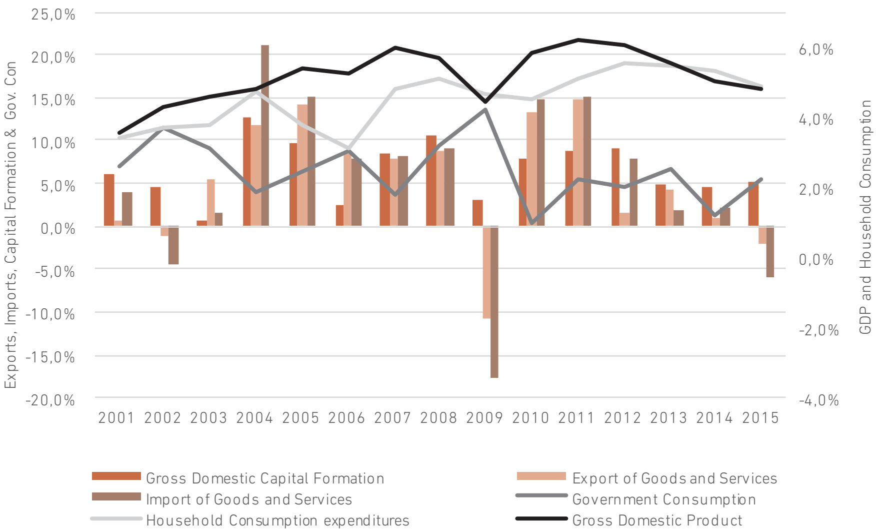
GDP growth, employment, poverty and Gini-ratio, 2002-2015



Source: BPS

Figure 2

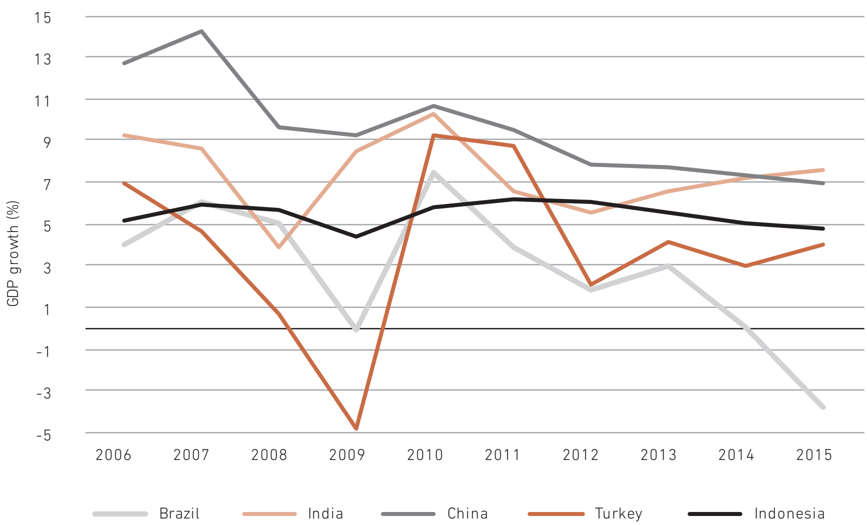
Growth by expenditure



Source: BPS

Figure 3

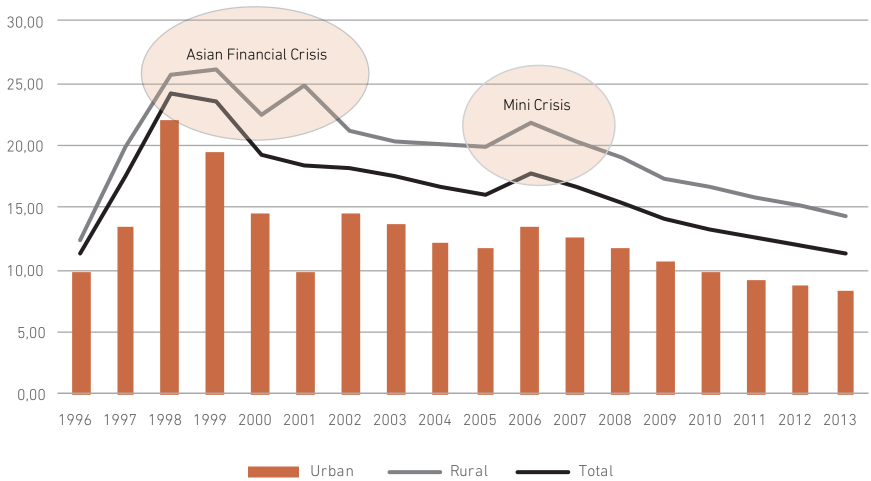
GDP growth of some emerging market economies, 2006-2015



Source: World Bank, World Development Indicator

Figure 4

Percentage of people in poverty, 1996-2013



Source: BPS

2. External sector

The external sector has become important due to exports and imports as well as capital flows fluctuation. Exports increased due to the commodity boom in the world market between 2000 and 2011. Foreign direct investment growth was stagnant at a low level (Figure 5). Based on balance of payment data, the growth of foreign direct investment (FDI) had a downward trend since 2010. Similarly, the growth of capital account had a downward trend as well. It might be that the fall of capital inflow was dominated by the fall of foreign direct investment (see Figure 5). The reluctance of foreign investor to come to Indonesia might be due to limited infrastructure, red tape, and unease with doing business.

In the 2000-2005 period, the current account deteriorated. After 2005 till 2009, current account improved with an upward trend, but after 2009, current account had a downward trend to a negative territory. After 2009, large domestic fuel consumption during the period of high fuel prices caused worsening balance. On the other hand, the price development of major export commodities had been unfavorable causing trade surplus to decline. Despite the unfavorable terms of trade changes, trade on goods was still in surplus. Major export commodities' prices fluctuated with downward trend in recent years (see Figure 9). Current account seems to have been bottoming out and it is like to improve in the future. But the price of CPO and nickel – two important commodities exported heavily from Indonesia – increased at a higher rate than that of other major export commodities. Since 2005, the export value of major commodities jumped significantly due to commodity boom. Copper price increased due to limited stock or stock run-out (Papp et al., 2008). Since 2003, there have been many factors affecting the price such as the rising consumption of China (Papp et. al., 2008).

CPO price development was influenced by the rising demand, which was not only attributable to food but also to energy substitution such as for biofuel. CPO can be used not only as food, but also as a source of energy. The use of CPO for energy is reasonable if the price of fossil fuel is higher than that of the price of CPO. Wenzlau (2013) mentioned that the rising of food prices was due to the rising energy and fertilizer prices. Climate change also contributed to the extreme weather which caused production shock (Wenzlau, 2013). Hamilton (2009) emphasized that high energy price of fossils, such as coal and – especially – crude oil, was due to production shortages in 2003-2005.

Many analysts added that the high price of food was due to a weaker dollar and higher energy prices affecting production costs and increasing demand for biofuels (see Westhoff, 2012; Trostle, 2008).

Athukorala (2006) argued that even though there were soaring commodity prices in the early years of the 21th century, the Indonesian export growth has been sluggish since 1998, compared to that of neighboring countries. Rahmaddi and Masaru (2012) stated that Indonesia started to embark on trade liberalization era, represented by an outward-oriented or export promotion (EP) strategy. It replaced import substitution industrialization (ISI) strategy after the collapse in oil price in the mid-1980s, which was spurred by the oil windfall profit during the mid-1970s. However, Rahmaddi and Masaru (2012) found that there was evidence need for Indonesia to continuously upgrade its exports towards highly technology-embedded commodities. Therefore, they suggested that the government of Indonesia put more integrated efforts on competitiveness enhancing measures.

The high price of CPO contributed to the strong export between 2005 and 2008. In addition, the exportation of mining products such as crude oil, coal, copper, nickel also increased. Natural gas was not to be included, because its price was based on long term contracts.

Export goods were dominated by manufacturing products and mining products during the era of 2000-2005. After that, mining products (coal especially) became more important as export products. Fortunately, the share of mining and agricultural products in value are relatively small in Indonesian exports compared to manufacturing products. Therefore, the plunge of commodity and mining products' prices did not affect significantly the Indonesian exports when the commodity boom ended. However, exports remained still under pressure from both low prices and weak demand because eurozone still experienced financial crisis along with other countries.

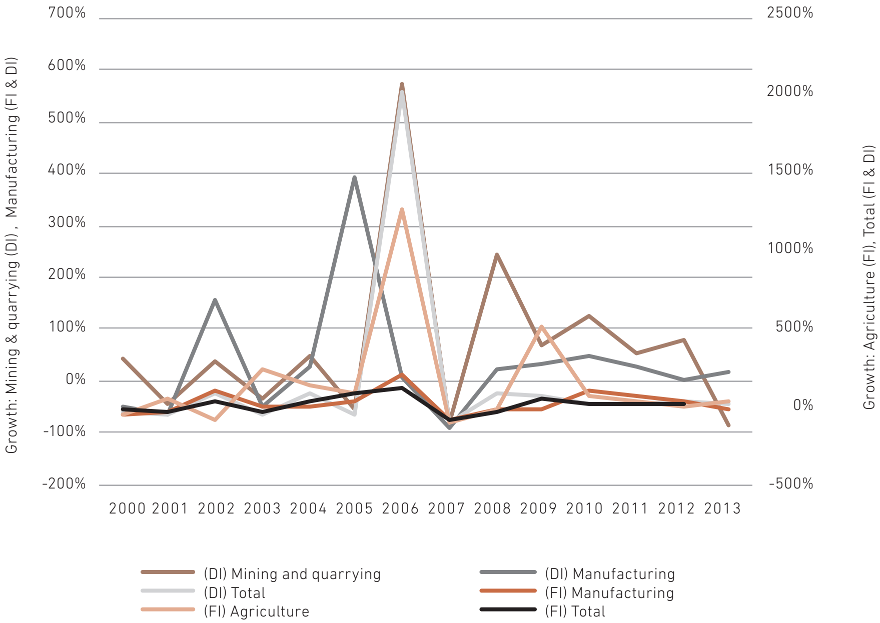
The major trading partners are ASEAN countries, Japan, US, the European Union and China. These countries and regions accounted for approximately 64 percent of total exports and of course, the economic performance of these regions and countries influences the economy of Indonesia through international trade linkages. In ASEAN countries, Singapore and Malaysia are the major consumers of Indonesian exports. Proximity is a logical explanation, but it also might be that Singapore is a transshipment port and reexporter of Indonesian products to other countries (see Figure 10). For example, the value of CPO (in the name as Animal & Vegetable Oils Fats & Waxes) exported to Singapore was not much different from the value exported to Egypt and Bangladesh respectively.

The major consumers of coal products were India, China and Japan, accounting for 62.4 percent of total Indonesian coal exports in 2014. Meanwhile, the main destinations of CPO were India, China, Pakistan and Netherland receiving 44 percent of total CPO exports. Footwear products were mostly sent to US, Belgium, Germany, UK and Japan which accounted for 53.6 percent of the total exports of footwear products.

The relatively low exposure of Indonesian economy to world economy which is reflected by the low proportion of exports provided an advantage for domestic economy when external shocks (global financial crisis, collapsing commodity prices) affected the Indonesian economy. The current trade strategy relies on broadening the circle of destination countries rather than simply counting on the actual trading partners. Therefore, exports will be targeted to new destination countries such as African countries and Latin American countries.

Figure 5

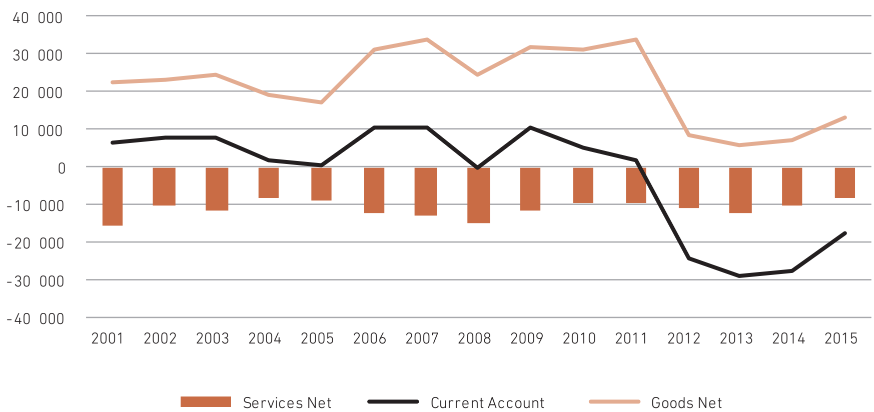
Growth of FDI and growth of capital account, 2000-2013



Source: Bank Indonesia, SEKI

Figure 6

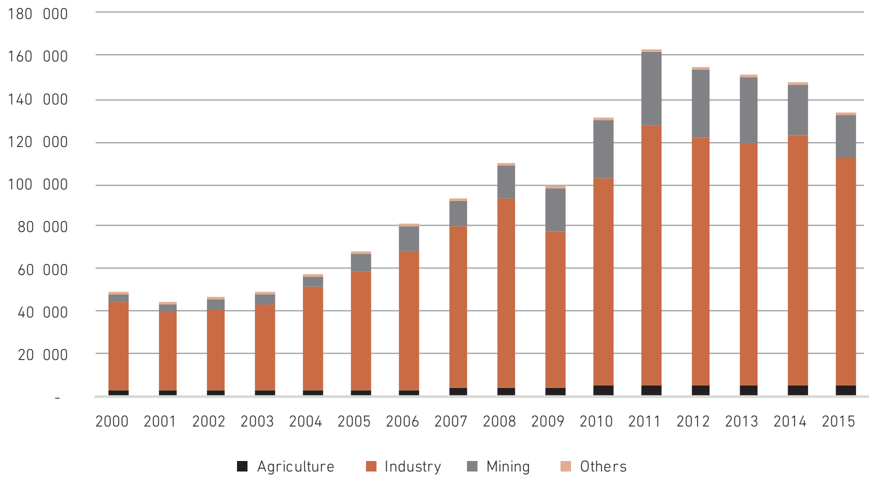
Current account, net export of goods and services, 2000-2015 (US$ million)



Source: Bank Indonesia, SEKI

Figure 7

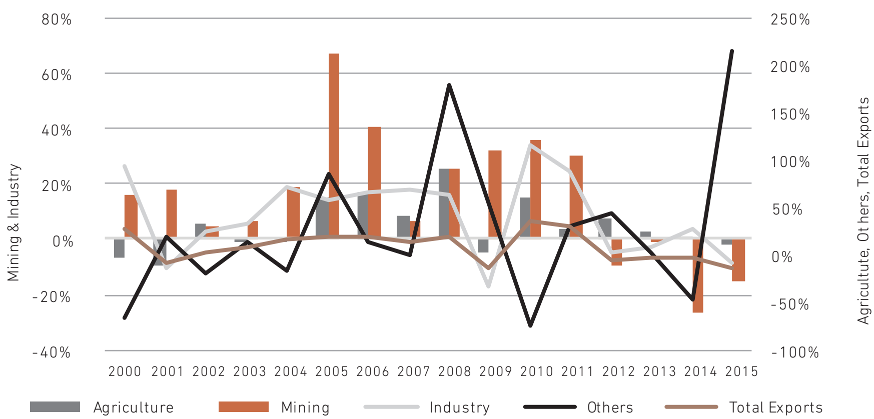
Value of exports based on type of goods, 2000-2015 (US$ million)



Source: BPS

Figure 8

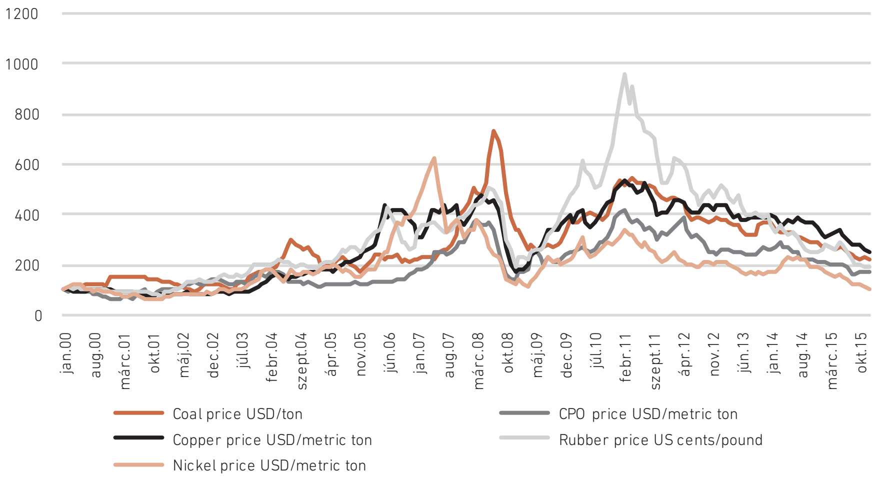
Growth of exports based on type of goods, 2000-2015



Source: BPS

Figure 9

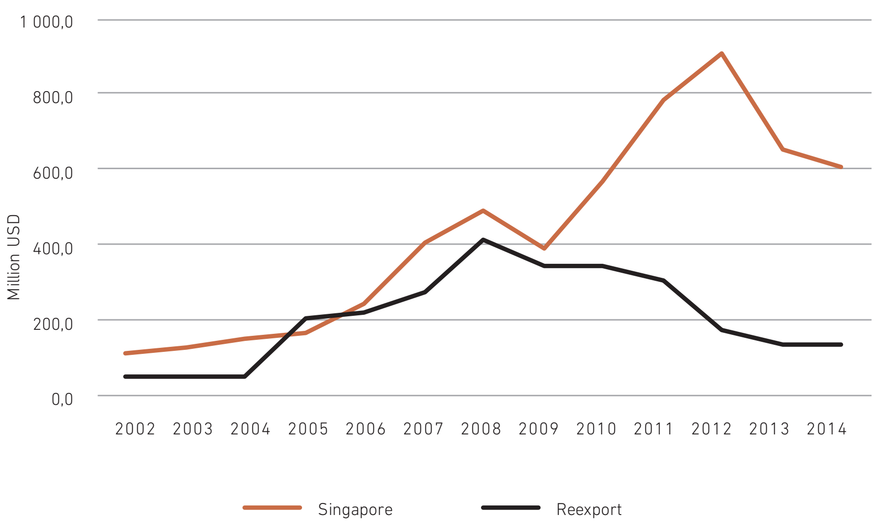
Major export commodities price index, 2000-2015 (2000=100)



Source: Index Mundi data

Figure 10

Animal & vegetable oils fats & waxes export to Singapore and reexport from Singapore, 2002-2014



Source: BPS and Department of Statistics Singapore website

Table 5

Geographical distribution of exports, 2000-2006 (%)

Destination Country	2000	2001	2002	2003	2004	2005	2006
ASIA							
ASEAN	17.5	16.9	17.4	17.6	18.2	18.5	18.3
Thailand	1.7	1.9	2.1	2.3	2.8	2.6	2.7
Singapore	10.6	9.5	9.4	8.8	8.4	9.1	8.9
Philippines	1.3	1.4	1.4	1.5	1.7	1.7	1.4
Malaysia	3.2	3.2	3.6	3.9	4.2	4.0	4.1
Other ASEAN	0.8	0.8	1.0	1.0	1.0	1.0	1.2
Japan	23.2	23.1	21.1	22.3	22.3	21.1	21.6
China	0.0	0.0	5.1	6.2	6.4	7.8	8.3
Other Asian countries	24.0	23.4	13.0	12.7	20.3	21.3	20.5
AFRICA	1.8	2.1	NA	NA	1.9	1.9	2.0
AUSTRALIA & OCEANIA	2.7	3.7	3.8	3.3	3.0	3.0	3.1
AMERICA							
USA	13.6	13.8	13.2	12.1	12.2	11.5	11.1
Other American countries	2.4	2.5	1.2	1.0	2.2	2.0	2.2
EUROPE							
European Union	14.3	14.1	14.3	13.5	12.7	12.1	11.9
Other European countries	0.5	0.6	11.1	11.3	0.7	0.8	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BPS

Table 6

Geographical distribution of exports, 2007-2014 (%)

Destination Country	2007	2008	2009	2010	2011	2012	2013	2014
ASIA								
ASEAN	19.5	19.8	21.1	21.1	20.7	22.0	22.3	22.5
Thailand	2.7	2.7	2.8	2.9	2.9	3.5	3.3	3.3
Singapore	9.2	9.4	8.8	8.7	9.1	9.0	9.1	9.5
Philippines	1.6	1.5	2.1	2.0	1.8	2.0	2.1	2.2
Malaysia	4.5	4.7	5.8	5.9	5.4	5.9	5.8	5.5
Other ASEAN countries	1.5	1.5	1.7	1.5	1.5	1.6	1.9	2.0
Japan	20.7	20.2	15.9	16.3	16.6	15.9	14.8	13.1
China	8.5	8.5	9.9	9.9	11.3	11.4	12.4	10.0
Other Asian countries	20.6	21.4	23.3	23.7	24.2	24.2	23.4	25.0
AFRICA	2.2	2.4	2.4	2.3	2.8	3.0	3.1	3.6
AUSTRALIA & OCEANIA		3.5	3.3	3.2	3.1	3.0	2.9	3.3
AMERICA								
USA	10.2	9.5	9.3	9.0	8.1	7.8	8.6	9.4
Other American countries	2.2	2.2	2.2	2.7	2.4	2.3	2.5	2.5
EUROPE								
European Union	11.7	11.3	11.6	10.9	10.1	9.5	9.2	9.6
Other European countries	1.0	1.0	0.8	0.9	0.9	0.9	1.0	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BPS

3. Financial sectors

The impact of the AFC on the Indonesian financial sector was profound. Radelet (1999) showed that foreign investors had fled and domestic investors had gone bankrupt. He also emphasized that the banking sectors had been halted and had become insolvent providing almost no new lending (Radelet, 1999). Meanwhile, Nasution (1999) stated that the Rupiah had depreciated by over 80 percent since July 1997 when it was trading at about Rp 2,400 to the US$ and the Indonesian composite stock price index had plunged by more than 50 percent of the index since July to 14 August 1997. He also mentioned that bank deposit and loan interest rates increased by over 50 percent per annum at that time (Nasution, 1999).

In the post-AFC period, financial sectors experienced consolidation. Between 2000 and 2005, interest rate was still high and credit was still low as well as the loan to deposit ratio. Bank restructuring was underway and the financial institutions conducted prudent policy. Interest rate on working capital had showed a downward trend with some minor fluctuation when subprime mortgage was blown up in the US. The activity of banks confirmed their confidence to channel their funds to business despite the growing international financial imbalances. In line with the reduction of working capital interest rate, loan to deposit ratio increased from 0.3 to 0.9 in 2015 with some minor fluctuation. The credit growth has similar pattern to GDP growth showing that most of the credits are channeled to sectors with higher economic growth. GDP growth trends follow a cyclical pattern. Figure 11 showed that every cycle of GDP slowdown is usually followed by a credit slowdown as well.

Inflation rate might be influenced by the growth of reserves money/base money (see Figure 12). In order to maintain stable inflation rate, Bank Indonesia always uses BI rate which in certain periods of time is to be adjusted depending on inflation expectancies. BI rate seems to be effective as an anchor of inflation rate (see Figure 13).

In the banking sector, loan to deposit ratio kept rising in line with the reduction of credit interest rate. Since 2000, banking sector made consolidation and prudential policy action. During this period, many laws and regulations have been introduced in the financial sector such as the Revision of Bank Indonesia Law (Law No. 3, 2004) or the Law on Deposit Insurance System (Law No. 24, 2004). The revision of the Bank Indonesia Law was intended to allow the Bank to issue loans as the *lender of the last resort* particularly emergency loans to any bank facing financial liquidity problems that could otherwise cause financial instability. This means that in case of a crisis causing the closure of banks, Deposit Insurance Company will cover the depositors' money with a maximum amount of IDR 2 billion per account. In addition, Bank Indonesia is obliged to provide opinion and consideration on the State Budget. The function of banking surveillance is carried out by another independent financial services authority (Financial Services Authority), which includes stock market, bank and non-bank financial institutions such as insurance companies, leasing companies etc. and others.

The performance of banking sector during the consolidation improved slowly but continuously. In line with loan to deposit ratio, non-performing loan (NPL) improved as well after the crisis until 2005. However, due to the mini crisis in 2005 and the financial turbulence in 2008, NPL and capital adequacy ratio (CAR) worsened slightly (Figure 16).

Banking sector faces declining ratio of operational expenditure to revenue expenditure. This is a good signal that the banking sector can reduce operational cost but its revenue is held constant or even may increase. Or it may be that operational expenditures are held constant but revenues increase. This is a good indication that efficiency is probably increasing. Furthermore, net interest margin (NIM) reflecting efficiency in banking sector also showed a downward trend with slight fluctuation during the mini crisis in 2005 and the financial turbulence in 2008. However, in the recent years, NIM seems to be showing an upward trend. It might be that the slowing economic growth makes NIM to increase. Banking sector had to include calculation of risk for their interest charges to customers due to the slowdown of GDP growth rate, then the banking sector increased the credit interest rate.

Capital adequacy ratio reflecting the strength of capital to handle risk improved significantly as requested by Bank Indonesia to comply with Basel Accord III. During 2000-2005, many banks have to be merged to strengthen their capital in achieving minimum CAR based on Basel Accord III. Return on assets (ROA) reflecting the capacity of the banking sector to accumulate revenue based on their asset improved as well, but the process is very slow.

The exchange rate of the Indonesian Rupiah (IDR) improved with slight fluctuation. In September 2005, during the so-called mini crisis, IDR depreciated to IDR 10,268 per 1 US$. This was the weakest rate of IDR in the post-AFC era. This weakening of IDR was due more to domestic rather than to external factors. External factors were relatively tranquil as commodity price was slowly increasing. However, an increase in oil price imposed an additional burden on the state budget through the increased fuel subsidy. In 2008, subprime mortgage crisis hit Indonesia's financial sector too. The UDS to IDR conversion rate reached 12,168 in November. This subprime mortgage crisis hit financial market. The stock market reflected this turbulence as the Jakarta stock index dropped to 1,355 in December 2008 from 2,627.3 in early 2008 and simultaneously foreign investors having treasury bonds and Indonesian Bank Certificate declined from Rp 104.3 trillion to Rp 87.4 trillion (Bank Indonesia, 2009a).

On September 22, 2004, the Law on Deposit Insurance System (Law No. 24, 2004) was approved by both President Susilo Bambang Yudhoyono and the Parliament and took effect on September 22, 2005. The objective of this measure was to protect depositors' funds in banks in case of bank failure and to maintain the banking system's stability. This system was to replace full blanket system during the AFC. The full blanket system is a system allowing the Bank Indonesia (Central Bank) to bail out all the depositors' deposits in the banking system if their banks go bankrupt. However, under the new system, a limited guarantee is applied.

When the subprime mortgage crisis hit Indonesia, this also affected the Century Bank, a small bank in terms of assets and customers. This bank had been under special surveillance by Bank Indonesia before the onset of the financial turbulence in 2008 and then it was bailed out by LPS to avoid systemic risk impact. Upon receiving recommendation from Bank Indonesia, the Minister of Finance made the decision to bail out the Century Bank. This bailout has become a controversy and a scandal which also sent some of high ranking officers of Bank Indonesia to jail. This case involves political matters as some Members of parliament considered Bank Century should not be bailed out. This bank is relatively small in terms of assets, the number of customers and the area it covers in Indonesia.

In early 2009, financial market was restored and stabilized. This was shown by the appreciation of IDR against US$ (see Figure 18). In addition, Indonesia's stock index rebounded after a crash and temporary closure for the first time in history. The Jakarta stock market was closed between October 8 and 10, 2008 due to the plunge of stock index by 10.38 percent in a day and panic selling occurred on the market. Jakarta Stock index rebounded since February 2009 with some minor fluctuation and kept increasing from 1,285 in 2009 to 4,593 in 2015. During the crash of stock prices in 2008, capital outflow occurred because foreign investors in the capital and stock markets withdrew their funds from Indonesia.

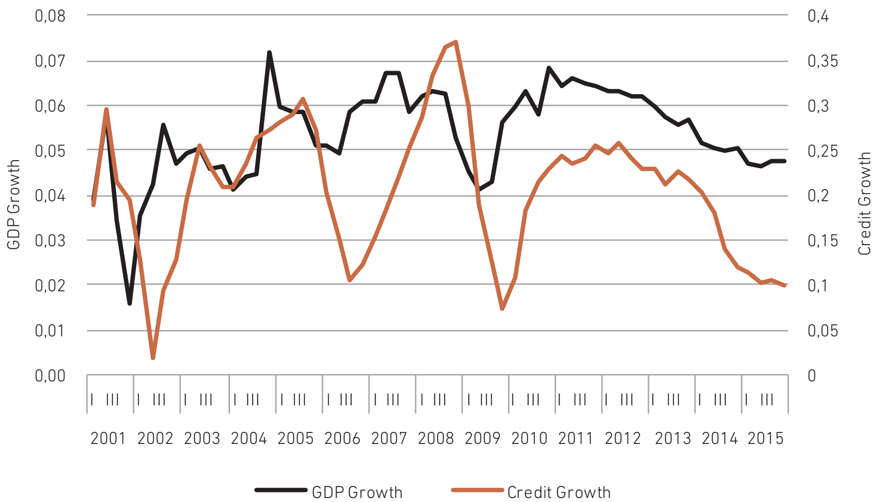
By contrast, in mid-2012, IDR depreciated against US$, and the weakening has reached its lowest level in August 2015. After that, IDR was appreciating again until 2016. However, it seemed that the Rp 9,000 per US$ level cannot be reached. The new equilibrium level appears to be at Rp 13,000. To some extent, since May 2011, the pattern of IDR graph and Jakarta stock index graph have not been parallel anymore, as against previous periods. Usually if IDR depreciates against US$, the stock index drops as well because foreign investors play a significant role in the market. This pattern was dominant between 2000 and 2011. After that this pattern disappeared. This might be due to the fact that foreign investors holding Indonesian stock had sold their Indonesian assets and exited the Indonesian stock market during the crash in 2008.They had not returned to the level before the onset of the crash in 2008. In 2008, the Law of Bank Indonesia was amended especially regarding the function of bank monitoring. In the amendment, the function of bank monitoring was handed over to the new institution, which is the so-called Financial Service Authority (FSA). The Law of FSA was also approved by the President and the Parliament in 2012 and took effect on January 1, 2014.

In 2016, the Law on Prevention and Crisis Treatment of Financial System (Law No. 9, 2016) was issued. Based on the Law on Prevention and Crisis Treatment of Financial System, the banking crisis protocol specifies that there is no bail out system anymore. In case of banking crisis, the owners of the bank are obliged to inject capital in order to meet requirement as requested by the regulator or Bank Indonesia. The injection of capital with the good quality asset was handed over to Bank Indonesia.

In brief, the financial sector in the post-AFC period appears to be stronger than before the AFC hit. The data showed that even though some developments can be regarded as critical, such as the mini crisis, and in addition, the global financial crisis also hit the Indonesian economy, the harmful effects turned out to be minor regarding the Indonesian economy and the financial sector. Appropriate regulations and institutions aided economy and finance to show resilience.

Figure 11

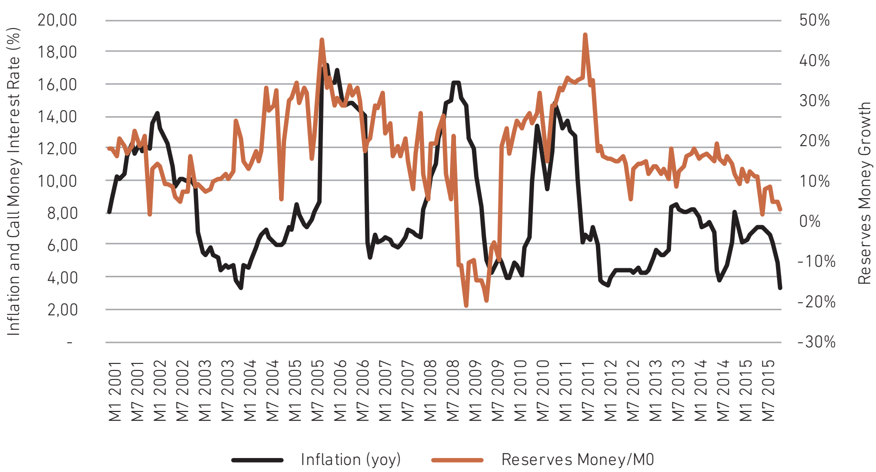
Credit and GDP growth, 2000-2015



Source: BPS and BI

Figure 12

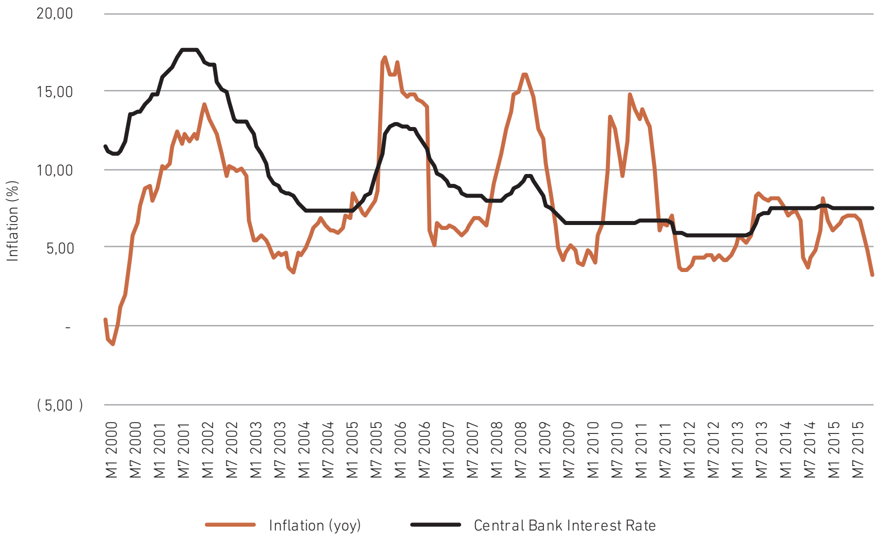
Inflation and reserve money growth (yoy), 2001-2015



Source: BPS and BI. Inflation and reserve money growth (yoy), 2001-2015

Figure 13

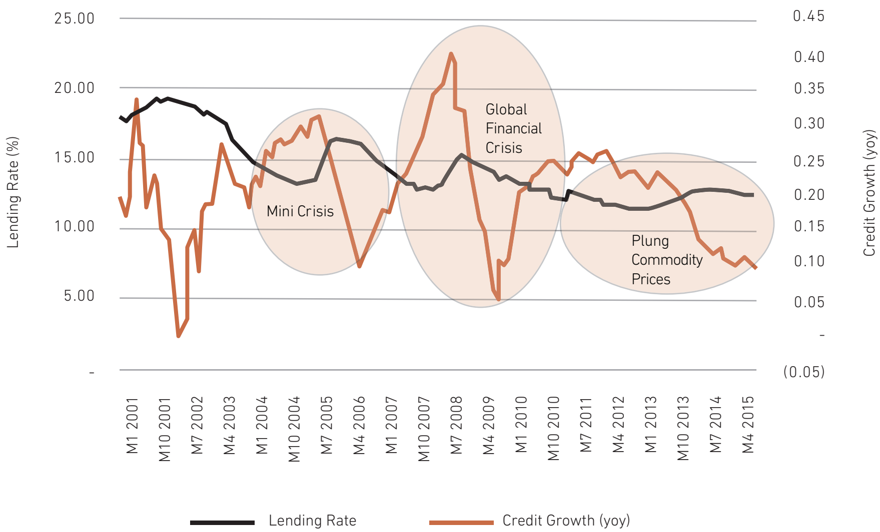
Inflation and Central Bank interest rate, 2000-2015



Source: BI

Figure 14

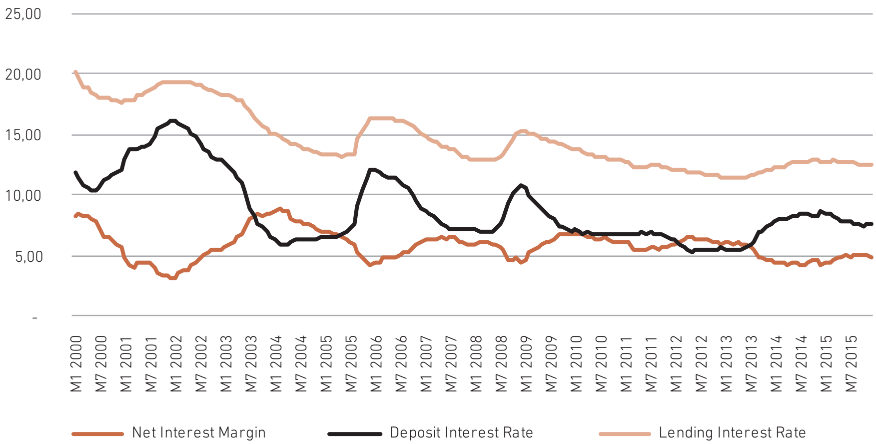
Lending interest rate and credit growth, 2001-2015



Source: BI

Figure 15

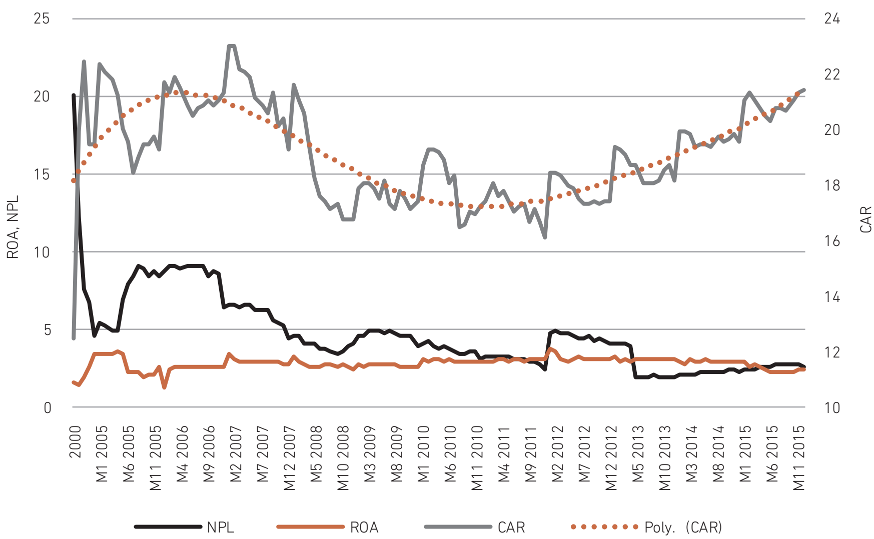
Deposit, lending rate and net interest margin, 2000-2015



Source: BI

Figure 16

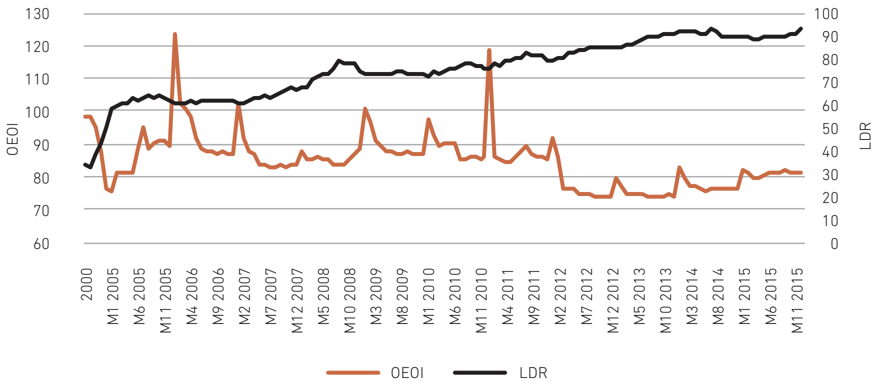
NPL, ROA, CAR of Commercial Bank, 2000-2015



Source: BI

Figure 17

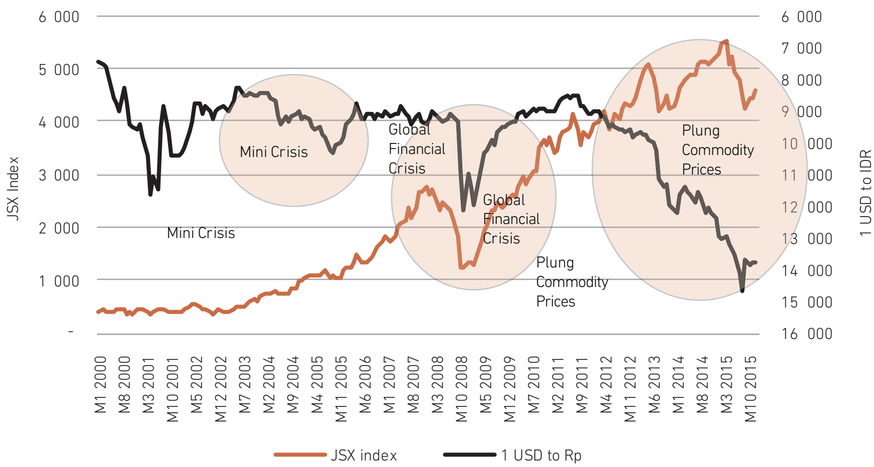
OEOI and LDR, 2000-2015



Source: BI

Figure 18

Jakarta Stock Index and exchange rate of 1 US$ to IDR



Source: BI

4. Fiscal policy

Fiscal conditions after the AFC were relatively stable with low deficit until 2005. This stability and good performance was mostly due to the IMF's close supervision of the country's macroeconomic policy. IMF loan agreed during the AFC forced Indonesia to comply with this condition. In every budget cycle Indonesia had to issue a letter of intent which covered every policy and it had to comply with the IMF's terms of condition. After reviewing the reserves the government made an early debt repayment to the IMF in October 2006 (Hukumonline.com, 2006).

Fiscal policy has become an important and effective tool of macroeconomic stabilization. Hermawan and Munro (2008) found in their research that fiscal policy could contribute efficiently to macroeconomic stabilization in Indonesia, leading to better outcomes than monetary policy alone. Therefore, the role of fiscal policy was on the right track to stabilize macroeconomic conditions especially when facing external shock and the government performed well in mitigating impacts of financial turbulences.

Budget reform was carried out to strengthen fiscal sustainability in 2003, when Indonesia passed a fiscal responsibility act (Law No. 17 on State Finance, 2003). Based on this Law, the maximum budget deficit cannot exceed 3 percent of GDP. During 2000-2005, fiscal deficit was under control even though fuel subsidy was significant in the budget. Fuel subsidy has been a chronic problem in the state budget, because previous Presidents did not dare cut subsidy, let alone the last President, Joko Widodo. Fuel subsidy is an inappropriate policy instrument, because the subsidy goes to middle-income people owning their private vehicle. Almost every year between 2000 and 2014, fuel subsidy was a headache for governments when the global crude oil price increased significantly. Fiscal sustainability was threatened by this subsidy (mainly fuel subsidy) which amounted to 20 percent of the total budget on average. Due to this condition, government capital expenditures have always been limited. In addition to this, 20 percent of government expenditures have to be allocated to the education sector and 5 percent to the health sector. These mandatory expenditures represent 25 percent of the State Budget causing limited fiscal space. Another significant mandatory expenditure is the transfer to the regional governments.

Given the regulatory obligations and the economic policy intentions, governments tried to maintain fiscal sustainability by low deficit. The average deficit was 1.45 percent of the GDP between 2001 and 2015.

During 2000-2014, the percentage of subsidy expenditures, dominated by fuel subsidy, had an upward trend with some fluctuation depending on the global crude oil market (see Figure 14). Since 2003 the percentage of subsidy has shown an upward trend but it dropped significantly in 2015 when the government cut fuel subsidy.

The proportion of transfer to regional governments has been relatively stable. To a lesser extent, transfer expenditures from the central government to regional governments was counter-productive, as most of the funds were used to pay salary and wages of the regional government apparatus. Salaries and wages in provinces, districts and cities amounted to 46.2 percent of their total expenditures, and the average of capital expenditures of provinces, districts and cities only reached 22.9 percent of total expenditures in 2011 (Kementerian Keuangan, 2011).

Because of those mandatory expenditures, the proportion of public capital expenditure in 2005-2014 was stagnant. When the new government made radical changes by cutting fuel subsidy in 2015, the ratio of subsidy expenditure – which consists of electricity, fertilizer and fuel subsidy – fell from 20 percent on average between 2000 and 2014 to roughly 10 percent of the budget.

In 2008, when the global financial turbulence started and hit Indonesia as well, the government prepared fiscal policy to anticipate the decrease in tax revenue due to the slowing down of the economic growth. Therefore, the government was forced to increase tax revenue by introducing a so-called sunset policy for income tax and other fiscal incentives such as the reduction of value added tax rate. Hasan (2009) identified the impact of sunset policy in increased tax revenues. The findings of the case study of Yogyakarta Province showed that sunset policy had increased tax revenue (Hasan, 2009).

In 2009, the government continued an expansionary fiscal policy in order to maintain a higher aggregate to boost economic growth by reducing personal and corporate tax income rates and increase tax income threshold (Republik Indonesia, 2009). Reducing income tax rate and increasing income tax threshold left people with higher purchasing power and aimed at increasing the business sector's competitivity. Income tax threshold was adjusted several times i.e. in 2006, 2009, 2013 and 2015, and household consumption increased (Amir, 2016). In 2016, the lowest income group tax bracket for singles was at IDR 54 million per year. In the business sector, tax subsidy had been introduced in the form of providing discount on electricity for industry, discount on diesel fuel etc. (Republik Indonesia, 2009). Amir (2016) examined the potential impact of the rising of income tax threshold in Indonesia and he found that despite a potential loss of tax revenue by Rp 19.3 trillion, there was a 0.252 percent increase in people's purchasing power, and the economic growth rate could be accelerated by 0.039 percent using the 2015 income tax rate.

Fiscal deficit was maintained at an acceptable level to achieve fiscal sustainability. Fiscal deficit started at a higher level in 2001 and improved until 2008, then it deteriorated, but still remained within the threshold set by the Law (see Figure 19). The worsening figures were due to the lower than expected tax revenues mostly attributable to the slower economic growth. Worsening balance was also the result of the government's policy which tried to mitigate the impact of global financial turbulence on the domestic economy by introducing several fiscal policy measures. Tax revenue is still the major government revenue and its composition is relatively stable with slight fluctuation.

Under the new government that started in October 2014, several fiscal policy measures have been introduced to boost economic growth. The most striking policy change mentioned earlier was the cut of fuel subsidy and the reallocation of the funds for infrastructure development. Social policy, including cash transfer to poor people in order to reduce the impact of increased fuel prices, has also been strengthened. Recently, fourteen policy packages have been issued containing various sectors such as improving industrial competitiveness, simplifying investment procedures, making working capital credit more easily accessible for people, restructuring wages system, and improving tax incentive for asset revaluation and removing double taxation etc. The objective of these policies is to simplify business procedures and they are also expected to improve economic activities. However, Nasution (2016), professor emeritus at the Faculty of Economy, University of Indonesia, publicly shared his doubts in Indonesian newspaper Kompas about the effectiveness of the twelve policy packages. He showed that based on recent data the economy had slowed down and investment realization and exports hadn't show any increase either (Nasution, 2016). However, Hayden (2016) argued: "should we expect the results of reforms begun last September to be evident in the first-quarter numbers for 2016? Or is the improvement of the investment environment a process that takes more time to bear fruit?"

On the revenue side, there is a new Law on Tax Amnesty. This fiscal policy will increase tax revenue and will improve tax base. It is expected that tax ratio will improve as well. The objective of tax amnesty are as follows: to repatriate fund, to increase domestic economic growth, to expand tax base, and to increase tax revenue.

It is estimated that the policy will cause an additional tax revenue of IDR 180 trillion in the Revised State Budget 2016 (Antara, 2016). However, Bank Indonesia only expects an additional tax revenue of IDR 45.7 trillion (Metrotvnews, 2016). The effectiveness of this policy is still questionable.

Table 7

Structure of budget expenditures (%)

Budget Actual	2001	2002	2003	2004	2005	2006	2007	2008
Government Revenues and Grants	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic Revenues	99.8	100.0	99.9	99.9	99.7	99.7	99.8	99.8
Tax Revenues	61.6	70.4	70.9	69.6	70.1	64.1	69.4	67.1
Non-Taxes Revenues	38.2	29.6	29.0	30.4	29.7	35.6	30.4	32.7
Grants	0.2	NA	0.1	0.1	0.3	0.3	0.2	0.2
Government Expenditures	100	100	100	100	100	100	100	100
Central Government Expenditures	76	70	68	70	71	66	67	70
Current Expenditures	64	58	50	55	71	66	67	70
Personnel	11	12	13	12	11	11	12	11
Goods and Services	3	4	4	4	6	7	7	6
Capital	NA	NA	NA	NA	6	8	8	7
Interest payment	26	27	17	15	13	12	11	9
Subsidies	23	14	12	21	24	16	20	28
Social Assistance	NA	NA	NA	NA	5	6	7	6
Other Expenditures	2	1	4	3	7	6	2	3
Regional Budget Expenditures	24	30	32	30	30	34	33	30
Balance Budget	24	29	30	29	28	33	32	28
Revenue Sharing Funds	6	8	8	9	10	10	8	8
General Allocation Funds	18	21	20	19	17	22	22	18
Special Allocation Funds	NA	NA	1	1	1	2	2	2
Special Autonomy	NA	1	2	2	1	1	1	1
Rural Fund	NA	NA	NA	NA	NA	NA	NA	NA
Suspend	NA	NA	NA	-10	-1,987	-917	-237	-58,721
Deficit	-12	-7	-9	-6	-3	-4	-7	0
Deficit % of GDP	-2.50	-1.30	-1.70	-1.00	-0.50	-0.90	-1.30	-0.10

Source: Kementerian Keuangan, Various State Budget

Table 8

Structure of budget expenditures (%)

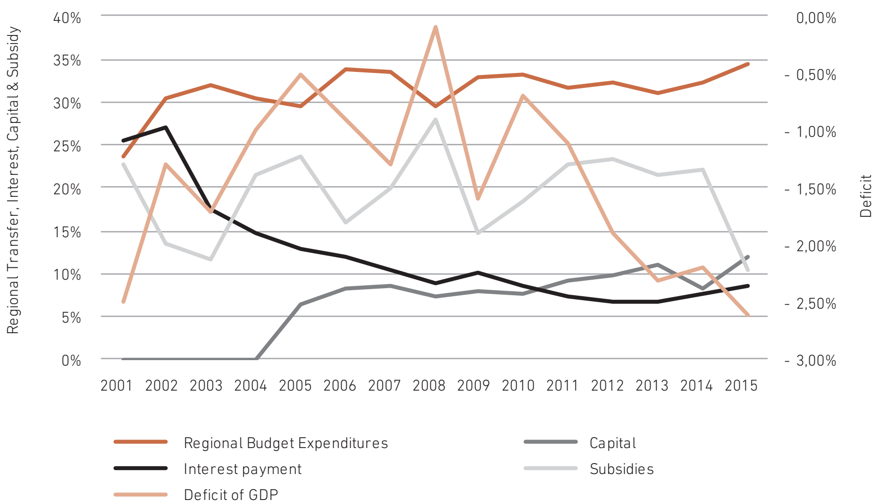
	2009	2010	2011	2012	2013	2014	2015
Government Revenues and Grants	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic Revenues	99.8	99.7	99.6	99.6	99.5	99.7	99.2
Tax Revenues	73.0	72.7	72.2	73.3	74.9	74.0	82.3
Non-Taxes Revenues	26.8	27.0	27.4	26.3	24.7	25.7	17.0
Grants	0.2	0.3	0.4	0.4	0.5	0.3	0.8
Government Expenditures	100	100	100	100	100	100	100

	2009	2010	2011	2012	2013	2014	2015
Central Government Expenditures	67	67	68	68	69	68	66
Current Expenditures	67	67	68	68	69	68	65
Personnel	14	14	14	13	13	14	16
Goods and Services	9	9	10	9	10	10	13
Capital	8	8	9	10	11	8	12
Interest payment	10	8	7	7	7	8	9
Subsidies	15	18	23	23	22	22	10
Social Assistance	8	2	5	5	6	6	5
Others Current Other Expenditures	4	7	0	0	0	1	1
Regional Budget Expenditures	33	33	32	32	31	32	34
Balance Budget	31	30	27	28	26	0	0
Revenue Sharing Funds	8	9	7	7	5	6	4
General Allocation Funds	20	20	17	18	19	19	20
Special Allocation Funds	3	2	2	2	2	2	3
Special Autonomy	2	3	5	5	5	1	1
Rural Fund	0	0	0	0	0	5	5
Suspend	NA	0	0	0	0	0	1
Deficit	-9	-4	-7	-10	-13	0	-17
Deficit % of GDP	-1.60	-0.70	-1.10	-1.90	-2.30	-2.20	-2.60

Source: Kementerian Keuangan, Various State Budget

Figure 19

Distribution of budget expenditure 2001-2015



Source: Kementerian Keuangan

5. Conclusions

Amidst the global financial crisis and uncertain recovery including the slowing down of China's GDP growth rate, Indonesian GDP growth still performed well in international comparison only with minor fluctuations. The mini crisis in the 2000s and the global financial crisis did not shake seriously the Indonesian economy. Commodity prices boom accompanied by appropriate policy response helped to maintain economic growth on an acceptable level. Indonesia has made solid progress in consolidating economic and political reform after the AFC. Improvements of the business climate with series of economic policy packages, strong domestic demand and low export dependence together with sound macroeconomic policies aided to improve living standard, reduce poverty, increase GDP per capita, improve unemployment figure and maintain low inflation rate.

Commodity price boom helped exports performance to improve which was advantageous for the economic growth during 2000-2011. Since 2011 current account has deteriorated and deficit has appeared but it has already bottomed out. Commodity prices boom has ended and weak demand in Indonesia's trading partners caused worsening export performance. On the other hand, however, capital inflow recently helped current account when it was under pressure. Relatively low exposure of Indonesian economy to world economy, reflected by the low proportion of exports, provided an advantage for the domestic economy against negative global demand processes. As a result of this, external shocks related to global financial crisis and the collapse of commodity prices have only had minor impact on the Indonesian economy.

Global financial turbulence after the subprime mortgage crisis hit the Indonesian financial sectors too. Stock prices went down significantly and IDR depreciated against major international currencies, but the recovery on financial markets was faster than after the AFC. This clearly indicated that the financial sector has become much more resilient compared to the 1997/98 period, as prudent actions and appropriate institutions aided to maintain the stability of this sector during hard times. Many laws have been enacted as part of the efforts to strengthen the financial sector, such as the Revised Law of Bank Indonesia, the Law on Deposit Insurance System and the Law on Financial Services Authority, and most recently the Law on Prevention and Crisis Treatment of the Financial System. These regulations helped Indonesia facing many financial shocks after the AFC. Banking indicators such as LDR, NPL, ROA, NIM improved significantly compared to the AFC period. Hence, financial stability improved significantly in the post AFC period.

Fiscal policy has played an important role since the AFC. Several external shocks could be handled smoothly by appropriate fiscal policy which characterized the Indonesian economic policy in the past decade. Budget reform is underway and the most substantial policy was to cut fuel subsidy in 2015, a step having a major impact on the budget structure and spending. Fiscal deficit has been maintained at an acceptable level to achieve fiscal sustainability. The slowdown of the economic growth contributed to a lower tax revenue after the global financial turbulence in 2008, resulting in a growing fiscal deficit. The government tried to reduce the impact of global financial turbulence on the domestic economy by implementing several fiscal measures in order to stimulate economic activity. Since September 2015, the government introduced twelve economic policies in packages in order to encourage investment in the country and to make domestic economy more competitive. In addition, the Law on Tax Amnesty was accepted in 2016 in order to widen the tax base and to increase tax revenues.

As to several significant changes in policies, such as the government's priority on infrastructural developments, they will achieve their potential positive effects in the long run, but in the meantime the government cannot ignore other issues such as poverty and income inequality, because the economic slowdown has led to a decline in people's purchasing power. The government's fiscal policy should maintain people's welfare amid the decline of Government revenues. The fourteen policy packages implemented to ease doing business in Indonesia still needs time to attract foreign investors. The government has to balance between short run and long run perspectives. Due to these policies, higher economic growth is to be expected which will hopefully create new jobs and increase people's welfare.

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Patterns of Integration and Disintegration in Central and Eastern Europe

Tamás Novák

Rapid economic growth and increasing income are essential elements of domestic political stability and friendly relationship with neighboring countries. Economic difficulties, the growing share of the poor, or the unexpectedly slow progress of living standards have often given rise to social unrests, political instability, or the emergence of populism and nationalism. Historical experience also warns that economic hardships that destroy perspective and cause domestic political turmoil have also led to international conflicts. Dynamic economic development helps keep people content, and in periods of growth politicians are less tempted to pursue populist and/or nationalistic policies. The correlation between political stability and economic growth is often questioned, but it is certain that economic development and growth is a crucial factor in domestic and international political and economic stabilization.[1] Under adverse economic circumstances, politicians can easily mobilize hatred against neighbors, other countries, international organizations or foreign firms. This has had a long record in Central and Eastern Europe (CEE), and developments here have also been adumbrated by the recent and distorted nation building processes. (Bibo, 1976) As the experiences with the Eurozone crisis demonstrate, the relationship between economic crisis, nationalism and populism can be very strong in other peripheral countries, as well.

The reconciliation of disputed relations between countries that have several conflicts (political, ethnic, territorial, historic, economic, etc.) with each other requires the fulfilment of several preconditions. Favorable and supportive international environment, the political willingness of country leaders, and mutually beneficial economic development are fundamental in the process. Growing economy and strengthening economic cooperation that supports development can help to solve conflicts between neighboring countries and regions. Long-term positive impacts of economic cooperation and integration, however, cannot be taken for granted. Economic history proves that countries

1 For example: Gunhild Gram Giskemo, Exploring the relationship between socioeconomic inequality, political instability and economic growth. Why do we know so little? CMI: WP 2012: 2. [online form:] http://www.cmi.no/publications/file/4379-exploring-the-relationship-between-socio-economic.pdf

belonging to the one and the same geographic area are not necessarily each other's key or natural economic partners. The similarity of economic and political priorities tends to promote cooperation more than the heritage of a shared past or geographical proximity, especially if it is coupled with low level of development, parallel economic structures and comparative advantages. If we consider the reconciliation between France and Germany through economic integration after World War II as a model for other regions, we must understand why and how it worked, and what the similarities and differences are relative to the reality of Central and Eastern Europe today.

1. Economic considerations

Central and Eastern Europe (CEE) has experienced a very deep economic and political transformation since the beginning of the 1990s. The early years of transition were characterized by big hopes for a quick and successful development. The opportunity for democratic transformation and catching-up was opened wide for these countries. The international community, including the EU and the United States, showed interest in the transformation of the region for several reasons. From a geopolitical perspective, the transformation was of tremendous importance, as it confirmed the end of the Cold War; the bipolar global system was replaced first by a unipolar superpower system and later gave way to a multipolar or a new bipolar system. This also signaled the weakness of the Soviet Union (and later Russia), as it was not able to prevent this transformation and was soon mired in a serious and long-lasting economic and political crisis that undermined its international position. After the dissolution of the Soviet Union during the 1990s, Russia remained very weak, both economically and politically. The power vacuum and the transformation in Central Europe made the establishment of a new international economic and security structure possible. The new economic and political pattern that started to develop within the region was based on the liberal market economy model, with the objective of opening up markets and integrating the region into the world economy and the North Atlantic security structure. Not least because of the political and economic changes in this part of the world, thought- provoking theories were formulated on the new world order and future global transformations, including the *end of history* or the *clash of civilizations*.

"From Latin America to Eastern Europe, from the Soviet Union to the Middle East and Asia, strong governments have been failing over the last two decades. And while they have not given way in all cases to stable liberal democracies, liberal democracy remains the only coherent political aspiration that spans different regions and cultures around the globe" (Fukuyama, 1992, p. XIII). "During the cold war the world was divided into the First, Second and Third Worlds. Those divisions are no longer relevant. It is far more meaningful now to group countries not in terms of their political or economic systems in terms of their level of economic development but rather in terms of their culture and civilization" (Huntington, 1993, p. 23).

By introducing the market economy framework and adopting the principles of democracy, it was believed that countries would automatically enter upon a path leading to a rapid convergence with the richer countries after a relatively short period of transition. Such a belief explains the "one-size fits all" approach of the Washington Consensus on which the approach to the transformation of the region was based, and which was unanimously supported by international organizations and many scholars. On the other hand, the original idea of the Washington Consensus was based on the poor Latin American economies, not East Central Europe (Williamson, 2000).

Systemic changes and sudden liberalization caused the collapse of the domestic economies and a surge of unemployment due to problems of competitiveness and market loss. The transformational recession was further burdened by the lack of institutions able to manage the transition. This resulted in massive bankruptcies during the early years of transition as part of the structural change. Several non-viable firms with state aid survived those later prompted costly consolidation programs (Kornai, 1994). Consumers instantaneously wanted to satisfy pent up demand after decades of scarcity, creating very profitable opportunities for foreign firms selling consumer goods. In addition to flooding the market with imported products, promising investment opportunities opened up for large firms to take over domestic markets from insolvent local firms through privatization or create export-oriented greenfield investments attracted by cheap labor, and cost-related incentives also increased from early nineties. This rush of Western business into the region resulted in several positive structural changes and a number of negative consequences described elsewhere in several studies and analyses.[2]

The significance of the transition from geopolitical, security, macroeconomic and business perspectives made Central Europe a challenging and interesting region to analyze for at least a decade. The broader East European region also attracted international attention. In South East Europe, the breakup of Yugoslavia triggered a chain

2 See for example: "From plan to market: The transition process after 10 years" (contributors: Berend I., Svejnar J., Berglöf E., Welfens P., Gomulka S., Kopits G., Malle S., Menzinger J., Grigoriev L., Landesman M., Hare P., Nagy A., Elman M.), *Economic Survey of Europe*, No. 2/3 (1996). The assessment of the transition based on the Washington consensus and the impacts of the chosen transformation method in individual countries is still quite controversial.

of unexpected events in Europe and led to unsolved political and economic difficulties including the birth of still non-viable states. Political and economic developments in the territory of the former Soviet Union remained complex, not to mention political changes that could threaten the democratic transitions, like the one in Slovakia during the Meciar government. The North Atlantic political, economic, and security policy interests were very strong during this period and resulted in active Western involvement in the region's affairs with the aim of stabilization.

However, the situation later changed and around the millennium international attention started to turn to other critical issues such as terrorism or the rapid growth of several large emerging markets threatening the leading role of advanced countries in global competition and international organizations. The new developments changed international power relations slowly but continuously and attracted much broader interest than the economic and political developments in Central Europe. When membership in the European Union had become certain for several countries in the region, their importance declined even further. Even the term Central Europe started to lose its relevance and the region was sometimes considered as Eastern Europe, or simply as the EU new member states. The term Central Europe may be justified if it has a different economic or geopolitical significance from East and West. By entering the EU, it was thought that these countries would undeniably become part of the West, and no longer referred to as Central Europeans, but rather as Hungarians, Slovaks, etc. This explains continuous efforts, for example, to find common ground for joint interests in the V4 cooperation. For a while there were expectations that new member states would frame a common Central European interest within the EU. But it soon became clear that the formulation of common interests and their successful coordination was relevant only for a limited number of issues. For example, the Visegrad four did not elaborate any priority of as great importance as integration into the EU and the NATO during the pre-accession period. There are initiatives in energy policy, Eastern Partnership, or the Western Balkans, and in common research areas. However, none of them has achieved a real breakthrough. In addition, they have not been able to formulate strong proposals regarding the future of the EU.

The diversity across this part of Europe was indisputable already at the beginning of the economic and political transformation in the eighties and nineties. The economically most developed area included the Central European countries (Czechoslovakia, Poland, Hungary, and Slovenia) that embarked on the road of economic transformation very quickly, and were also eager to seek integration with the European Union as soon as possible. Economic relations in terms of trade between these countries had fallen to a historically low level as a result of the transformational recession, rapid trade reorientation, the lack of confidence in each other, uneven growth patterns and the different sequencing of economic reforms. The Baltic countries, Romania and Bulgaria entered a similar transformation track later, and they were able to join the European Union either in 2004 and 2007 respectively. In Eastern Europe, the breakup of the Soviet Union had caused an economic crisis in the successor states, which in turn completely cut off their previously existing economic ties with each other.[3] The severe economic downturn in the post-Soviet area lasted far longer and was deeper than in the Central European region. The trends in Western Balkan countries were partly similar to that of the post-Soviet countries because of the disintegration of the federal state. The break-up of Yugoslavia was followed by a bloody war, ethnic cleansing, political and economic conflicts with lasting effects. The once economically integrated country fell apart; economic backwardness was on the rise, and unsustainable structures and states continued to be formed in some parts of this region. In addition, the transformation of the economy was slow, barriers to trade emerged between the countries that had gained independence, and foreign investment avoided the region because of high political and economic risks.

Economic cooperation faced extreme difficulties all around the area, but its prospects differed from country group to country group. The development of economic relations with Russia or between the successor states of the Soviet Union was held back significantly because of the prolonged crisis. In addition, fear of the rise of the Russian power as a sort of economic or political threat was never dispelled. In the nineties – after a short risky event in 1991 – Russia ceased to be an international economic or political threat because of the ensuing economic and political mess that had evolved after the break-up of the Soviet Union. But Russia has never given up its willingness to reassert influence in some parts of the area. Following the millennium, its power began to increase in the post-Soviet territories due to its rapid economic growth. What is more, its intention to influence international developments in this part of the world also intensified considerably, and by 2010 it was a priority. This change should not be disregarded when we discuss economic cooperation and integration issues in the region.

When economies are expanding, and the income of the population is growing, tensions and conflicts are less likely to be exploited by politicians to secure political gains because they do not need to resort to such means to win the elections. Economic hardships, however, can easily lead to the rise of populism and nationalism; problems

3 Trade suffered an extreme fall in terms of both volume and value. For the CIS, internal trade declined by over 80 percent between 1991 and 1993. Source: External trade statistics of the Central Bank of Russia.

that under the surface continue to be key features in several countries and in the CEE – as historical experience showed – can be very extreme. Scapegoating others because of the economic misfortunes – an activity that has a long tradition in the less developed Central and Eastern European region – is an important feature in national politics. Sometimes it is the standard instrument deployed in political fight, and this can be dangerous in a region where democratic transformation is not strongly rooted. This problem is increasingly characterizing the conflicts in the European Union, too, where the most recent economic crisis has brought hidden conflicts to the surface. In addition, Russia does not seem to be interested in a strong democratic and successful economic transformation in its neighborhood, as this can have a negative effect on the authoritarian Russian system, as well. This may influence the future economic cooperation and integration pattern in various countries in Central and Eastern Europe.

2. The legacy of the past

The history and development of the European Union in recent decades can provide several examples where economic problems increased tensions between countries. This was the case, for example, during the seventies when the oil price shock hit the European economy; or the current Eurozone crisis, when politicians embarked on scapegoating each other's country. Greece accuses Germany for the inappropriate construction of a Eurozone that favors countries with higher competitiveness, while Germany blames southern countries for their inappropriate budget policy, slow modernization process and problems regarding competitiveness. Other countries criticize their firms for investing in other countries (cheaper production locations), because it causes job cuts in home countries. Economic crisis generally calls for protectionist economic policies even in countries that otherwise promote the idea of free trade, competition and integration.[4]

In these periods of crisis, the institutions of the European integration were able to reconcile internal relations between member states by formulating visions, long-term plans with the aim of increasing competitiveness, or improving economic performance. Vision in most cases was based on deeper economic cooperation, such as the creation of customs union and later the single market, the enlargement of the EU with new markets in Central Europe, and the formation of the Economic and Monetary

4 Although open protectionism has not increased significantly in the developed world, more sophisticated methods have been introduced. See: 10th Report on G20 Trade and Investment Measures, (WTO-OECD-UNCTAD, December 2013) [online form:] http://www.oecd.org/daf/inv/investment-policy/10thG-20TradeInvestment.pdf

Union. A similar pattern is unfolding today again when the momentum of integration is sought in a deeper form of economic cooperation, such as the setting up of a banking union or possibly the fiscal union. It is not by chance that virtually all papers dealing with the future of the EU/Eurozone stress the priority of renewed economic growth, more jobs and strong fiscal discipline. We may rightly conclude that in the development of the European Communities and the European Union, economic visions and plans have played an outstanding role with the final goal of achieving peace and sustained development. From this perspective, economic cooperation and rapid economic growth are the most important means of supporting political and development objectives and solving conflicts between neighboring countries.

While stronger economic ties or broader economic opportunities have worked well in developed Western European countries, economic integration and cooperation between less developed countries have been less successful. This is clear in the most recent crisis in the Eurozone, which caused fierce debates between its members. Despite the conflicts, large financial packages prevented the economic collapse of several structurally weak countries. Solving these problems would have been much more complicated without the existence of the Eurozone. It can be argued, nevertheless, that the economic problems of the Southern EU countries have been caused by the existence of the Eurozone, but one can only speculate on the course economic development would have taken in less competitive countries, had the Eurozone not been established. Several examples confirm that economic cooperation among underdeveloped, capital scarce countries with a low technology level has not been successful in terms of achieving a sustainable, long term economic growth. In most of these initiatives, the main objective was to create a strongly protected market instead of to carry out integration into global economy. The idea behind these attempts was that less developed countries needed sufficient time to strengthen their economic structure and competitiveness before they enter the global, liberalized market. However, these attempts have always faced the same burden: lack of capital, the inability to get the latest technologies, and the scarcity of qualified labor force. This explains why the import substituting cooperation and integrations that have mostly been established between less developed countries since the fifties proved unsuccessful; the intra-industry trade remained feeble, and the benefits from economies of scale and increased competition did not become tangible. It is generally true that rapid economic development can materialize if more developed countries are integrated, or less developed countries establish economic cooperation with more developed countries as long as a cautious and step by step market opening strategy is applied. As a result, the reconciliation of political and related problems in these integration efforts was short-lived, and any initial favorable result soon vanished after the limitations of economic development and growth became obvious. The conclusions drawn from these early and unsuccessful integration efforts among less developed countries triggered the need for a modernization center (an “anchor”) that often lie outside the strict boundaries of the given region, and whose modernization impact could support the creation of a competitive and rapidly growing economy provided that trade policy instruments are used properly. This is the issue of asymmetrical liberalization in foreign trade, which was the case for example in Association Agreements concluded between Central European countries and the European Union at the beginning of the nineties.

An additional factor regarding the success and failure of regional integrations concerns the “soft factors of production” that may or may not have been accumulated in past centuries (Yue, 2009). An obvious example for the importance of soft factors is the first and almost two-decade long development of the European Communities. World War II caused enormous losses in terms of both human and physical assets. The tradition of capitalist production, the experience and the capability of creating and using modern technologies, and the accumulated intangible resources such as knowledge were, however, still significant in Western Europe. This backdrop made the rebuilding and modernization of the economies after the war easier, and facilitated cooperation in the framework of economic integration. In addition, the financial transfers of the Marshall Plan had an equally important role in revitalizing economic development and growth in Western Europe.

This positive backdrop was missing in the CEE at the beginning of the economic and political transformation. The legacy of forced economic cooperation (Council of Mutual Economic Assistance – CMEA) before the nineties in Central Europe also had a negative impact on future economic cooperation perspectives. Russia, the most powerful partner within the CMEA, was economically underdeveloped; a situation that differed from the previous periods when Central Europe maintained strong economic relations with economically more advanced partners, such as Austria or Germany. Many central European countries profited from the favorable terms of trade position vis-a-vis the Soviet Union by selling manufactured goods and processed agricultural products in exchange for cheap natural resources and energy (Köves–Oblath, 1994). But these favorable terms of trade position could not resolve the problems of the (dis) incentive system that cut the need and the possibility for modernization in the manufacturing industries.[5] The cooperation system also stipulated unnatural terms and

5 The shortcomings and contradictions of the operation of the socialist economic system are still best described by Kornai 1980.

conditions under which economic partners were selected. The negative impact of the lack of incentives to improve quality and competitiveness was further worsened by the trade restrictions imposed by advanced countries, which had cut CEE countries off from the most competitive technologies.[6] This economic system was coupled with the Warsaw Pact, a political-military alliance that was governed by the Soviet Union, and which imposed great limitations on the sovereignty of individual countries.

In the light of such precedents, aversion to economic and political cooperation among the countries in the region was a natural reaction after the fall of Communism. None of them was intent on taking steps that may have brought economic/political ties closer since this would have necessarily been coupled with the depressing memories of times before the change of regime. What is more, the socialist version of integration, the community of Socialist states had little meaning for people; therefore, the breaking of ties between members of the communist elite had automatically meant that the vast majority of cooperation initiatives became a thing of the past.

3. Boosting economic cooperation in Central Europe

Beside the current economic circumstances, the negative experiences of the pre-transition period justified why these countries had turned towards other regions immediately after the systemic changes. It was expected that by establishing strong trade and capital relationships with developed countries, especially with the European Union, and by gaining better access to their markets, an automatic structural adjustment and technology development could quickly modernize the Central European economies. The ideological background to this rapid liberalization and trade reorientation was based on the Washington consensus, according to which the liberalization of the economy would deliver benefits to all participating countries independently from their level of development. However, instead of quick and significant benefits, the double pressure stemming from the collapsed demand in the former CMEA markets and the trade liberalization with the West, a number of local firms went bankrupt, or many of them faced very difficult problems in the short run.

Basically, three country groups were identified by the middle of the nineties. The first group consisted of Poland, Czech Republic, Hungary and Slovenia; the second

6 The most important element of the restrictions was the so-called COCOM (Coordinating Committee for National Export Control) lists, which forebode western firms to sell technology to socialist countries in order to prevent them in using it for military purposes.

group of Romania, Bulgaria, Slovakia, the Baltic States; and the third, most laggard region comprised the remaining countries of the former Soviet Union and the war-torn Western Balkan countries. In this period, countries in the first group were the quickest to transform their economic structures. The building of regional relations in Central Europe was discouraged by the fear which countries in the region shared, namely that Western Europe may consider strengthening cohesion and economic ties within the region as an alternative to EU integration. Several policy makers were afraid that proposals for a Central European economic integration were only aimed at postponing or substituting EU membership. Soon it was clear, though, that the developed world treated the Central European region as a whole, and was reluctant to deal with the countries therein one by one. It was partly this notion that motivated the launch of economic and political cooperation that led to the birth of the Visegrad group and eventually to the establishment of CEFTA (Central European Free Trade Agreement). CEFTA was launched in March 1993 with the objective of creating free trade between Central European countries that were aiming to become members of the EU. Membership in CEFTA is open to European countries that are members of the WTO, and have Association Agreement with the EU. As the first semi-institutionalized cooperation effort, the Visegrad Group primarily aimed at the coordination of security policy, most importantly against the Soviet Union, later Russia. One of the most important events that prompted cooperation was that in January 1991, the Soviet interior forces launched military action against Lithuania which demanded independence. This made it clear that the Soviet Union still posed a real threat to the region. However, it became obvious very soon that, after the dissolution of the Soviet Union, Russia was no longer considered a threat. This considerably undermined the need for further political coordination between the Visegrad countries, and instead, we find the first signs of economic cooperation amongst themselves (Köles, 2011).

CEFTA was without a doubt the greatest influential economic cooperation system out of all institutionalized initiatives in the nineties across Central and Eastern Europe. In contrast to the politicians, who did not really wish to build deeper political or economic relations in the region, it was clear to all economic experts that bringing economic ties closer was inevitable after the drastic loosening of relationships in the early nineties (Dunay, 2003).

Statistics proved that trade turnover between the countries had significantly fallen, which was to cause severe problems sooner or later. The purpose was to establish free trade between the states concerned, in order to improve market access to each other's market and to provide the participating countries with trade preferences similar to those offered by the Association Agreements in order to avoid unwanted trade diversion. The agreement became relatively successful soon after its birth. The expansion of merchandise trade between the CEFTA countries since the second half of the nineties was supported by several factors. First of all, GDP growth speeded up considerably towards the end of the nineties, and it continued in the pre-accession years, too. In the meantime, the tariff cuts and the elimination of quantitative restrictions gradually proceeded. Growth performance had been quite uneven across the region in the nineties, but mostly from the end of the decade, business cycles and thus the growth pattern became much more synchronized. The favorable growth performance and the continuous liberalization, plus the positive pre-accession perception of the countries improved trade performances.

Integration with each other gained further momentum with the EU accession of the countries in question. Within a large single market, trade shares started to increase in each other's business. The classical benefits of the integration into a large market started to be evident. Furthermore, the activity of foreign firms within the region intensified. Foreign direct investments became the main driving force behind technological development and structural modernization. They largely contributed to the increase of the intra-industrial trade within the Central European countries through their network of subsidiaries. Integration through the system of transnational firms became a very important driver in the region.

Micro-level cooperation has been playing an underlying role in shaping the economic flows in the region. Already at the creation of the CEFTA, it was important to see what strategies TNCs (transnational corporations) would adopt in the region. Many expected that the larger market would encourage the emergence of production units that would sooner or later target the entire regional market, and with the lifting of restrictions hampering trade and capital turnover, their supplier network would also be expected to cover the countries concerned. For the CEFTA region, the optimal solution seemed to be that different TNCs would increasingly rely on regional resources, and the cheaper, semi-finished products of domestic companies working in the region would play a more important role in supplies. Another important development in the corporate sector was related to the role of small business investments in the neighboring region, which were often based on ethnic relations. The pioneering country in this regard was Hungary, due to the large ethnic Hungarian groups in Romania and Slovakia. Last but not least, by around the millennium, regional corporations also began to rise. From the perspective of economic theory, when the development level reaches a certain threshold, countries enter the international economic relations as capital exporters. Central European countries reached this stage very soon, and they became capital exporters earlier than expected. At the same time, their capital export was considered premature. However, we have to emphasize that globalization has changed this original capital export pattern, and emerging, or less developed countries embarked on a "premature" phase of capital exports. Examples like the Central European countries, China, or some Latin American countries proved this change of pattern.

All these factors – the accession to the European Union, the operation of transnational corporations, the internationalization of local firms, including SMEs (small and medium enterprises) and the rise of regional multinationals – have contributed to the intensification of economic cooperation. At the same time, it is still obvious that the previously existing problems have not been solved, despite integration into the EU that created consistent regulation on doing business, which certainly contributed to better relations. This is partly due to the insufficient economic growth and convergence in many countries. After the economic crisis, beginning in 2007-2008, economic and social problems gave rise to emerging nationalism and populism. In addition, the support for European integration also declined in several countries. Falling popularity may lead to the denial of the core principles and values of the EU and may also strengthen the need for inward looking, protectionist approaches. The open dissatisfaction with regional multinational firms clearly indicates the delicate situation and suspicion in Central Europe.[7]

4. Central Europe and Russia

Besides the economic cooperation within the Central European region, equally important and controversial is the subject of the relationship with Russia. The collapse of the Soviet Union caused the breaking up of the highly integrated economic space at the beginning of the nineties. As the federal state also functioned as a fiscal Union, financial transfers to less developed republics were significant, reaching between 5 and 30 percent of GNP in the Central Asian Countries. This fiscal revenue was a very important resource for investments that were a precondition for growth. The cutting of these transfers had very negative immediate impact on net beneficiary countries. Implicit price subsidies were reduced or eliminated, including energy prices. Formal customs and trade barriers were introduced making legal commerce difficult. In addition, informal trade and transit barriers became common (corruption). Several Russians, many of them highly skilled, returned to Russia from other CIS republics, especially from Central Asia. They faced and caused significant problems of resettlement in an

7 For example, there has been a long dispute over the Hungarian oil firm (MOL) ownership share in the Croatian oil company (INA).

economically depressed Russia, and also impacted negatively on the knowledge base of the countries they had left behind. The migration issue also gave rise to ethnic problems in various countries. These changes were much more complex than those taking place in the Central European region, where independent and more developed countries were facing the challenges of economic transformation.

In contrast, the transition recession was less severe for the countries of Central Europe that were the least integrated into the Soviet system. Although they too suffered a disintegration shock, their own economic structures, production bases and geographical location made swift economic reorientation possible, and also facilitated the immediate start of integration into the world economy through FDI and trade flows. Trade and other economic relations between Russia and the Central European region experienced significant mutual decline. This was not only the result of the willingness of CEE countries to effect quick integration with the West, but Russia also turned to the West and tried to strengthen its economic relations with it. The trade reorientation with Russia started before the breakup of the country. In 1988, the share of the advanced countries had been already 20 percent, while the share of the CMEA countries went down to 60 percent in both exports and imports.[8] During the nineties, economic relations with Russia had virtually collapsed, except for the energy related exports (natural gas, oil products) leaving Russia and going into the region. Exports from Central Europe were hit badly by the collapse of domestic purchasing power and the economic crisis in Russia. The growing competition with western firms on the Russian market was an additional hindrance for firms of the region. The problems of trade also led to the bankruptcy of large heavy industrial and food processing firms in various countries that had been previously set up to supply the Soviet markets. These capacities have never been recovered, and the lost markets regained.

In the second half of the nineties, it became clear that trade and economic relations could be improved without having good political relations, as in the case of Poland.[9] Poland remained the only important player from Central Europe in Russia, due to its special relations with Ukraine and Belarus, and because of the Kaliningrad problem. While it was commonly believed that the decline in trade with Russia was closely connected to the loosening of political ties, the Polish business success seemed to

8 For details on the extent of trade collapse see, Kálmán Dezséri, Economic Relations Between Russia And The Central European Countries, Institute for World Economics, Hungarian Academy of Sciences, Working Papers, No. 111, August 2000

9 There was the famous “food for gas” program between Russia and Poland that helped Polish exports to Russia increase more significantly than from other countries of the region. It is an interesting addition that in 1997 Russia was the second most important destination of the Polish exports.

contradict this argument. The reluctance of businesses in other countries should have played a major role. The economic and financial crisis in 1998 hit exports to Russia much more severely than exports from advanced countries. The firms that could easily make up for the losses they suffered as a result of the falling exports to Russia were those that had enough capital to survive hard times or that owned state guarantees. Because most exporters from the region lacked these means, their market losses were relatively high. Expressed in terms of statistical data, the divergent ability in doing business with Russia was reflected by the fact that the region could only regain its pre-crisis export level by 2003-2004 while EU 15 exports were at the 1997 level already in 2000. The booming Russian economy coupled with increasing import demand helped the growth of exports to Russia probably more than any improvement in political relations. At the same time, however, the export success was not identical across the region as Poland and the Czech Republic proved to be more successful than others.

EU accession in 2004 and later the enlargement by Romania and Bulgaria in 2007 boosted exports from the region. This was mostly explained by the growing intra-industry trade of transnational firms operating in the CEE region, but the statistical impact was also significant. Before EU accession, export of TNCs from Central European subsidiaries were mostly counted in EU export as a result of firm level agreements between subsidiaries and their headquarters in the EU. After accession to the EU, this practice changed, and these exports were counted into the export of Central European countries. This statistical change also explains the sudden and radical modification of export structures in favor of manufacturing industries, since most of the FDI firms exporting to Russia were operating in this category. It is also interesting to observe that although the political relations generally improved and became more pragmatic from the part of the new member states, the biggest export growth was achieved by Poland that had far the worst relationship with Russia before the crisis in 2008 struck.[10] As a result of these changes, the exports from Central Europe to Russia started to behave similarly to those of the advanced countries after the crisis. Business operates according to business considerations that are influenced mostly by the general economic performance and the business environment. Political factors can be important in supporting business in Russia by state guarantees or other instruments. We may conclude upon these developments that a pragmatic approach towards Russia had business advantages instead of ideological ones, but its role in the pre-2008 crisis period should not be overrated (Ludvig, 2013).

10 Export from Poland to Russia increased by tenfold between 2000 and 2007, much faster than from any other country in the region. It is even more striking in the light of Russian import ban in 2005 and the Polish veto regarding the start of EU-Russia agreement. The conflict was solved only by 2008.

After the crisis, however, new trends seem to be unfolding. Russia has recently regained her economic power, and fears from it have also started to increase. Several scholars and analysts believe that Russia is not in a position to gain much more power in Eastern Europe and that the Russian economic performance in the long-run is not at all clear. What is more, the country has to face the problems of the unfavorable demographic change and the difficulties regarding economic diversification. We should warn that these analyses are only partly justified and they are underestimating the role Russia can play (Berman 2013). The cause of this underestimation has much to do with the unnoticed changing geopolitical picture, which has been discussed more widely only recently, and an increasing number of studies warn about this, especially after the EU's failure on Eastern Partnership.[11] In addition, even the unfavorable economic signs of the future Russian development may be misleading if we refer to the growth performance of the past decade, or some other long-term economic analyses on Russia.[12]

The position of individual countries regarding their relations with Russia is different for several reasons. Many of the countries in the region are dependent on Russian energy or business relations, although to a varying extent. The very large energy and export dependency of Belarus and Ukraine on Russia due to close technology ties with it and low competitiveness explains their approach and dilemmas over the future directions these countries may take. Their situation is further complicated by the authoritarian political system. In addition to achieving economic penetration and economic integration into the Eurasian space, they can also increasingly act in the interest of Russia in stopping the spread of Western-style democracy through economic means, perhaps even in countries where democracy seemed to be solidly rooted.

Russia has been able to strengthen its position in international relations and to take part in halting the enlargement process. (Hamilton, 2013) The country clearly demonstrates that its purpose is to regain its economic and political importance

11 The case of the Eastern Partnership and the conflict of interest surrounding it is a manifestation of much broader problems. These are all related to the geopolitical and economic situation prevailing in the entire Central and Eastern European region. The perception is that EU accession does not seem to be unequivocally successful. Further expansion of the EU enjoys minimal support in the European Union and the EU is perhaps more unpopular than ever before in the eyes of its own residents.

12 In 1999, the McCinsey Global stated that the long-term growth potential of Russia is about 8 percent yearly, which was quite accurate as between 2000 and 2013 the average yearly growth rate was above 6 percent. In 2006, the IMF estimated that the Russian long-term growth potential is about 6 percent. This growth prospect means that exporting to the Russian market can probably be very lucrative. The growing demand can give a very good opportunity to firms that are able to enter the market, and satisfy the domestic market need there.

in international matters, at least in its neighboring regions. Russia's efforts to reintegrate a part of the CIS will continue to strengthen as a number one priority of Russian foreign policy. After his recent presidential election, Putin strived to achieve a more complete reintegration of the CIS with Russian leadership as a number one strategic objective. Russia initiated the Customs Union within the Eurasian Economic Community in 2010 now called as "Single Economic Space", and with the final goal of creating an Eurasian Economic Union. The example of Ukraine clearly shows the intentions of Russia in neighboring or strategically important countries. In recent years, Russia has been a very active capital investor, mostly through state-owned enterprises, and not free from political objectives. Its role in the East Central European region, especially in the post-Soviet space is dominant and is also increasing in the more developed Central European region. This trend has to be taken seriously. Currently, there is a real threat that reconciliation through economic relations with Russia may involve the synchronization of political models to some degree, which does not mean the democratization of the authoritarian regime of Russia, but rather an adjustment to it. It was believed that Russia would take over the principles of liberal democracy and step by step become similar to the Western democracies. This proved to be a completely wrong assumption. The economic rise of the country was coupled with the creation of a new, specifically Russian understanding of democracy: the ideology of sovereign democracy (Surkov, 2009, pp. 8-21). The content of this can be summarized as follows: (1) this is a democracy model according to which there is no political sovereignty without economic sovereignty; (2) Russia decides independently what is democratic and what is not. This idea has several objectives. It is a democratic cover of authoritarianism that aims to make it more acceptable at home and abroad alike. The other purpose is to offer an alternative to the Western concept of democracy in terms of the economic model, the principal values and human rights.

Politicians may argue that economic cooperation supported by improved political relations is only a sign of healthy pragmatism which helps economic development, but in the light of the recent Russian aspirations, including its efforts to make the EU Eastern Partnership policy irrelevant, this strategy seems to be foolhardy. Despite the hopes of a changing mentality a few years ago, the strengthening authoritarian and anti-democratic politics reinforce the Russian disbelief in win-win business deals (Haukkala, 2009).

When significant business deals are concluded with Russia, one must consider the long-term political costs. It seems today that there is no government level economic reconciliation without long-term costs to be paid for dependence. Not surprisingly, a number of countries are looking at Russian investments in the Central European area with increasing caution and are trying to prevent them, particularly in certain sectors. On the other hand, Russian capital and industrial influence has been developing in crucial fields, such as the energy and the financial services sectors. This can be observed not only in post-Soviet countries, but in other regions, too.

An important development that can influence the future of economic links between Central Europe and Russia is that liberal democracy and its support seem to be backsliding in several countries. Anti-EU economic and political strategies in the countries shattered by economic difficulties and characterized by relatively poor economic outlook and declining standards of living, are on the increase. Central Europe and the countries that joined the EU in 2004 and 2007 are facing deepening risks that have been long forgotten. Energy resources, cheap loans, cooperation in the energy sector can all lead to an increasing dependence on Russia. The purpose of the Russian international economic strategy is geopolitical in nature, and it is coupled with long-term business benefits. It wants to regain its power and thus weaken the position of the European Union in this part of the World. Because of these perspectives, improving economic relations with a strong Russia today seems to be a double-edged sword. Economic benefits in terms of cheaper energy prices or improved access to the Russian market can be achieved. On the other hand, long-term prices may have to be paid for these short-term benefits.

After a two-decade-long period, when reconciliation with economic instruments did not show any special features or decided strategies, recent changes may now give rise to the question: what happens if reconciliation means something strange here, the core of which is convergence with the Russian authoritarian political model? Is there a real risk here, or should we rather consider the current and upcoming changes as the signs of pragmatism that are beneficial for both Russia and some of the Central European countries? The former socialist countries that are implementing different models of capitalism may today still be under Western influence, but the future is much more unpredictable than anyone would have thought during the period of the EU enlargement in 2004.

5. Conclusions

Prospects for reconciliation through economic integration vary a great deal in Central and Eastern Europe. The conditions and the characteristics of economic integration between the already EU member Central European countries are different from those of the post-Soviet area. An additional perspective relates to the economic relations between Russia and the "new" EU member states. Many countries openly express their fears of Russian influence in trade or through capital relations, regarding both direct investment and business loans. In the post-Soviet region, Russia's intention is to achieve economic reintegration. This policy is not without success as can be seen in the creation of the Eurasian Economic integration and the failure of the Eastern Partnership policy of the European Union. The post-Soviet region, except for the Baltic States is increasingly bound to Russia. In this integration, the key factor is the power with which Russia can assert its interests. These features significantly limit the applicability of the lessons that could be drawn for example from the French-German reconciliation through economic cooperation after WWII.

The problem in Central Europe is that the slow economic convergence of several countries in the region and the sluggish income growth has led to an overall dissatisfaction with the applied economic and political models and with the economic integration in the European Union. Although the EU created a uniform regulation and a single market for each of its new members, this has not been able to eradicate all the suspicions and problems within the accessed countries. Problems are appearing from time to time in different relations and are mostly related to ethnic minorities, economic interests, or national political interests serving economic objectives. On the other hand, it should be noted that, in most parts of the region, economic ties have become much stronger compared to the nineties. In this context, small- and medium-sized enterprises have played a positive and important role. The rise of regional, transnational firms triggered much more conflict, which clearly shows that Hungarians, Romanians or Croats cannot view the investments of large firms from their Central European neighbors without suspicion. The problems are even bigger if we consider the case of the Western Balkans, where the economic relations are still considerably burdened with political interests, corruption, ethnic conflict and unfinished state formations. This makes the consolidation through economic relations very difficult there. Until now, not even the prospective of EU accession could solve the problems, especially in Bosnia, Kosovo, or in the FYROM.

The relations between Russia and Central Europe are also at a crossroads. One of the crucial questions today is who can exert greater influence on Central European countries: the West or the East? Russia welcomes any deal and instrument that supports its economic penetration into the western sphere of influence. Some of the countries try to resort to pragmatism in order to benefit from stronger economic relations with Russia. It is, however, a very narrow and dangerous path. It is beyond doubt that in these relations Russia is the stronger party.

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Indonesia and the Regional Integration in Southeast Asia

Annamária Artner

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

1. Introduction

Since the 2008 global crisis, the world economic and political order has got into a rather chaotic transition period. The old superstructure has proved to be unable to solve the multidimensional crises that emerged with the burst of the financial bubble in 2008 and the outlines of a new structure have been as yet out of sight. Although after the 2008 crisis the neoliberal way of economic management, that was unchallengeable for decades, has been widely criticized, it could preserve its hegemony due to lack of any alternative in the economic thinking. The least one can say is that the European Union, flagship of regionalization, social rights and welfare for decades, has reached a stalemate with the unsolved Greek crisis and Brexit round the corner. But even irrespective of the difficulties of integration, there is a turmoil in Europe. It is enough to think of the tensions with Russia, the situation in Ukraine, the intensification of migration, the terrorist attacks like the one in Nice or the coup attempt in Turkey. All these, of course, are in close relations with the North African Spring and its consequences, especially with the emergence of Islamic State among them, which themselves are in strong relations with the geopolitical changes that have recently taken place. Furthermore, the development problems of Africa, inherited from its colonial past, always result in newer and deeper conflicts, famine and bloodsheds, most recently in South Sudan. Looking at the other part of the world, the Latin American integration, UNASUR is forced to be preoccupied with the management of crisis in Venezuela instead of focusing on its own development. All in all, the current global political and economic reality is not favorable to the regional cooperation in the same way as a decade ago. It is reflected in the problems of regional integrations in general, but also in the developments of other regional initiatives including the Association of Southeast Asian Nations (ASEAN).

This paper aims at presenting these changes after a brief introduction of the economy of ASEAN (Chapter 1) and the main steps of development of regional cooperation with special regard to the difficulties of economic collaboration (Chapter 2). Chapter 3 presents first the place of Indonesia within ASEAN (Section 3.1), then, after a brief historical overview (Section 3.2), describes the Indonesian approach of economic and political integration (Section 3.3 and 3.4). The last section (3.5) before the conclusions deals with the most recent developments in the Indonesian foreign policy that may have a negative effect on the future development of regional integration.

2. The ASEAN economy today

ASEAN consists of 10 countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Their total land area is 4.4 million km^2, about the same size as the EU28, and in 2015 the total population of the ten countries reached 632 million, 8.6 percent of the world's population. In 2015, their aggregated GDP amounted to US$ 2,453 billion at current prices being equal to 3.3 percent of the world's GDP.[1]For further comparison, Figure 1 gives the ratios of certain indicators of ASEAN in relation to those of the 28-member European Union. The figure shows that except for the size of the population, ASEAN represents only a fraction of the economic potential of the EU. The level of intra-ASEAN trade (24.3 percent for exports and imports together) is only 40 percent of the intra-EU28 trade (60.1 percent), a figure which clearly reflects the big difference between the depths of economic integration of the two organizations.

ASEAN comprises very diverse states including large and small, developed (for example Singapore) and developing countries as well. The differences between the GDP/capita of the poorest and the richest members, the largest

1 UNCTADstat, Data center, Economic trends, National accounts

and smallest numbers of populations or the size of territories are larger than those in the European Union. (Table 1 and Figure 2).

Table 1

Basic indicators of ASEAN, 2015

Country	Total land area	Total population	Population density	Annual population growth	Gross domestic product at current price	Gross domestic product per capita At current prices		Merchadise trade	
								Exports	Imports
	KM2	Thousand	Persons per km2	Percent	US$ million	US$	US$ PPP	US$ million	US$ million
	2015	2015	2015	2015	2015	2015	2015	2015	2015
Brunei Darussalam	5769	417.2	72	1.3	12909	30942	87117	6350	9392
Cambodia	181053	15405.2	85	1.5	18463	1198	3578	8839	19676
Indonesia	1913579	255461.7	133	1.3	857603	3357	11108	150282	292997
Lao PDR	236800	6902.4	29	1.4	12639	1831	5466	3714	6763
Malaysia	330290	30485.3	92	0.7	294390	9657	26515	199869	375830
Myanmar	676 577	52476.0	78	1.9	65392	1246	5275	11432	28275
Philippines	300000	101562.3	339	1.7	289503	2850	7241	58648	128944
Singapore	719	5535.0	7697	1.2	291938	52744	85021	366344	663109
Thailand	513120	68979.0	134	0.5	395726	5737	16064	214396	417147
Vietnam	330951	91713.3	277	1.1	193407	2109	6083	162014	327744
ASEAN	4488839	628937.3	140	1.3	2431969	3867	11009	1181889	2269859

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

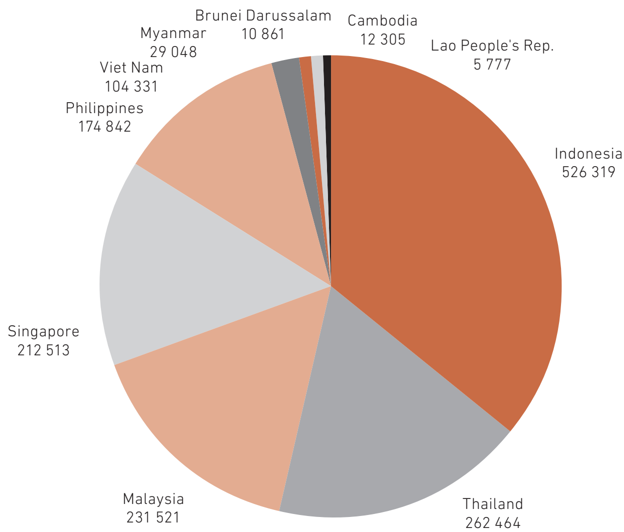
Figure 1

Statistical indicators of ASEAN in percentage, as compared with those of the EU28 in 2014 and 2015 (US$ at current prices and current exchange rates)

Source: Own calculations based on UNCTADstat, Data center

Figure 2

Distribution of GDP of ASEAN in 2015, millions of US$ at constant prices and exchange rates (2005)



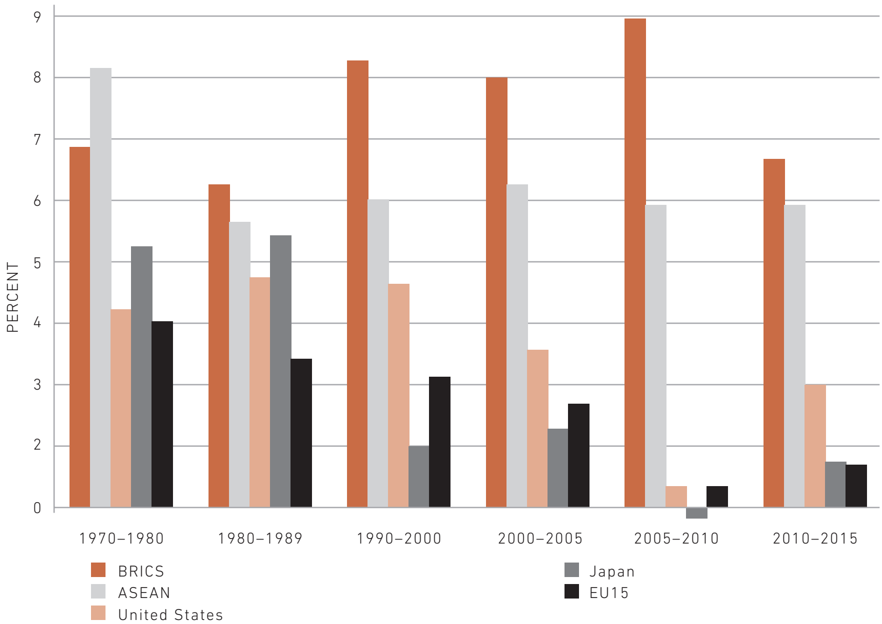
Source: UNCTADstat Data center, Economic trends, National accounts.

The annual average economic growth of ASEAN countries on aggregate level was especially high, above seven per cent in the 1970s. The growth rate fell under five percent in the next decade, which was still high in international comparison. Since the 1990s ASEAN as a whole has been growing by over five percent a year on average that is slower than the rate of BRICS,[2] but considerably faster than that of the most advanced countries, the US, the EU15 or Japan, as Figure 3 clearly indicates this. Although in the very end of 2015 the ASEAN declared that it established a single market (the ASEAN Economic Community), i.e. the free movement of goods, services, capitals and labor, the economic integration is far from being developed. The reason for this is the diverging interests of the member states, mainly the counter interests of Indonesia in deeper economic integration – we will discuss it later.

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

Figure 3

Annual average GDP growth rate, 1970-2015 (%)

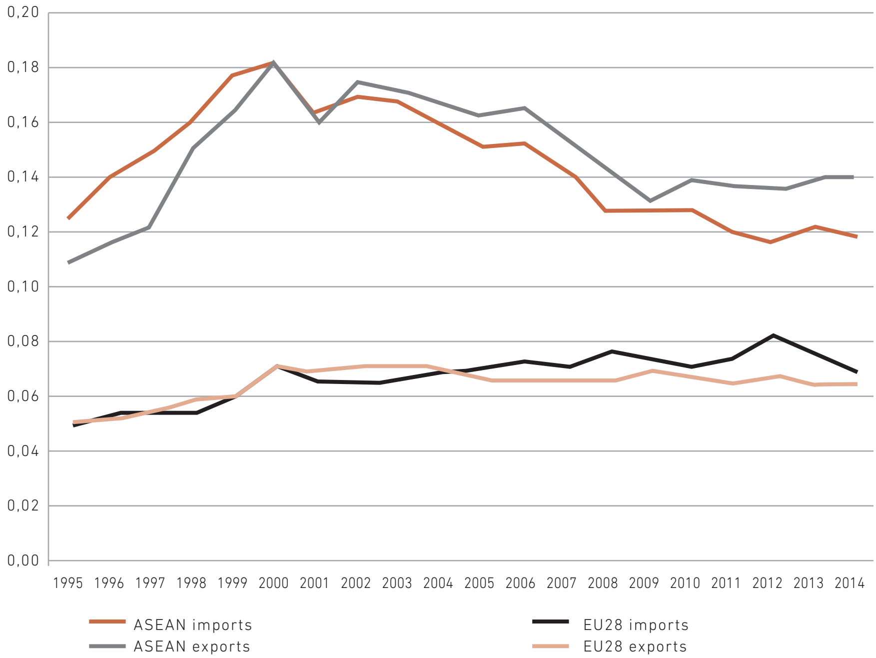


Source: UNCTADstat Data center, Economic trends, National accounts

Thanks to the deepening liberalization of the flow of goods and capital after the Southeast Asian financial crisis the diversification of product structure of ASEAN-trade has been going on. This is expressed in the fall of the product concentration index (or Herfindahl and Hirschman Index– HHI). The value of this index is between 0 and 1 and the higher value indicates higher concentration of exports or imports on a few products. However, if the value of HHI is closer to 0, the exports or imports of the given country or country group are more homogeneously distributed among a series of products. As Figure 4 shows, the concentration of both exports and imports of ASEAN have decreased after 2000 although the crisis of 2008 slowed down the trend in the case of exports and even turned it back in the case of imports. In the case of the European Union (EU28), the trends were different, although the concentration of the trade of the EU is still lower than the concentration of the ASEAN-trade.

Figure 4

Concentration index of trade of ASEAN and EU28, 1995-2014

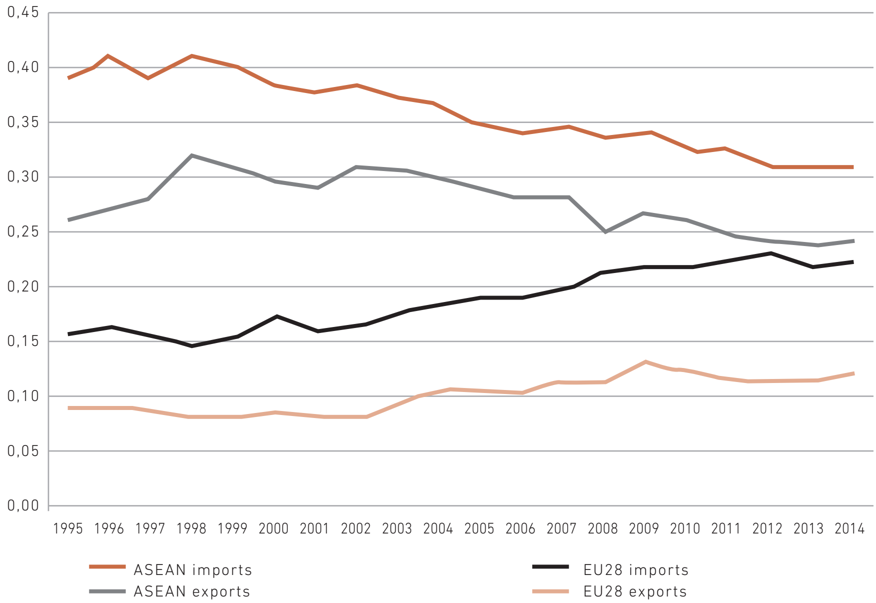


Source: UNCTADstat, Data center, Trade indicators

In the same time the commodity structure of external trade of the ASEAN has become more similar to the structure of world trade. The change of diversification index shows this development in Figure 5. According to the definition of UNCTADstat, this indicator reflects the absolute deviation of trade structure of a country from the world structure. The index takes values between 0 and 1, and values closer to 1 indicate greater divergence from the world pattern. As we see from Figure 5, the ASEAN-trade has substantially caught up with the world pattern while the EU28 has moved slowly away from that, but still remained closer to the world structure than ASEAN.

Figure 5

Diversification index of trade of ASEAN and EU28, 1995-2014



Source: UNCTADstat, Data center, Trade indicators

These developments are beneficial inasmuch as they indicate some modernization of the ASEAN economies. Indeed, today the most important commodity groups of ASEAN both on the export and import sides are electrical machinery as well as equipment, mineral fuels, nuclear reactors and related products (Table 2).

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

Table 2

Top ten ASEAN trade commodity groups, 2015*

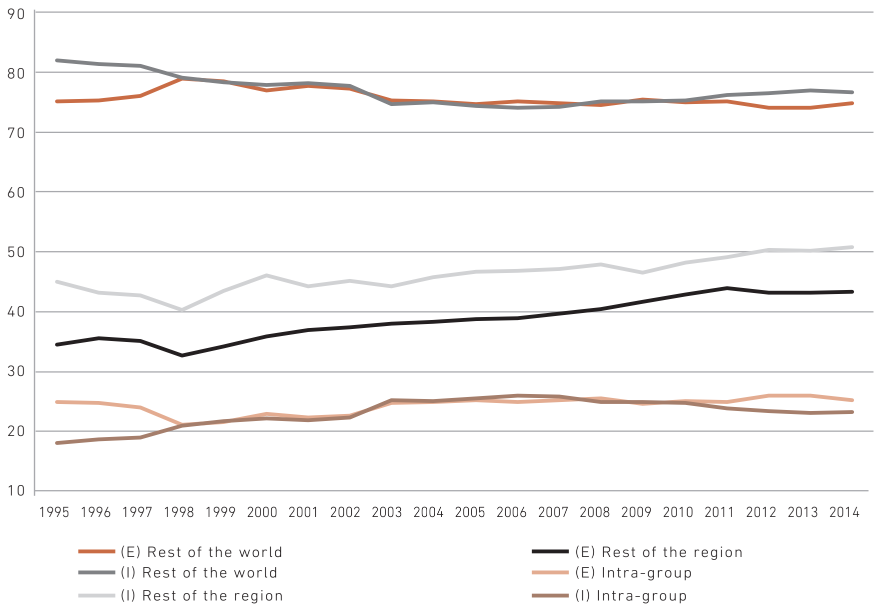
Commodity group		Value			Share to total ASEAN trade		
2-digit HS code	Description	Exports	Imports	Total trade	Exports	Imports	Total trade
85.00	Electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproduces, and parts and accessories of such articles	296 485.1	248 625.4	545 110.4	25.0	22.8	23.9
27.00	Minerals fuels, mineral oils and products of their distillation, bituminous substances; mineral waxes	139 888.8	160 510.6	300 399.4	11.8	14.7	13.2
84.00	Nuclear reactors, boilers, machinery and mechanical appliances; part thereof	137 973.2	145 165.6	283 138.8	11.6	13.3	12.4
87.00	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	42 427.2	39 522.7	81 949.8	3.6	3.6	3.6
39.00	Plastics and articles thereof	38 628.1	41 292.1	79 920.2	3.3	3.8	3.5
90.00	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	34 796.5	27 504.8	62 301.3	2.9	2.5	2.7
71.00	Natural or cultures pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof, imitation, jewelry; coin	28 018.1	25 887.0	53 905.1	2.4	2.4	2.4
29.00	Organic chemicals	26 577.1	22 023.3	48 600.3	2.2	2.0	2.1
72.00	Iron and steel	7 723.0	35 396.2	43 119.3	0.7	3.2	1.9
40.00	Rubber and articles thereof	29 336.7	10 692.2	40 028.9	2.5	1.0	1.8
	Top Ten Commodities	781 853.7	756 619.7	1 538 473.4	66.0	69.3	67.6
Others		403 381.6	334 585.0	737 966.6	34.0	30.7	32.4
Total		1 185 235.3	1 091 204.7	2 276 440.0	100.0	100.0	100.0

Source: ASEAN External Trade Statistics. Table 22. http://asean.org/?static_post=external-trade-statistics-3
Note: *: preliminary

On the other hand, the intra-regional integration of ASEAN has not become much deeper in the last decades. The external trade of most of the member states has been oriented more significantly towards third countries than ASEAN. As Figure 6 shows, between 1995 and 2007 the intra-regional trade of ASEAN has somewhat strengthened, mainly on the import side (the share of intra-regional imports in the total imports rose from 18 to 25.8 percent), but the most dynamic export and import markets were the non-ASEAN countries of South and East Asia, first of all China. Between 2007 and 2014 the weight of intra-regional imports to total imports declined again. (The most important trade partners of ASEAN are China, US, Japan, and South Korea.)

Figure 6

Main relations of exports (E) and imports (I) of ASEAN



Source: UNCTADstat, Data center, International trade in goods and services

2.1. The evolution of regional integration

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

2.2. Foundation by political reasons

At the time of its foundation, during the Second Indochina War, in a period when the communist ideology has been increasingly popular in the world and so in East Asia, the main ASEAN's main objective was to avoid the "domino effect", according to which communism would expand in Southeast Asia if not contained (Keling et al., 2011, p.

179). Besides, there were several conflicts between the countries of the region (e.g. between Malaysia and Indonesia, Malaysia and the Philippines) that had to be reconciled. For all these reasons the foundation of ASEAN and its first decade was clearly characterized by political considerations (Shimizu, 2004). This was summarized by the slogan "to ensure the political stability and peace" in the 1967 ASEAN Declaration.

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

2.3. Efforts to develop economic cooperation

The economic collaboration was addressed already in the first years of ASEAN when the United Nation prepared a study ("Economic Cooperation among Member Countries of the Association of Southeast Asian Nations" – the so-called Kansu-Robinson Report named after the leaders of the working group), which was discussed by the ASEAN Ministerial Meeting in 1972 and laid the foundation for a series of collaboration initiatives. According to the spirit of the period, the Kansu-Robinson Report represented a view which could be described as "protectionist developmentalizm". It suggested "collective import-substitution" concentrating in the heavy and chemical industries and restrictions on foreign direct investments. The leaders of the then five member states accepted this approach and formulated the regional cooperation on this basis. The ministers of economic affairs first met in 1975 in Jakarta (Senior Economic Officials Meeting – SEOM), which was followed by the first ASEAN Summit in February 1976 in Bali. Here a more efficient organizational structure was established, five committees of different levels were created (Head of Ministers, Foreign Ministers, Economic Ministers, Other Ministers and the Secretariat), the Treaty of Amity and Cooperation was signed and the ASEAN Industrial Projects (AIPs) were decided as well. In the following year, a cautious trade liberalization was launched within the framework of the ASEAN Preferential Trade Arrangement (PTA).

Under the aegis of AIPs, joint companies would have been created in order to produce certain products for the whole ASEAN market. The idea would have better fit planned economies – like the COMECON[3] countries of Eastern Europe – as it turned out to be a failure in the case of market economies of ASEAN members especially during the "crisis years" of the 1970s. The next experiment to promote industrial cooperation and economic development was the establishment of ASEAN Industrial Complementation Scheme (AIC) in 1981. AIC was planned specifically for the manufacturing of automobiles. In the same year, to help industrial cooperative projects like AICs, the ASEAN Finance Corporation (AFC) was founded as a co-operative venture of the commercial banks, but the first years of its activity were not very successful. The concept of the AIC was that the different parts of cars would have been produced in different ASEAN countries, so the member states together would have produced an "ASEAN Car". However, neither this method of cooperation proved to be successful, because every member state wanted to build their own automobile industries (mainly in cooperation with Japanese manufacturers). To circumvent this problem and still encourage production cooperation in 1988, the leaders of ASEAN have given up the idea of a "community car" and replaced AICs with the so-called Brand-to-Brand Complementation (BBC) Scheme, which guaranteed the use of corporate brands for the manufacturers of automobile parts (Shimizu, 1999).

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

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

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

export-oriented and foreign direct investments-depended strategy (Völgyi–Lukács, 2014).

In 1987, the member states signed an agreement on the mutual protection and promotion of investments. This agreement was modified in 1997, when the number of ASEAN members was nine already. A major step along this way was the establishment of ASEAN Investment Area (AIA) by a Framework Agreement in October 1998. The aim of AIA was to enhance the attractiveness of the region for foreign investors from third countries and also to encourage mutual investments in the member states through, among others, the reduction or elimination of regulations, while liberalizing the flow (repatriation) of capital in order to – as the joint press release said – make "ASEAN an attractive, competitive, open and liberal investment area" (cited by Thanadsillapakul, [s.a.])

2.4. Trade liberalization

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

The following years are also known as the period of liberalization all over the world. In April 1994, the World Trade Organization was established and in 1995, it began its activity. In November 1994, in the so-called Bogor Declaration, the Asia-Pacific Economic Cooperation (APEC)[4] agreed to liberalize the flow of goods and capital among each other by 2020. In May 1995, at the ASEAN-EU Senior Official's Meeting, the Prime Minister of Singapore proposed to strengthen relations between the two regions (Europe and Asia) by organizing a summit. This was welcomed by the EU

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

having a "New Asia Strategy" since 1994. As a result, the Asia-Europe Meeting (ASEM) was launched in 1996 (Bangkok)[5]. Since then summits with the participation of leaders of member states and representatives of the two integrations and other European and Asian countries have been held in every two years and ministers with different portfolios (economy, finance, culture) have met regularly too. After the strong USA-EU connections and the cooperation between Asia- North America in the form of the APEC, the ASEM has become the 'missing link' in the connections of the Triad (North America, Western Europe and Asia). In the frame of these forms of cooperation, the liberalization of trade and investments continued in the 1990s, and the ASEAN members have speeded up the liberalization of their intra-regional trade as well.

The next crucial step on the way towards a more integrated inner market was the creation of the ASEAN Industrial Cooperation (AICO) scheme in 1996 that replaced the AIJV and the Brand-to-Brand Complementation (BBC) Schemes. AICO retained some of the features of AIJVs and BBC, but offered more in terms of tariff and non-tariff incentives. AICO aimed to encourage cross border intra-regional investments and trade between ASEAN-based companies in the technology-intensive industries, offering import duties reduction to the participants. The overwhelming majority of the projects that fulfilled the requirements (40 percent ASEAN-content, a minimum of two participating companies in two different ASEAN countries[6]) and thus could enjoy the benefits of the scheme belonged to the automobile industry. Although the Japanese companies could benefit a lot from the reduced import duties, the AICO scheme could be considered quite successful from the viewpoint of ASEAN member states as well, inasmuch as it helped to increase the level of regional integration of automobile production. As, however, tariff reductions in the framework of AFTA was no longer available from 2010 onwards (with the exception of the four more recent members, Cambodia, Laos, Myanmar and Vietnam, which joined the ASEAN after that AFTA had been launched and hence were allowed to reduce their tariffs over a longer period), AICO ceased to offer extra advantages to most of the member states and was terminated and superseded by ASEAN Trade in Goods Agreement (ATIGA) (Sim, 2011).

5 The initial ASEM partnership in 1996 consisted of 15 EU member states and 7 ASEAN member states plus China, Japan, Korea and the European Commission. Due to the enlargement of both integrations and the involvement of other states from Europe and Asia, the number of dialogue partners is already 53 today. (About the Asia-Europe Meeting (ASEM). [online form:] http://www.aseminfoboard.org/about (Downloaded: 23rd June 2016.)

6 ASEAN Industrial Cooperation Scheme. ASEAN website. [online form:] http://asean.org/?static_post=asean-industrial-cooperation-scheme (Downloaded: 27th June, 2016.)

2.5. Endeavors for financial cooperation

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

This assumption has led to the expansion of regional cooperation in East Asia. The crisis-hit ASEAN invited the leaders of China, Japan and South Korea to their summit in November 1997, then again in 1998, in Hanoi, where China proposed that central banks of the "ASEAN+3" should meet on a regular basis. Next year in Manila the leaders of ASEAN+3 issued a formal statement on their wish to cooperate in several fields, including financial matters. This process led to the formulation of a financial cooperation in Chiang Mai, Thailand, in 2000. In the so-called Chiang Mai Initiative (CMI) the partners agreed to establish a regional monitoring framework, facilitate regional surveillance, create swap networks and conduct common research and training personnel.[7] Since then the financial cooperation has been strengthening thanks first of all to China's efforts towards community building in East Asia (Lee 2010, Sussangkarn, 2010).

In 2009, the CMI was "multilateralized" (CMIM) with the creation of a fund of 120 billion US$ (20 percent of this amount was contributed by ASEAN, 16 percent by South Korea and 32 percent by China together with Hong Kong and 32 percent by Japan). The amount was doubled in 2012 and a CMIM Stability Found was introduced (more precisely, it was separated within the 240 billion US$ fund) to provide short-term liquidity support in case of temporary liquidity problems. Other modifications have also been made. Nonetheless, CMIM remained highly inefficient for managing the

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

financial problems of the region. The money in CMIM only amounts to 1.5 percent of the GDP of ASEAN+3 (the European financial safety net that served similar goals was much larger both in absolute and relative terms, being equal with 750 billion euros or 8 percent of the then Eurozone GDP). For this reason, CMIM can be neither a supplement nor even a partner of the IMF in the region as yet (West, 2014).

2.6. Single market – an unrealistic dream?

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

During the 12th summit (Cebu, Philippines, 2007) the member states agreed to accelerate the procedure of economic integration and decided that it should be realized until 2015. On the 13th summit (Singapore, November 2007) the leaders signed the "constitution" of ASEAN, the ASEAN Charter that was ratified by the member states in a year and could enter into force on 15 December 2008. The Charter declared that the purpose of ASEAN is to establish a single, economically integrated market, the free flow of goods, services and investment by 2015. It created, among others, the position of a secretary-general and permanent representatives of ASEAN and increased the number of summits from one to two per year.[8] The Charter is a legally binding agreement that provides legal status and institutional framework for ASEAN and codified the values and rules for it.

On the basis of the Charter, ASEAN gained its new institutional structure that manages the three pillars (political and security, economic and socio-cultural community), the development of which should lead to a more integrated community. The ASEAN Community Councils comprise the Council of the three pillars of ASEAN. The relevant

8 The ASEAN Charter. [online form:] http://www.asean.org/storage/images/ASEAN_RTK_2014/ASEAN_Charter.pdf (Downloaded: 27th June 2016.)

ASEAN Sectoral Ministerial Bodies are under the supervision of the Community Councils.

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

Under the ASEAN Secretary-General there are four departments serving for 1) the Political and Security Community (APSC), 2) the Economic Community (AEC), 3) the Socio-Cultural Community (ASCC) (the three pillars), and 4) for the Community and Corporate Affairs (CCA). APSC is divided into two directorates (Political and Security Directorate and External Relations Directorate), while the other Departments work with three directorates each. Under the AEC Department an ASEAN Integration Monitoring Directorate, a Market Integration Directorate and a Sectoral Development Directorate operate. ASSC has an Analysis and Monitoring, a Human Development and a Sustainable Development Directorate. A Corporate Affairs, a Legal Service and Agreements and a Community Affairs Directorate belong to the CCA. Every Directorate is subdivided into two to seven Divisions.[9] The ASEAN has got the institutional structure that is suitable for managing a single market.

The global crisis of 2008 influenced the economic performance of the member states through the weakening demand on the world market, but otherwise they could weather the worst crisis years basically well. At the end of December 2015, the completion of ASEAN Community was declared as by then the goals described in the ASEAN Charter have been achieved. For example, the free trade area has been virtually established, the import duties in ASEAN have already been practically eliminated by 2010 (Remo, 2015), and the remaining tariffs have been reduced to less than five percent leading to a 4.5 percent average tariff rate by 2015.

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

9 For more details, see ASEAN Secretariat Organizational Structure. [online form:] http://asean.org/ase
an/asean-structure/organisational-structure-2/ (Downloaded: 25 June 2016.)

of the ten members become really integrated. The tasks are described in the ASEAN Economic Community Blueprint 2025.[10]

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

3. Indonesia within the ASEAN

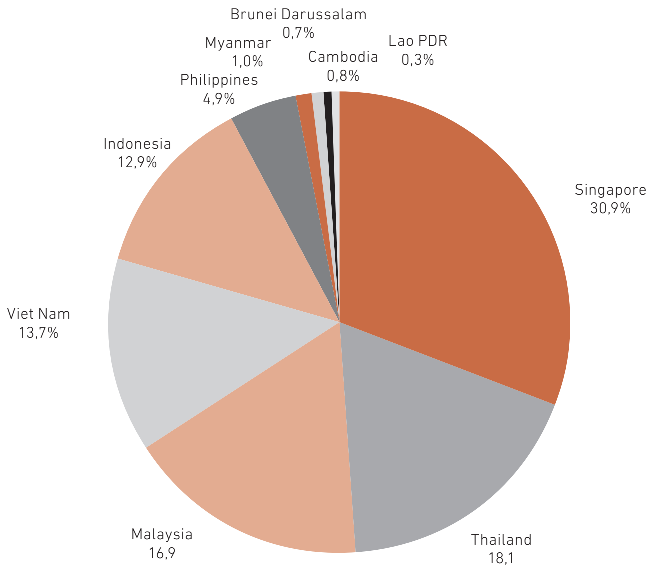
3.1. Relative importance of Indonesia within ASEAN

By its GDP per capita, today Indonesia is a middle income,[11] middle developed country both in international and ASEAN comparisons. In 2015, its GDP per capita was 11,100 PP$ (purchasing parity standard), No. 132 out of 229 countries of the world and the fifth largest among the ten ASEAN countries (Table 1).[12] In the Global Competitiveness Index 2015-2016 of the World Economic Forum Indonesia was ranked 37th out of 140 economies, fourth within ASEAN after Singapore (which was No. 2 in the Global Competitiveness ranking), Malaysia (No. 18) and Thailand (No. 32) (WEF 2015, p. xv.). Indonesia is also less "globalized" than most of its ASEAN partners. The country exports less than not only Singapore, but also Malaysia, Thailand and in 2015, Vietnam as well which gave 13 percent of the total exports of ASEAN in 2015 (Figure 7).

10 ASEAN Economic Community Blueprint 2025. [online form:] http://www.asean.org/storage/images/2015/November/aec-page/AEC-Blueprint-2025-FINAL.pdf (Downloaded 15 July 2016.)
11 According to the classification of the World Bank, Indonesia belongs to the group of "lower middle income" countries.
12 CIA The World Factbook, Country comparison: GDP per capita (PPP). [online form:] https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html#id (Downloaded 15 July 2016)

Figure 7

Distribution of ASEAN exports in 2015, percent



Source: Author's own calculations based on ASEAN External Trade Statistics. Table 17. http://asean.org/?static_post=external-trade-statistics-3
Note: preliminary data as of 10 June 2016

Having the largest domestic market within ASEAN, Indonesia has always been less reliant on foreign markets than other member states of the organization. The openness of Indonesian economy is among the lowest in ASEAN: the ratio of exports of goods and services to GDP was 23.9 percent in 2013[13] higher only than that of Myanmar out of the ten members. Besides, the share of FDI stock to GDP (29.8 percent in 2014[14]) is the third lowest after Myanmar and the Philippines – again within the ASEAN.

In spite of this relative middle-position of the advancement of Indonesian economy within the ASEAN, Indonesia occupies a central place in the community, being the biggest nation out of the ten members regarding its territory, population and GDP as well

13 UNCTADstat, Data Center, Trade indicators, Goods and services (BPM6): Trade openness indicators, annual, 2005-2014.
14 UNCTADstat Data Center, Foreign direct investments.

(see Figure 1 and 2). Besides, Indonesia has the largest Sunni Muslim population in the world (87.2 percent of the inhabitants are Muslim). Furthermore, in the last years, Indonesia has become the second most attractive location of transnational corporations within ASEAN after Singapore. Recently in absolute terms more foreign direct investments flowed to or were reinvested in the country than in other member states, except for Singapore, and the share of Indonesia in the total FDI stock of ASEAN reached 15 percent in 2014.[15] The increase of FDI-inflow is likely to continue under the new President, Joko Widodo (elected in 2014) as he has launched deregulation and shortened the "negative investment list" that contains the names of sectors to which foreign investment restrictions apply (Tang, 2016). Because of this duality – the largest but only less globalized and less competitive economy of ASEAN – Indonesia has always played an ambiguous role in the evolution of East Asian cooperation. To understand this ambiguity one must cast a glance to the history of the country.

3.2. A brief historical overview

Like many other colonial territories, Indonesia achieved its independence by years of struggles and became independent in 1949. Its first president was Sukarno, who in 1957, after years of parliamentary democracy, introduced a new political system called "guided democracy". He intended to reconcile the three main ideologies of Indonesia and the social forces behind them: nationalism (the army), religion (the Islamic groups) and communism (the Communist Party of Indonesia). The latter enjoyed increasing popularity in that time both worldwide and in Indonesia as well. As a consequence, Sukarno's regime had a strong anti-imperialistic, nationalistic and increasingly socialistic character, similarly to North Korea. Sukarno made meaningful steps to reduce poverty and increase living standards of the country's population (development of the educational and health systems, labor protection rules etc.), however, in financing these measures the country has become increasingly dependent on foreign (American and Soviet) financial aid.

In the middle of the 1960s, Indonesia faced a severe economic crisis – not independently from the fact that because of Sukarno's increasingly communist-friendly political line the US withdrew its financial assistance from the country (Mehr, 2009, p. 70). Although there is not clear evidence, certain historians still believe that the United States (the CIA) was involved in the elimination of the Sukarno regime (Scott, 2015; Simpson, 2015). Sukarno's "old order" was swept away by its Muslim and military

15 UNCTADstat Data Center, Foreign direct investments.

oppositions and General Suharto's strong assistance through a massacre between October 1965 and March 1966, when 500,000 – or, according to some estimations, even three million– communists, alleged communists and Chinese were killed.[16] This event was welcomed by the United States (Mehr, 2009; Simpson, 2015). The person who followed Sukarno in the presidency directed the historical development of Indonesia towards a capitalist market economy.[17] To ensure this "new order", Suharto, first as military leader (between 1965 and 1967, in the period when also the large-scale killings occurred), then as the President (1967-1998) of Indonesia was the engine of political block-building that aimed at peace and security (i.e. curbing communist influence) in the region. The foundation of the ASEAN would not have been possible without Indonesia, the largest nation of the region in terms of population, territory and economy as well. Under the Suharto era (1965-1998) ASEAN was important in the Indonesian foreign policy, and the country was proactive in the ASEAN at least concerning political (security) cooperation, and promoted its own image as the leader nation within the community or the "primus inter pares" among the members (Heiduk, 2016a). Following Suharto's regime, the importance of ASEAN in the Indonesian foreign policy has fluctuated. It also increased in the first few years after Suharto, then, during and after Megawati's presidency (2001-2004) increased, while since 2014 it seemed to lower again. This we will discuss in Section 3.4 and 3.5 in more detail. Before that, we devote a section to the question of economic integration, that has never been as important for Indonesia as the political cooperation.

3.3. Indonesian approach of economic integration

The Indonesian political leaders, but also the academics of the country have always feared the export competition from other ASEAN-countries like Singapore. Besides, they have held the opinion that smaller countries like Brunei or Singapore would benefit from it more than the larger ones as small countries would gain access to the markets of large countries. For this reason, Indonesia was reluctant to accept the conditions of AFTA in 1992 and agreed only after gaining a fifteen-year delay in the implementation of liberalization. In spite of this, however, the country has implemented all its commitments in due time, by 1 January 2002. Indonesia also had reservations in connection with the bilateral free trade agreements (AFTA plus) that the ASEAN has signed with third countries in the region (China, Japan, South Korea, India, and New Zealand) from 2002 onwards. Similarly, Indonesia has been reluctant to

16 Al Jazeera (2012), Cribb (2004, p. 133)
17 NSA EBB (s.a.)

liberalize its aviation and taken a conservative position in connection with the liberalization of labor mobility and in other issues as well (see Heiduk, 2016a for further details). There is also a hesitation in Indonesia about joining the US-led Trans-Pacific Partnership (TPP), which would mean further liberalization and according to some estimations would worsen the Indonesian balance of trade (Sahu, 2016).

The fears have been well founded. The course of liberalization in the 1990s has hit hard the labor-intensive industries of Indonesia, which lost their competitiveness on their export markets that resulted in unemployment and increasing poverty (Chowdhury, 2007). The "open" unemployment rate increased from below 3 percent in 1992-1993 to over 11 percent or close to 12 million in August 2005 and began to decrease only after that year, when the world economy was dynamic due to the financial bubbles of the core countries (United States and the European Union) and the growth of China. The unemployment rate continued to fall even during the global crisis of 2008 and in February 2016 it was 5.5 percent.[18]

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

Not independently form the above-mentioned facts, poverty is still high in Indonesia. Between 1970 and 1996, the number of people living in poverty fell considerably, from 70 million to 22.5 million. The following years, however, brought the East Asian financial crisis – the product of global speculative capital – and the Indonesian economy collapsed. In 1998, the GDP contracted by 13 percent,[19] unemployment increased and inflation soared. The latter development hit the poor especially hard and their number rose sharply, reaching 49.5 million in 1998. After that year poverty has been somewhat alleviated, but the number of people living under the poverty line (about 30

18 Badan Pusat Statistik (BPS-Statistics Indonesia), Unemployment Rate (UR) by Province, 1986 - 2016. [online form:] https://www.bps.go.id/linkTabelStatis/view/id/981
19 UNCTADstat, Date center, Economic trends, National accounts.

US$ per person per month in 2013) was still 28 million in March 2016[20] – higher than almost two decades earlier. Besides, in 2013, 43 percent of the country's population lived on less than 2 US$ a day (Mietzner, 2014, p. 113), the Gini coefficient (measuring inequality) reached a record high 41 percent in 2011 and has remained constant since then.[21] The social dissatisfaction triggered by these developments made people receptive to the "pragmatic, moderate, and inclusive populism" (Mietzner, 2014, p. 115) that Joko Widodo represented in the next presidential elections in 2014.

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

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

Under Suharto (1965-1998) the primary goal of the Indonesian foreign policy was to reach regional stability and cooperation without too much economic liberalization because of the above-mentioned lack of sufficient competitiveness in relation to some ASEAN partners and asymmetric gains from liberalization. Heiduk (2016a) adds three other factors that explain why ASEAN has not evolved to a strong economic union. First the lack of economic interdependence between Indonesia and its ASEAN-partners; second, Jakarta's orientation towards ex-regional partners in economic cooperation and third, the diverging interests of ASEAN-countries regarding key aspects of regional integration. The latter means that while Malaysia, Singapore and Thailand would like to see deeper economic integration, Indonesia prioritizes political goals, first of all security (Heiduk, 2016a, p.8). The weight of Indonesia within ASEAN, its reluctance towards deeper regional market integration, together with the ASEAN way of consensus decision making, have all resulted in that ASEAN has

20 Badan Pusat Statistik (BPS-Statistics Indonesia), Number of Poor People by Province, 2013-2016. [online form:] https://www.bps.go.id/linkTableDinamis/view/id/1119

21 Badan Pusat Statistik (BPS-Statistics Indonesia), Gini Ratio by Province. [online form:] https://www.bps.go.id/linkTableDinamis/view/id/1116

failed to create supranational institutions and preserved its strictly intergovernmental character (Heiduk, 2016a, p.7). We must add, however, that Indonesia has not been the only country to hamper the deepening of the economic cooperation. Singapore, Malaysia, Thailand have also been more integrated into the world economy than into the ASEAN. Besides, Singapore has been the only member of ASEAN to be competitive enough to gain from trade liberalization, while other members of the region have been rightfully reluctant to open their markets to foreign producers.

3.4. Interests in security political cooperation

After the terrorist attack against the World Trade Centre in the United States in September 2001, the issue of security was brought into focus worldwide. Indonesia was especially affected by the problem as the country was hit by several terrorist attacks (for various reasons) in the first years of the 2000s. The most serious was the attack in October in Bali, when 202 people, mostly foreign tourists, were killed by Islamic extremists. For this reason, it is not surprising that it was Indonesia that proposed the establishment of an ASEAN Security Community in 2003. We must remember that until that year, the economic liberalization and cooperation have made some progress and in the given circumstances it became clear that without security cooperation the economic integration cannot be continued. Consequently, other member states, less affected by terrorism and being more interested in economic than political aspects were also open to the establishment of closer ties within the framework of ASEAN. Especially because the Indonesian proposal aimed at a broader than military cooperation of member states in order to save peace and be able to avoid intervention by extra regional forces (like in Iraq) in case of political destabilization in the region. This proposal and the discussions over that led to the infamous Declaration of ASEAN Concord II (Bali Concord) in October 2003, which declared the formation of the ASEAN Community with its three pillars (security, economic, socio-cultural).

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

(Heiduk, 2016a, pp. 8-9). These efforts and the lack of efforts represent that within the frames of its own interests and only within those, Indonesia would welcome stronger institutions in ASEAN.

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

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

3.5. Turning away from ASEAN?

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

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

The fears might be exaggerated but not completely unfounded. Jokowi intends to increase defense spending up to 1.5 percent of GDP (Parlina, 2016) and stop illegal fishing by sinking foreign vessels that enter territorial waters of the country. He reintroduced the death penalty for drug smugglers that caused diplomatic problems as well after Brazilian and Dutch citizens were executed in early 2015 (Today, 2015).

Furthermore, one of Jokowi's foreign policy advisers, Rizal Sukma, has declared that ASEAN is no more "the" cornerstone of the Indonesian foreign policy, it is only "a" cornerstone of that (Prashanth, 2014). The Jokowi administration, although aiming at encouraging foreign investments, also increased tariffs for a set of consumer goods and introduced new tariff and non-tariff trade barriers in order to protect local producers (Heiduk, 2016b).

Furthermore, it seems that the anti-imperialists rhetoric returns with Jokowi to some extent – albeit in a 21st century form. Jokowi is a member of the Indonesian Democratic Party of Struggle which is led by Megawati Sukarnoputri, daughter of the first President of Indonesia, Sukarno. Six months after his inauguration, at the Asian-African Conference (that was initiated by Sukarno in 1955), Jokowi openly criticized the United Nations (in connection with its Palestinian policy), the International Monetary Fund and the policy of global superpowers in general, stating that the idea that global problems can be solved by the West is "obsolete" and a new economic order is needed, where emerging powers also have a say, "to avoid the domination of certain groups of countries" (Today, 2015).

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

4. Conclusions

The ASEAN has come a long way since its foundation by a short declaration in 1967. By now, it has a Charter that summarizes its socio-economic and political goals and specifies its institutional structure. However, despite repeated efforts, ASEAN has never been so successful in economic integration as the European Union has been or even the integration of the Eastern European countries (COMECOM) was earlier. At first glance, the reason for it is the diverging interests of member states of ASEAN because of the differences in their competitiveness and the possible asymmetry of gains from liberalization. This is, however, not unique for ASEAN, as there have always been countries of different development levels within the much more integrated European Union as well. Looking for more satisfactory explanation for the difference in the depth of economic integration of the two organizations, we can find the different attitudes of leading nations of integrations (Germany in the case of EU and Indonesia in the case of ASEAN) on the issue. This difference between the respective attitudes of Indonesia and Germany can be further explained by the difference of their competitiveness in comparison to other members of their organizations. Having a relatively weak economy, Indonesia has had to fear regional liberalization, while the very developed Germany has not.

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

It does not mean that Indonesia under Jokowi will turn against Western powers or turns its back on ASEAN. Instead of this, the Jokowi administration has been maintaining the traditionally very good relations with the US, from which Indonesia has got billions of dollars in the past decades, and continues to look at ASEAN as its most important partner for preserving regional peace and security. The shift of emphasis in foreign policy towards a broader than ASEAN regional political role, however, may result in a durable decrease of activity within the Association of Southeast Asian Nations that would halt the deepening of cooperation within this organization.

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Creative Industries and Digital Economy – Perspectives from Southeast Asia and Central Europe

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Research on strategy and practice of Cultural and Creative Industries (CCIs) is an emerging field. Different industries and regions have various adaptations by digitalization, ICT, design, research, tourism, cultural heritage, new media, and also connectivity, collaboration and innovation. Each subject contributes to and correlates in the chain of process that becomes much shorter and efficient in the future practice of CCIs.

This chapter gives a brief introduction to current CCI figures and after that it will focus on CCI trends in Southeast Asia (SEA with countries such as Cambodia, Indonesia, Malaysia, Philippines, Thailand, and Vietnam) and Central and Eastern Europe (CEE countries as Albania, Bulgaria, Croatia, Czech, Hungary, Poland, Romania, Slovakia, Slovenia, Estonia, Latvia, and Lithuania). The current studies of these trends include analyses on creative cluster, class, city and economic growth (Chuluunbaatar, E. et al., 2013). As the American economist, Thorstein Veblen (2007) concluded, consumers spend money on "luxury" cultural goods (i.e. visual arts, cinema, photography) to express their social status. Therefore, cultural content, goods and services are becoming increasingly important. CCI contributed with US $200 billion globally to the digital economy (economy based on digital computing technologies). In 2013, when digitally online-purchased "luxury" cultural goods generated the biggest revenue source. However, design industry and ICT developments represent inclusive growth in business and society (World Economic Forum, 2015) generating more accessible, challenged established business models, copyright system and cultural products (Towse & Handke, 2013). The CCI is an increasingly common component of urban economic development discourse that characterizes wealth of regions arguably (Gibson, 2004; De Miguel et al., 2012) and gives explanations for debates in politics, science and media (Department for Culture, Media and Sport 2015; Heinze & Hoose, 2013).

Digital technologies have transformed the way many creative works are generated, disseminated and used. They have made cultural products more accessible, challenged established business models and the copyright system, and blurred boundaries between producers and consumers. This is presenting an up-to-date overview of academic research on the impact of digitalization in the creative sector of the economy.

All participants in the digital market (online retailers, streaming platforms, etc.) are dependent on CCI services, online content and new media trends which account for most of the revenues mainly generated by cultural content (EY, 2015). Nowadays, services or goods with cultural content is increasingly promising. Previously, services that were close to culture-based activity (i.e. trading, transport/courier) were considered as informal having less potential to be commercialized in the digital market. However, analysts of CCI had a different perspective. This informal culture-based market is considered as an asset to digital economy (The Boss Group, 2015). This scattered and unorganized market is a real 'cultural content' that appears to be a market demand. This typological issue of scattered and unorganized culture-based market seems to best fit into current regional trends in CCI.

1. An overview: global trends in CCIs

It has been long argued that creativity and culture have become key drivers of economic success. However, there is not any comprehensive study with an overall picture of creative, cultural, and copyright industries, or intellectual properties. Thus, a summary of global trends based on the current and relevant literature is necessary.

Electronic data interchange, commercialization of the Internet, digital services, the cultural and creative industries (Kloudova & Chwaszcz, 2014) together have generated new and emerging market areas in the 21st century. "Support to CCIs has, likewise, evolved rapidly, witnessing core changes in intellectual property law, increased support through state aid, and a greater recognition of their potential contribution to the economy" (European Commission, 2016).

By definition CCIs are "the creative industries, which comprise of the culture industries that contain arts and all aspects of culture, and in part has a role to play within the creative economy – the economy perspective that includes not only the creative offering but the channels in which it is emitted and the related industries" (Taylor, 2015). Governments, companies, organizations, and projects are focusing on the estimated gross impact on products, jobs, researches and start-ups in CCIs. But the highlighted challenge here is the lack of clear and quantified evidence in this sector including 1) the rapidly changing digital market; 2) highlighted employees' soft skills;

3) the movement of fresh funding as a financial instrument form; and 4) freelancer projects redrawing several traditional standards and business process.

Referring to the UNESCO report in 2015 based on consultation with group EY, the expansion of the creative economy is detected. Global numbers of workers engaged in CCI and the size of the business demonstrate the overall significant economic impact of the CCIs. Expressed in data, 2250 billion US$ and 30 million jobs globally indicate that CCI is an important driver both in developed and developing countries. As the conclusion of the report states "It can forge a better future for many countries around the globe to improving the quality of life and providing resources for imagining diverse new futures. Furthermore, the cultural and creative industries generate non-monetary value that contribute significantly to achieving people-centered, inclusive and sustainable development" (UNESCO 2013, 185). The CCIs phenomenon provides alternative ways in new markets for different creative logics. The hybridization of economic models (Salmon, 2015) with combinations of free and premium services are changing the business approaches and roles of creative and cultural industries. CCIs are unavoidable in the focus of the 21th century.

If we extend the global panorama briefly to GDP figures, CCI sectors and their impact on welfare, the results speak for themselves. A survey carried out by World Intellectual Property Organization (WIPO, 2010) on the impact of creative economy in 17 countries revealed that in several countries the contribution of the creative economy reaches 5 percent of total GDP. Indonesia is a country that has well developed creative industries which contribute to GDP with more than 5 percent. Countries whose contribution to the GDP is above 5 percent are: USA (11.09 percent), Australia (10.3 percent), Russia (6.06 percent), Hungary (6.66 percent), Indonesia (6 percent), the Netherlands (5.9 percent), and Romania (5.55 percent) (UNCTAD, 2010; Kementerian Pariwisata dan Ekonomi Kreatif RI, 2012). These numbers have been growing in developed countries: the creative industry in 2014 was accounted for higher GDP ratios. Illustrated by our regional focus, Hungary reached 7.42 percent and Indonesia 7.05 percent (WIPO, 2015).

Based on 150 interviews with experts and stakeholders, the growth seems to be fueled by eleven key sectors which are visual and performing arts, radio, music, books, newspapers and magazines, film, television, architecture, gaming, and advertising (UNESCO, 2015). Following a sector-research by UNCTAD (2010), the most productive creative products are advertising, publishing, design, and visual arts. Emerging fields by digital economy are digital music industry, video streaming, digital cultural content, video games, e-book, and online advertising via sharing and collaborative economy (Daunorienė et al., 2015; Demailly & Novel, 2014).

The impact of CCIs is quite fundamental for developed and welfare countries as well. The abundance of the consumer society, the service-oriented markets and the personalization embody the demand for high quality services via creative, cultural and copyright industries. Aggregation by the emergence of real-time content consumption, social media services and community-based business networks has fueled market segmentation and diffusion of cultural and creative works (EYGM, 2014).

Based on the overview of global trends, the following part is going to focus on CCIs in two emerging regions, the fields of CEE including Hungary, and SEA including Indonesia. Both regions offer best practical case studies to illustrate how CCIs are working on the basis of business considerations.

2. Regional highlights in CCIs

2.1. CEE & Hungary

The cultural and creative industries had an annual revenue of €535.9 billion and employed more than seven million workers in Europe in 2014, which is 26 percent of the total CCIs jobs globally (EYMG, 2014). Europe is the second largest CCIs market with these figures after the Asia-Pacific region. The European Union represents 32 percent of the global CCIs revenues (World Creative, 2016). If the growth keeps up in a linear fashion, the CCIs sector will reach a contribution with app. €800-900 billion to the European economy in 2020 (European Commission, 2016, European Parliamentary Research Service Blog, 2013). Based on the above figures, CCIs is the third biggest employer in the CEE region behind construction and FMCG (Cooke, 2014). This result has produced a substantial sector for research, development, innovation, and ICT.

Europe's cultural economy is rooted in traditional-classical cultural heritage as well as in institutions adapting smart and intelligent solutions on these foundations. The objective is to become a trendsetter in the rapidly digitalized era, starting from this duality. With contemporary art background, the key roles are coming from three different areas 1) global advertising industry and fashion 2) most visited museums in the top 10 around the world and 3) UNESCO "Creative Cities" programs. These scopes are representing a developed ecosystem with best practices for the actors of CCI globally (World Creative, 2016). These trends have direct connection to the ubiquitous computing and the digitalized new markets.

Major actors of digital developments are global information and communications technology (ICT) companies such as classical GAFA companies (Google, Apple, Facebook, and Amazon) or newcomers like Netflix, Airbnb, or Waze. Additionally, European tech influencers are also well-known, such as Skype, SoundCloud, Spotify, Uber, TransferWise or TechCrunch. Zooming in to the Hungarian market, there have been developed worldwide used services as well. Prezi, the cloud-based creative presentation software, LongMeIn, the collaboration tool by Software as a Service (SaaS) solution and Ustream, the video streaming service acquired by IBM in 2016 are the flagship use cases to represent a really wide and versatile Hungarian market in ICT. All the above-mentioned examples represent various CCI-overlapped innovation via interactive communication and media, online service and design, creative and cultural contents/contexts. The direct and indirect impact on CCIs is obvious: digitalization has opened the door before collaboration, innovation, open sources systems, and engagement by crowds for common goals (see crowdsourcing). Without a doubt, ICT is an engine of CCIs' development.

The European Union plays a vital role in creating a supportive framework of innovation together with digitalization. Considering online copyright protection combined with open source services, e-commerce regulation with free markets, creative and cultural product sponsorship systems, European Capitals of Culture programs with digital embeddedness support the organizations and professional partners to extend their perspectives and future visions. Corporations and transfers among different sectors have become more flexible in this process. However, the regulations provide the market neutrality and intensive interactivity among business players in digital economy. Adapting to the framework set by the EU is the key to gaining a decent profit.

New media with interactive communication, design and digital screens/projections have a special role in these trends. The combined digital media usage, the content streaming and downloading, the e-book conversions and the online marketing are rapidly increasing with a growth of more than 100 percent in sales in the last decade (EY, 2014). The consistent growth is predictable referring to brand new trends as well such as data-driven solutions, optimization for city working, 3D printing for architecture and new creative environments. The European countries with significant attention to CCIs are among others Austria, Czech Republic, Estonia, Finland, Great Britain and Portugal (Chala, 2015). The creative industry strategies are included in the programs of their governments. In this case, it is very important to stress that the "cultural" and "creative" industries are not separated from each other: the connectivity and co-operation between them are in focus (Pupek, 2015). Creative and smart connected projects in future-oriented cities such as Barcelona, Budapest, Dublin, Hamburg, Helsinki, Krakow or York are focusing on these synergies.

European regions are also looking for their synergies. Central and Eastern European Countries (CEE), Poland and Hungary among others, try to build a bridge toward Western European innovative economies and creative industries. The purpose is the competitiveness and also the preservation of values. The significantly increased numbers of business segments and creative incubation centers have been forming the CCIs landscape of CEE. Illustrated with examples, Kitchen Budapest, iCatapult, and Design Terminal are programs to support talented young people, start-up projects and creative industry co-operating with different domestic or international markets from telecommunication to IT. Communities, bottom-up or top-down organized events and media publicity stimulate ideas and collaboration for these centers and programs, university incubators, science and technology parks (Morovan, 2015). Hungary has launched several best practices and use cases for local, regional, and also global new markets which is a good opportunity to rethink research and innovation goals in the region. The country "is among the first to take advantage of expert EU teams" advice to overhaul its system with flagship innovation and projects for the CEE region.

2.2. SEA & Indonesia

With a population of 600 million, Southeast Asia is in a special position to be the melting pot for new mobile business models. Digital connectivity in Southeast Asia means internet-enabled mobile devices. Internet penetration in Southeast Asia is below the global average (40 percent vs. 44 percent), however the growing accessibility of mobile broadband subscriptions has significantly boosted connectivity in the region's developing countries during the course of 2015 (Kemp, 2015; Guerra & Moreira, 2015). The cultural and creative industries landscape of SEA is shaped from the culture, the heritage, the arts and the economy together. Across Southeast Asia, national networks of creative places, cities and communities have increasingly been established.

Currently, Indonesia is part of the ASEAN-5 countries (Indonesia, Malaysia, Singapore, Philippines, and Thailand) with the fastest growing economies in the region. Rapid economic growth creates a supportive background for the region's countries to upgrade their economic structures with emphasis on innovative technologies and emerging industries. Several new initiatives and institutions form the landscape in the SEA countries. Indonesia has recently created the Creative Economy Agency (BEKRAF), a non-ministerial government agency to handle the development of the creative industry. Including the Indonesia Kreatif, a working group for creative economy development initiated in 2010, it aims to be a hub agency. An important pillar of the creative landscape in Indonesia is the Bandung Creative City Forum (BCCF) which has become an umbrella organization and establishes connections between multiple creative centers (British Council, 2014; CIEL SBM ITB, 2015).

Strong initiatives were taking place in Thailand, namely the Thailand Creative & Design Center (TCDC) and the Chiang Mai Creative City project. The TCDC has the goal of promoting the interaction among creativity, abilities, capital and cultural business, creating a sustainable climate for the production of quality services in terms of global cultural and creative demand in the area of design (Kemp, 2015). The Chiang Mai Creative City Project has the vision to become a recognized center for IT, digital content, activities and talent by developing the city as a service hub for the rest of Northern Thailand.

In the case of Cambodia, through the Cambodian Living Arts (CLA), the aim is to develop talent and ability in these domains, increasing the recognition and sustainability of the field on a national and international scale. In Hanoi, Ho Chi Min and Hai Phong (Vietnam), there are several creative centers which operate as collective art spaces; such places can boost the development of creative works. These places would become a new destination, attracting thousands of tourists and helping to construct a new image of Hanoi as a cultural destination, both contemporary and creative (British Council, 2014).

Moreover, in the Philippines, the 98B Collaboratory is a forerunner in multi-disciplinary platforms for contemporary art in the country – including growing movie industry that intensively promotes their local heritage through cinema. The development of the creative sector all over Southeast Asia is also intimately related to tourism, namely to the cultural heritage.

The Malaysian government developed a famous national homestay program in which guests are hosted by one of 3424 selected families to promote and experience local cuisine, culture and daily life. The program won the United Nations Ulysses Prize for Excellence and Innovation in Tourism (UNDP, 2013).

Looking deeper into Indonesia, Creative Economy refers to the model of UK Department of Culture, Media, and Sport (DCMS) – known as the concentric circles model to estimate the size and growth of this sector and to formulate policy-making. Indonesia's creative economy is driven by the industries which have their origin in individual creativity, skill and talent, which have a potential for wealth and job creation (Departemen Perdagangan, 2009). A non-ministerial government agency was established to handle the development of the creative industry with reference to the Presidential Regulation No. 72 Year 2015 on Amendment of Presidential Decree No. 6, 2015 about the Creative Economy Agency. The agency divides the creative economy of Indonesia into the following 16 sub-sectors, 1) Application & Game Developer; 2) Architecture; 3) Interior Design; 4) Visual Communication Design; 5) Product Design; 6) Fashion; 7) Film, Animation & Video; 8) Photography; 9) Crafts; 10) Culinary; 11) Music; 12) Publishing; 13) Advertising; 14) Performing Arts; 15) Fine Arts; 16) Television & Radio.

Currently, BEKRAF is focusing on three sectors movies, apps, and music. These sectors have enormous potential to generate development for other sub-sectors. Cinema involves other sub-sectors as well: music, fashion, culinary, architecture, and various others. Focusing on these three sub-sectors it also means that the Indonesian creative economy industry has priority shifted towards Digital Economy (Larasati, et al., 2011). Characterized by the growth of digital literacy and nation-wide acceptance of local products, these three industries have high potential for growth. According to gaming market research firm Newzoo's data, Indonesia is now the fastest-growing gaming market in Southeast Asia (Newzoo Summer Series #21, 2016). About 100 new games hit the market every year. US investors have expressed interest in building an animation studio in Batam, Bandung and Yogyakarta, known to have a lot of talents in the area (The Jakarta Post, 2016). Indonesia e-Commerce Association (idEA) estimates that in 2017, e-Commerce in Indonesia will reach US$ 25-30 billion, making Indonesia potentially a main player of e-commerce in Southeast Asia (Kementerian Pariwisata dan Ekonomi Kreatif Republik Indonesia, 2013) (Tim PokJa Ekraf Rumah Transisi, 2014).

In line with the rapid growth of the digital economy in Indonesia, Indonesian government launched a national program to train approximately 1,000 technopreneurs and offer protection to start-up entrepreneurs. President Joko Widodo invited the two digital giants (Facebook and Google CEOs) to support Indonesia's programs aiming at training more technopreneurs and explained that small and medium enterprises (SMEs) played a major role in Indonesia's digital economy (Amindoni, 2016).

The country also started to organize programs related to the digital economy, such as Cyber Province. Cyber Province projects concern community-oriented service models and are based on information technology as an accelerator for regional development (i.e. e-budgeting, e-procurement, e-service, etc.) (Wirdana, 2015). Besides trying to encourage accountability and good governance, this effort is also intended to encourage interconnectivity and to build literacy in the digital economy.

The government launched other programs such as, "Indonesia Connected" in 2012, "Indonesia Broadband" in 2016, and "Digital Indonesia" in 2018. "Indonesia Connected" is a program that aims to improve internet connectivity between islands in Indonesia. Early 2012, the number of provinces that were connected to the internet infrastructure reached 80 percent to include 27 of the 33 provinces in Indonesia. But in the eastern part of Indonesia ICT infrastructure is still underdeveloped. "Indonesia Broadband" is a program that aims to provide all regions in Indonesia with broadband networks. The government targeted to reach a broadband penetration of 30 percent of the total population by 2014 (UNCTAD, 2010). The establishment of interconnectivity between the islands would further facilitate interaction and communication for Indonesia both within Asia and globally.

Based on the 2010 Digital Economy Rankings, due to weak connectivity aspects as well as consumer and business adoption Indonesia lags behind other ASEAN countries, which had made it to the world's top 10 countries. However, Indonesia is considered competitive in terms of its business environment covering aspects of political, macroeconomic, market share, policy towards private enterprise, foreign investment policy, international trade, taxation, financial condition, and employment (UNCTAD, 2010).

3. Flagship case studies

3.1. Culture.Crane Survey 2015: future from the perspective of prominent European concert halls, opera houses and theatres

As recognized by the European Commission, "CCIs are, at the dawn of the 21st century, undergoing considerable change as a result of increased digital technologies, the economic crisis of the past several years, and considerable changes in the regulatory framework. The challenges facing CCIs are compounded by a lack of clear evidence and information in the sector, which further limits the ability of financial backers to recognize their potential."[1]

Culture.Crane was called to life as a long-term project for Crane Ltd. in order to focus on the European cultural and creative industries' (CCIs) audience-driven marketing needs, uniting its proficiency in the field of CRM, customer behavior-motivated marketing and technological solutions with the cultural marketing and sales expertise.

1 Source: [online form:] http://ec.europa.eu/culture/policy/cultural-creative-industries/index_en.htm

Culture.Crane recognized the shortage in relevant research learnings or applicable knowledge available on specific needs, thus decided to take a snapshot of target clients to provide customized services based on understanding their challenges. The aim with CULTURE.CRANE SURVEY 2015 was to map the experience of European culture-providers, to gain understanding of the marketing and communication challenges they face as well as the desires and requirements they have to address. The plan is to repeat the survey on a yearly basis to build a benchmark and observe trends.

The survey was carried out in two phases – the first phase aimed at gaining insights from selected, prominent institutions, while the second phase intended to provide a representative sample of industry members:

1. qualitative one-on-one professional telephone interviews with marketing executives of prominent European cultural institutions such as The Concertgebouw (Amsterdam), Palace of Arts (Budapest), Stockholm Concert Hall, Bozar – Centre for Fine Arts (Brussels), Harpa Music Hall (Reykjavik), Casa da Musica (Porto) and the Luxembourg Philharmonic Orchestra.

2. quantitative online query among European cultural institutions – twenty-one participants from sixteen countries.

Culture. Crane project was invited to Classical Next 2015 – the most prominent conference devoted to the classical music industry worldwide – to present the key learnings and conclusions of the Survey – which were as follows.

Despite the varying functionalities (concert hall, cultural center, conference and concert hall, theatre, etc.), financing structures and cultural specialties of institutions, responses have shown commonalities in customer behavior and demands, in marketing and sales challenges and practices if not strategies applied to address them. It seemed that the biggest challenge was to stay competitive in an environment with an increased number of cultural program offers, reaching out to new audiences that require different mind-set – message, channels and approaches. With other words, cultural institutions are challenged to fight competitive cultural or non-cultural programs and are also challenged to reach new audiences which would also require new strategies. In order to successfully cope with such emerging marketing and sales tasks, cultural institutions can also apply tools from other industries that have already proved to be effective is similar business situations.

As it is usually said: “Culture is the mirror of the world” – and culture consumption habits have shown significant changes during the last five years. The expanded variety of programs results in changes how people make their choices. Nowadays the choice between concerts and musical compositions is preceded by selection among the type of cultural programs such as different genres of art, performances, etc. As a result, other than subscriptions or ensuring tickets for a star performer, culture-visitors tend to buy tickets less in advance and online – as confirmed by the continuously growing ratio of online ticket purchases. Diversifying demand also has an impact on the artists – “artist-life-cycles” seem to be shortening. As one of the respondents pointed out: “there is an unceasing appetite for new stars, while complaining about missing established, acknowledged performers”.

There is a gap between the ageing core visitors and the new audience of digital consumers. It is a constant headache for marketers whether the aging of core target audience will also entail the disappearance of the classical audience or not. So far it has never happened; new generations have come and filled empty seats again and again. But the new, digital generation cannot be “handled” with the same strategies and methods, while both segments must be serviced according to their requirements. Due to the age of core classical target, printed communication (brochures, ads and magazines) are kept on the palette, but online channels (website, social media, etc.) have already made it to the top 3 information sources. The noteworthy online channels’ usage growth has not happened on the account of other media mix elements. Difference is also experienced in the behavior:

1. ad hoc, short term decisions – not subscriptions,
2. immediate online feedback – not personal at ticket office,
3. digital content consumption – not CDs any longer.

Going digital is not an option any longer. Information sources and channels for cultural programs have changed significantly in the past few years. The reach of target audience via online means has significantly increased lately. Furthermore, to the approach of “We make all printed content available online as well”, claimed by some executives, online channel has much more into it, it is functioning as a source of information about programs, insights about performers and recently it also provides a culture-consumption option through streaming and webcasts. Trend shows that music streaming is becoming a basic function on mobiles, even replacing online radios. The importance of online platforms and content is recognized by dedicated marketing personnel – in different organizational set-ups, but nearly all halls have dedicated personnel for digital marketing.

In the quest for new audiences, culture providers rely more on image communication and apply new strategies. Desired key achievement for the near future for marketers is to grow audience, which translates into planned actions like image campaigns, moving more to digital, rethinking the content of publications, brand refreshment that at the end of the day results in ticket sales. Respondents of the survey are preoccupied with reaching younger or additional target groups. The main tasks of image communication, as claimed by the majority, are to break down barriers of accessibility, communicate diversity and to bring the brand closer to the youth. Some has success with new program profiles. "We discovered that debates are bringing young people to the hall who otherwise would have never come." When asked about strategies that seemed to work well, executives have listed, as per priorities, 1) customer-driven marketing 2) new program types 3) digital tools and channels – such as Facebook, Google platforms, Instagram, and newsletters.

Undoubtedly new tools and platforms are required to bridge audience generation gaps. Going digital is not an option. Institutions and marketers judge themselves to be ahead of their audience digitally (taken as average, given that a larger part of respondents clearly divides their audience into an older core target and a young one representing two extremes in digital development). On average, they are using a minimum of six different online tools or platforms. Live streaming is considered as an opportunity to involve new audiences, but experiences are mixed – a great number of halls are having either budget or demand barriers. Same approach and tools are recognizably not sufficient to address new, digital audience that require interaction, differentiated online content rather than printed publications, peer recommendation and sufficient online information to make a call for ad hoc cultural program selection. The survey has pointed out that still more than the half of the participants have above 55 percent of their publications printed. Furthermore, primary audience feedback source is ticket office, while on average, online purchase is responsible for 30 to 50 percent of all ticket sales, and is steadily growing.

Survey results show that big data is there, but not necessarily systemized and leveraged yet. Tools that are widely used in other industries – in the automotive or telecom industry for example – are not utilized in cultural institutions, but the need for integrated databases or CRM (customer relationship management) systems has already been recognized. One reason for this is the desire to measure sales and marketing effectiveness.

All survey participants have their own ways to get feedback on activities (varying from various reports to business intelligence tools), but with very few exceptions these tools are not applied in connection with other systems (ticketing, accounting, etc.), making it difficult, if not impossible, to compare data and have integrated, single-source business reports. “Like the music notes on the staves all having their place and function, when played altogether they become music – this is how a good CRM system composes ‘music’ based on all the different data.”

Marketers also would like to better understand and observe the activity of the audience in order to respond with customized offers. Surprisingly, even if databases are used for campaign retargeting or segmenting newsletter targets, they are less widely utilized for promotional planning or campaign efficiency tracking.

Marketers are challenged by sales objectives overruling communication targets. Even though a greater part of participants fight accessibility problems and prejudices when aiming to attract younger audience, communication focuses on programs which help to fill the empty seats night by night. Asked about key communication objectives, the majority selected image/branding versus sales activation for example, which does not correlate directly with the success criteria set for their marketing activities, sales measures such as the number of tickets sold, hall occupancy or the number of visitors. In addition to the lack of benchmarks, given qualitative image factors are also not widely measured, while the majority of respondents have less than 10 percent of their marketing budget allocated to reach their number one communication objective, that is image communication.

The survey has shown that for marketers the key source of feedback from the audience is still ticket sales and ticket office, representing 45 percent of the respondents, while other 45 percent simply do not measure – thus only a few institutes can afford carrying out a research or their own surveys. There is a demand for trend-watch and benchmark setting research both at international and local levels.

Cultural tourism is still not leveraged by the institutions. Nowadays, when distance becomes relative and audience is only one click away from any cultural scene of the world, more attention should be paid to such a disregarded market area.

According to the European Union, “tourism and especially cultural tourism in a broader sense… deserve priority attention”. At the same time, “the cultural tourism market in Europe is therefore becoming increasingly competitive. A growing number of cities and regions in the European Union are basing their tourism development strategies on the promotion of cultural heritage, and the number of cultural attractions is growing rapidly" (Greg Richards, 1996, ed.). Cultural Tourism in Europe. CABI, Wallingford). This was confirmed by 70 percent of respondents who claimed cultural tourism to be important for their institutions, being responsible for 10-20 percent of their yearly visitors. This field offers huge opportunities even though, surprisingly, 63 percent of the executives in the survey said they do not allocate marketing budget for (cultural) tourism at all.

It appears that customer-driven marketing is the answer for achieving both loyalty and acquisition. There are various ways cultural institutions treat and deal with the most loyal customers – from Friends' programs to loyalty schemes, varied with patronage. Nearly all have in common the dual objective of maintaining/strengthening loyalty as well as acquiring new audiences. Other industries have already recognized that customer-driven sales and marketing are the winning approach in creating advantage. Customers are bombarded with ads and offers. Delivering relevancy slowly but surely differentiates and builds emotional bonding and customer loyalty.

Being listened to, receiving tailor-made offers and experiencing special treatment, in the end results in preference, dedication and even advocacy. By now, customers have become much more conscious about what kind of data they provide: when they give out information, they expect a service in return – so data processing and application do not seem to be a choice any longer, but rather a must. As promptly summarized by one of the respondents: "Art should have an impact before, during and after the event, even on people who do not attend the event itself."
At the Classical Next 2015 conference, the vivid interest in the presentation and the intensive Q&A section confirmed the relevance of the topic to the industry. For most cultural institutions, investing in complex and complete CRM system-solutions in not affordable – while many institutions are just recognizing the need to move digital and utilize customer data/knowledge.

Other industries are already well ahead in utilizing digital and technological tools when defining their strategies and promotional activities based on understanding the behavior and the expectations of their targeted customers. CCIs need to speed up the acquisition of this attitude to remain competitive within and outside the sector – as audiences outside of this sector could have already become familiar with digital and advanced technologies. CCIs need to adapt their strategies and tools to contemporary customer expectations.

3.2. GOJEK: A technology-driven two-wheeled taxi to serve SEA's hectic cities

A typical issue that tends to hinder or prevent the development of modern cities in SEA is the complexity of the public transport system. A study carried out by the Castrol motor oil company confirms that Jakarta is the worst city in the world as far as traffic congestions are concerned. Relying on information from TomTom navigation devices in 78 countries, the TomTom Index found that drivers stop and start their cars 33,240 times a year on the road.[2] Experiencing more than 18,000 stop-starts a year there was diagnosed "severe" traffic. Building connectivity between cities requires action in combating one of Southeast Asia's most intractable problems: urban congestion. Traditional taxi or public transportation becomes unreliable convenience in Jakarta, Manila, Bangkok, or Hanoi. Indonesia started to promote personal ride-order smart application or two-wheeled taxis known as Go-Jek.

Go-Jek is revolutionizing informal transport in one of Southeast Asia's fastest growing metropolises (GrabBike, a similar application originated from Malaysia, is also available in Jakarta) (Go-Jek: Opening the throttle in Indonesia, 2016). Go-Jek is a technology-driven answer to avoid annoying daily traffic and expensive commercial transportation. With high number of internet literacy and digital lifestyle in Indonesia, consumers now have access to public transportation in accordance with their needs. Customers are able to easily and quickly arrange their transportation needs using smartphone applications. Go-Jek apps provide various smart in-town courier services, the business has rapidly expanded from merely giving passengers a ride to allowing customers to order a masseuse or beautician to their doors. But services kept expanding: Go-Food for food delivery services, Go-Massage for massage services, Go-Glam for salon and beauty services, Go-Clean, and many other services under the slogan "A motorcycle taxi driver for every need".

Some SMEs are using Go-Jek to deliver goods to their customers. A jamu (herbal drink) producer in Bandung for example uses Go-Jek extensively to deliver jamu to its Bandung customers. Go-Jek app offers competitive pricing, reliability, and quality service. This service has attracted an increasing number of subscribers to Go-Jek. Since the app was launched in January 2016, the number of registered drivers have exceeded 200,000 across five big cities in Indonesia. Go-Jek search through mobile apps has increased and become the most sought after brand in comparison with other famous services, such as GrabBike, Blu-Jek, and Uber.

2 [online form:] https://en.wikipedia.org/wiki/Traffic_congestion

Is Go-Jek just an application? Or is it a transportation company? The new type of service like Go-Jek is an opportunity as well as a problem. For example, conventional motorcycle taxi drivers who do or cannot join Go-Jek have urged the government to ban this application. There were tensions sometimes resulting in physical violence among these drivers. This new type of service is a unique knowledge service creation that is suitable and replicable in Southeast Asia neighbors with common culture. However, this is also a challenge for the Indonesian government and citizens to fight lack of control, regulations, and the rule of the games by consumers and operators. The global trend of electronic marketplaces affects Indonesia as well. Big investments from big venture capital firms go to companies such as Tokopedia, Bukalapak, Matahari Mall, Lazada, Blibli (online marketplace enabling individuals and business owners to open and maintain their online stores for free) and so on. Lazada was recently purchased by Alibaba – a Chinese e-commerce giant. Specifically, in Bandung and Yogyakarta, there are start-ups working in animation, 3D modeling, software development, digital music, mobile phone (hardware) development, and many more. These start-ups, benefiting from the abundance of local heritage, are still ignored by the government or the industry. Again, this gives a vibrant picture about Indonesia following the development trend of the digital market that does in fact change the services and buying habits of many people in Indonesia. Is this just a fad? What will happen if the market goes bust? So, different from the traditional business, CCIs are mutually interconnected and networked, which practically allows for growth potential of new and community-driven business. So as, it is likely that many new businesses arise through this interconnection.

4. Conclusions

Several conclusions can be drawn from the cultural and creative activities – ICT, design, research, business, tourism, heritage, cross-media, and also connectivity, collaboration and innovation – in Southeast Asia and Central Europe. These points are highly important in the quest for new customers, new tools and platforms to cope with the current 'traditional' management. In the future, each subject contributes to the chain of process that becomes much shorter and more efficient in the future practice of CCIs. Users are contributors and also collaborators. It is essential to create free, open platforms and research-based knowledge transfers that allow managing complex issues (i.e., bureaucratic barriers) in responding typical local issues and culture problems.

Based on the above analysis, we can formulate five suggestions:

1. It is necessary to create CCIs strategies by business decision makers and governments to allowing future expansion of a completely new cultural and creative business, and to anticipate barriers and bottlenecks of future developments.

2. More systematic ICT background should be available for research and decision-making.

3. Digital innovations and their impacts must be documented, compiled and analyzed to build an online database library and knowledge transfer of CCIs.

4. Actions should be taken regarding future collaboration and interconnectivity on new media platforms. Given that current CCI projects are built through interconnectivity, it is reasonable to guarantee that those big data CCI resources remain open, connected, accessible, and free for global usage.

5. Continuously conducting comparative analyses of CCIs in different regions are necessary. Taking into account that the main source of CCIs is culture, the various specificities and hallmarks could help the CCI projects to find best practices and future visions.

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In Pursuit of Inclusive Development in Indonesia

Cungki Kusdarjito

As a vast, scattered and an ethnically diverse archipelago, Indonesia is based on a set of compromises in order to maintain its unity. However, too many compromises can hinder the realization of the developmental state model, just as it has happened in many other East Asian countries. The developmental state model had been implemented during the Soeharto regime, leading to the omnipresence of corruption, nepotism, collusion and to a financial crisis in 1997. Another problem touches upon the inconsistent implementation of the economic developmental model in Indonesia. As the 1945 Constitution, Article 33 stated, production is done by all, for the benefit of the whole community or under the direction of members of the community. The prosperity of society is the most important objective. Branches of production which are essential for the well-being of the country and its people should be controlled by the state and should not be granted to private sectors. Yet, it seems to be no more than a pure utopia as no theoretical model guides its implementation in practice. Instead of following its own model, Indonesia decided to implement mainstream economic perspectives such as liberal or planned economy, or the combination of the two leading to the unfortunate implementation of the negative elements of both. Jokowi, an inclusive populist, was elected the seventh president of Indonesia in 2014. His model of development involved the active participation of the people in order to improve their own welfare, especially in the rural areas. One of his main infrastructural objectives is to mobilize human and natural resources in remote and isolated areas. New airports and sea tolls are also created to connect major seaports of the biggest islands. Whether this will lead to success or failure, time will decide. Domestically, his policy was criticized for being a waste of money, creating debt burden, being favorable to Chinese descendants through helping China to overtake Indonesian economy. This criticism is mostly formulated by the right-wing populists in Java who need to create common enemies with the Islamists defining communists as their major enemies. Hence the question: "Is Indonesia wasting time as usual?" The answer depends on the people of Indonesia. If the fabrics of social networks are still intact, right wing populist will not become popular amongst Indonesians.

1. Introduction

Indonesia is a vast country with a lot of diversity and contradictions. People living in Jakarta tweet more than any other city in the world, whilst one fifth of the population in Indonesia has no access to electrical service. Indonesia is also very diverse not only regarding its ethnic composition and geographical characteristics, but also from the perspective of its people. People in Indonesia live in various stages of human history, ranging from the Stone Age in isolated remote areas to the knowledge society (The Economist, 2016 p. 10). Some people living in Java Indonesia have living standards almost equal to those of the developed countries whilst remote areas are stuck in the stage of hunting-gathering. In fact, according to income and the general level of development, a huge gap is observed between Java Island and the other islands (The Economist, 2016, p. 7).

Despite the rapid economic growth after the 1997 financial crisis in Asia, social and economic structure in Indonesia has not changed too much since the era of colonialism, in which economic activities are still dominated by some elites, developmental state has transformed itself into predatory state, and exports have also been driven by primary goods until the 1990s. Economic growth is still erratic, social tensions and conflicts related to authoritarianism are also still predominant, especially since the financial crisis in 1997.

The various forms of government involvement in the economy did not generate considerable progress in the economy since the colonial period (Booth, 1998 p. 143). For more than 150 years, governments have been struggling hard to smooth out the country's transition into a postcolonial era. However, governments have always faced a difficult situation which may rise due to the existence of vested interests of the government apparatus, conditions related to the predatory state and also the to the fact that the country's social structure has not changed significantly until the late 20th century (Booth, 1998, p. 137).

Booth (1998, p. 327) underlines that the economic development in Indonesia missed many opportunities even though the country is rich in natural resources as well as in labor and culture. Periodically, the evolution of the Indonesian economy pointed to a promising economic development undergoing a process of modernization (for example Java at the end of the 19th century, at the end of the 1930's and in the early 1990s). Even so, with various causes and reasons, Indonesia experienced several events inhibiting this progress. These barriers often stem from the internal institutional conditions or caused by political problems in the country, both during the colonialism and after the independence. External factors, such as the incidence of the economic depression in the 1930s and Asia's financial crisis in 1997 hampered the progress of the Indonesian economy.

2. Old Order (Soekarno, 1945-1966)

As opposed to Indonesia, India inherited useful assets from colonial times, such as national transport systems and a functioning administrative apparatus. Indonesia's Independence Day was proclaimed on August 17th, 1945. State formation in Indonesia began under the Japanese colonization, which put an end to Dutch colonial rule in 1942. By bringing together indigenous elites to work for them, the Japanese contributed decisively to the pattern of compromise, and it went beyond a few leaders. The Japanese convened a Study Commission for the Preparation of Independence (BPKI) in March 1945. Its members, who all collaborated with the Japanese, met several times over months to draft the constitution of the future Indonesian Republic. Radical communists and radical Muslims were not invited and involved. Still, the BPKI's membership was broad enough to include the most prominent Indonesian political activists with genuine nationalist credentials. The committee could reach important compromises regarding the constitution and state ideology, namely Pancasila, reuniting five principles proposed by Sukarno as the future ideology of the Indonesian state.

Pancasila's fifth principle, "One Nation under One Supreme God", which intentionally left God undefined, epitomized this compromise. A major compromise was forged between secular nationalists and modernist Muslim politicians who would have desired to build an Islamic state (Vu 2007, p. 41).

Thanks to a consensus between elite groups at the time of independence, Indonesia's parliament encompassed the entire political spectrum from left to right and from religion-based to secular nationalist parties. A similar "rainbow coalition" existed in local councils and governments. Compromise had led to an inclusive but fragile government based on poorly organized parties. While some parties could consolidate, none could dominate and most of them disintegrated into small personal factions (Vu, 2007, p 43). Yet, elite compromise may allow a structure of sorts to emerge with authority, divided between a small number of factions. This structure is not cohesive and depends on how long the compromises last (Vu, 2007, p. 31).

During the Soekarno presidency, Indonesia's economy further deteriorated ending up in a condition worse than before 1942. Soekarno took over many Dutch and foreign companies in the 1950s. Yet, due to the lack of skilled labor force, the companies that had previously generated profit now became for a financial burden for the government. In addition, big spending on military to free West Papua from Dutch occupation, followed by wars with Malaysia, Singapore and British, makes the general condition even worse. A failed coup d'état by the Indonesian Communist Party and a very high inflation rate forced Soekarno to resign in 1966.

3. New Order (Soeharto, 1966-1997)

Among other measures, Soeharto orchestrated the systematic destruction of communists in Indonesia similar to Rhee's Podo Yonmaeng program in South Korea. However, Rhee acted in the late 1940s, while Suharto acted 20 years later. The military regime under Suharto must be credited for erecting a cohesive developmental structure, which allowed it to perform developmental roles effectively thereafter. Yet, by the early 1970s, it was still hampered by the residual legacies of state formation whereas Park had relatively free rein with economic policies (Vu, 2007, p. 47). The old party system, the very symbol of compromise, was the first to go. Suharto banned many political parties and forced the rest to amalgamate into two new ones. Although the new government party was composed of mostly military officers and bureaucrats, other parties were no longer allowed to campaign in the villages. This new party system would ensure the reelection of Suharto to the presidency for the next three decades. Another critical step by Suharto to restructure politics was the militarization of the state. By the early 1970s, almost all provincial governors and most district chiefs were military officers. The new and ironically named "Regional Autonomy Law" enacted in 1974 finally completed the unfinished centralization project under the Dutch by providing a uniform vertical administrative system across the country. Local elections were now formally replaced by appointments by the Ministry of Home Affairs and ultimately by Suharto himself, whose power was now comparable to that of the Dutch Governor General (Vu, 2007, p. 45).

The government during the New Order era seriously tried to address poverty issues in the country and initiated many pro-poor programs. Although a significant decline in poverty rates was observed, the gap between the rich and the poor did not tighten significantly. In fact, during this era, the adopted development strategy was rather exclusive than inclusive, as many regulations, policies, and facilities favored a small group of big companies (or conglomerates) at the cost of MSMEs (Tambunan, 2012).

Soeharto basically tried to create a developmental state. The developmental state paradigm view the authoritarian form of government in East Asian countries determine the success of rapid economic growth. Most theorists accept a general model of successful developmental states comprising two components. The first is a developmental structure, including a stable, centralized government, a cohesive bureaucracy, and effective coercive institutions. The second component is the construction of a social structure relying on manual labor while still excluding the peasants (Arief, 2002, p. 56).

Routley (2012, p. 8) believes that some of the characteristics of developmental states include the bureaucracy that has the capability to work efficiently; political leaders oriented towards development; mutually beneficial close relationship between the state agency and capitalist industrialists; effective policy interventions that can drive growth; state that has the capacity and the structure for the purposes of development. In Indonesia, the civil services are inefficient, ineffective and corrupt, so they will inhibit economic reforms (Singapore Institute of International Affairs, 2016). In the late 1990s for instance, Indonesia was at the bottom of all rankings based on major corruption indices, and became one of the most corrupt countries in 1995-2000. Corruption was also a cause for the severity and lengthiness of Indonesia's economic crisis in 1997 compared to other Asian countries. Despite liberalization undertaken since the 1980s, Indonesia received recognition (Boyd, 2015, p. 168). The case in Indonesia shows that economic liberalization in an authoritarian state with huge domestic market will tend to encourage corruption instead of reducing it (Boyd, 2015, p. 161). Meanwhile, according to Robinson (2001, p. 3) predatory leaders occur in societies (1) where benefits obtained from the political power are significant (2) endowed with a great natural wealth (3) badly endowed with human capital which is a complement to public investment (4) where the state is unstable or political ties are fragile. All these factors can be found in Indonesia. Between 1998 and 2004 Indonesia had three presidents, namely Habibie, Abdul Rachman Wachid and Megawati. Although the economy ceased to be hyperinflationary, Indonesia is still under the supervision of the IMF.

4. The era of reforms: Yudhoyono (2004-2009, 2009-2014)

Following Indonesia's recovery from the recession, the country has undergone a profound transformation. It has embarked upon far-reaching institutional changes and has become one of the region's most vibrant democracies. In social and economic terms, Indonesia has also seen much progress. Wide reforms have been carried out in all areas of economic, social, and political policies, a new development strategy, based on “inclusive” economic development and growth, has been adopted. In relation to this inclusive development, the Indonesian government has adopted a triple-tracked strategy, i.e., “pro-growth,” “pro-job,” and “pro-poor” (Tambunan, 2015, p. 5).

After the onset of the economic crisis in 1997, international demand for raw commodities was increasing rapidly, although it was relatively short-lived (2000-2010). When other countries buy commodities from Indonesia, prosperity in Indonesia increases. When the demand decreases, commodity prices drop (The Economist, 2016, p. 2). When commodity prices plummeted, economic growth in Indonesia started to slow down, since commodity make up around 60% of the value of export in Indonesia. The rise in commodity prices encourages investments in capital-intensive areas of extraction in Indonesia. This investment can boost economic growth, but does not create jobs (Mietzner, 2015, p. 14). The country managed to maintain a positive economic growth even during the global economic crisis in 2008.

During Yudhoyono’s presidency, Indonesia not only regained its role as primus inter pares in the Association of Southeast Asian Nations (ASEAN), but also began to play a leading role in organizations like the G20 as well as the United Nations, and to take independent positions on key issues ranging from Syria to climate change (Parameswaran, 2014, p. 154). However, it becomes clear that Indonesia had missed an opportunity to improve its infrastructure and education. Yudhoyono did not manage to embark on any major political or economic reforms, even with high economic growth and relative political stability. Yudhoyono was reluctant to cut subsidies on fuel, which was a heavy burden for the state budget. By 2014, the total volume of subsidies for fuel has become equal to the amount of the budget of the three ministries, namely the Ministry of Defense, Ministry of Health, and Ministry of Education and Culture combined (Sticher, 2014, p. 2). Yudhoyono did not provide attention to structural deficiencies in Indonesia, such as the obsolete infrastructure, byzantine bureaucracy, a rigid labor market, outdated manufacturing industries and a failure to reform the national education and the healthcare system (Parameswaran, 2014, p. 156; Mietzner, 2015, p. 14).

At the same time, tolerance in religious affairs also decreased rapidly during Yudhoyono’s presidency. Religious intolerance and sectarian violence have risen substantially, taking their toll on the fabric of social networks of the Indonesian multicultural society. Violence is not only directed against non-Muslims, but also increasingly targeted towards non-Sunni Muslims too. Yudhoyono did little to condemn attacks (Sticher, 2014, p. 2) in dread of restricting the motion of conservative Islamic groups and criminalizing the perpetrators as this could reduce his popularity. As the President did not pay enough attention to these problems, violence and religious intolerance have increased. Another legacy which was left behind by Yudhoyono was the high level of corruption. One of Yudhoyono's campaign promises was to fight corruption, but during his presidency, corruption still persisted, and his party got involved in many corruption scandals.

Yudhoyono satisfied the hunger of many citizens for politico-ideological depolarization. Even after a decade in power, his genuine political stance remained unclear. Although stable politically and economically, the Yudhoyono government was often criticized for being an autopilot system.

5. Populist Regime: Joko Widodo (2014-2019)

Jokowi, in contrast to previous Presidents of Indonesia, did not come from (political or economic) elite circles, and he has never become a member of Parliament or had a military background. Raised in a rural family in Solo, Central Java, he is known as a pragmatic man and later he also became the mayor of his hometown. He continued his political career as a governor of Jakarta before becoming President (The Economist, 2016, p. 2). Yet, Jokowi's pragmatism was sometimes disappointing for his supporters (Singapore Institute of International Affairs, 2016, p. 3).

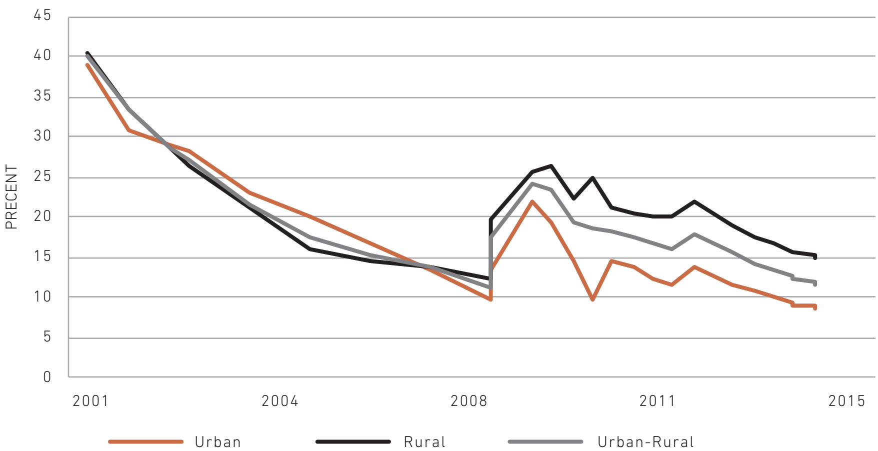
Jokowi implemented his genuine populism different from the standards of mainstream populism. Jokowi's model of populism was based on a technocratic approach rather than on an ultra-nationalist, confrontational populism, which is the mainstream approach. In this respect, Jokowi neither had the intention to change the existing political system drastically, nor did he label the other political side as the enemy. He applied an inclusive approach instead. In addition, Jokowi also did not use an anti-foreigner discourse to win mass support. His populism put the biggest emphasis on improving public services. He is also positioning himself as the representative of the ordinary people. Prabowo, Jokowi's opponents during the presidential election in 2014, capitalized on confrontational populism when attacking foreign interests exploiting Indonesia and playing on the emotions of the poor to gain their support. Yet, being inclusive, non-confrontational and supportive of the democratic status quo, Jokowi made himself vulnerable to the influence of oligarchs, party leaders, and other patronage-driven actors. (Mietzner, 2015, p. xiii). Elite compromise and mass incorporation was the dominant trend in Indonesia whilst in Korea, polarization led to a divided nation and two opposing states in the Korean Peninsula. Indonesian state emerged as a unified nation, but showed a fractured structure due to elite compromise and mass incorporation (Vue, 2007, p. 31).

6. The economic impact of development: poverty and inequality in Indonesia

Despite the fact that Indonesia has high economic growth and is becoming a member of G-20, some people in Indonesia are left in misery due to their chronic poverty. Figure 1 shows the percentage of people living under the poverty line. It can be seen that in the period from 1976 to the first semester of 1996 (or during the Suharto regime or the new order era) poverty in Indonesia decreased steadily. In 1976, in urban and rural areas respectively 38.8 and 40.4 percent of the population lived under the poverty line. Twenty years later, in the first semester of 1996, the proportion of people who lived under the poverty line reached 9.7 in urban and 12.3 percent rural areas. During the 1980's rural areas were less poor than urban areas. The green revolution program which focused on high yield agricultural output with high inputs was heavily subsidized by the government to support agricultural development which led to an increasing income for the people in rural areas. Yet, during the Asian financial crisis in 1997, poverty in Indonesia increased sharply. Many people who work in cities, especially in Jakarta, returned to their home villages, putting pressure on the rural areas.

Figure 1

People living under the poverty line



Source: BPS, 2016

Further, Figure 1 shows the gap of poverty between rural and urban areas, in which positive value indicates that poverty in rural areas is greater than in urban areas. It seems that this gap is caused by the economic transformation of the last ten years.

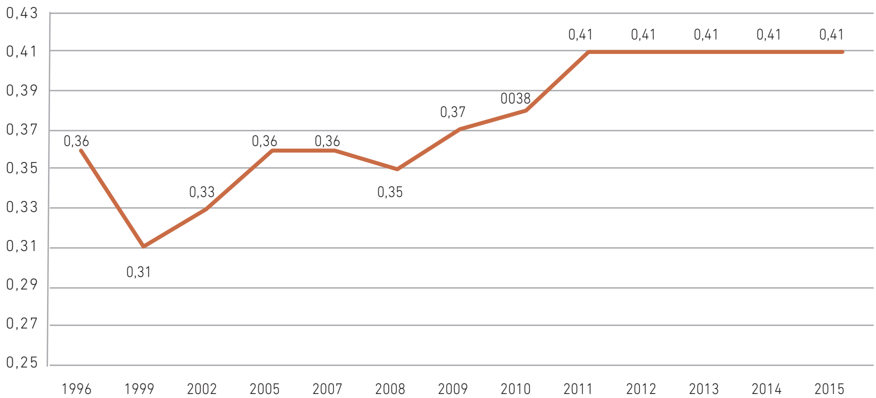
Indonesia has shifted its economy highly dependent on agriculture towards a more balanced one in which the share of manufacturing industry exceeds that of agriculture. It implies that Indonesia has reduced its traditional dependency on primary exports. Although the proportion of people working in the agricultural sector has decreased, in rural areas their percentage is still high. Development is also urban-biased as opposed to the 1980s when increasing productivity in agriculture successfully reduced poverty in the rural areas.

During the Asian financial crisis, poverty increased sharply whilst the Gini ratio fell as an indication that everyone, either rich or poor, was affected, the rich being even more severely affected. Since then, the Gini ratio has increased, and by 2015 it has reached 0.41 (41 points). Yet, this ratio is likely to be underestimated since household surveys struggle to reach the richest households. A high level of inequality may inhibit economic growth, increasing social costs and exacerbate conflicts (World Bank, 2015, pp. 7-9).

After the Asian financial crisis, Indonesia experienced steady economic growth driven by high commodity price and increasing domestic consumption. The economic growth in Indonesia after the financial crisis (reformation era) was based on a more liberal economic policy where the government played a limited role. This resulted in a widening the gap between the poorest and the richest in Indonesia. Even though poverty in Indonesia has decreased significantly, it has almost never dropped below 10 percent. Moreover, decreasing poverty is also followed by the worsening of income distribution. As can be seen from Figure 2, Gini ratio has been sharply increasing since 2008. This indicates that high economic growth and decreasing poverty is not correlated with the income distribution. This seems to indicate that development is leaving the poor and vulnerable behind. They become excluded from the development. It is worth to be noted that inequality in Indonesia is one of the fastest increasing in East Asia (World Bank, 2016, p. 3). In 2002, the richest 10 percent consumed as much as the poorest 42 percent combined, whilst in 2014, they consumed as much as the poorest 54 percent. In 2015, approximately 45 million people (18 percent of the richest people) may enjoy a high life quality, and this segment showed an annual rate of growth of 10 percent. Between 2003 and 2010, consumption per capita for the top 10 percent of the population increased by more than 6 percent (corrected for inflation), but for the poorest 40% of the population it only grew by 2 percent annually (World Bank, 2016, p. 7).

Figure 2

GINI ratio in Indonesia



Source: BPS, 2016

7. In pursuit of an Indonesian model for economic development

As the Article 33 of the 1945 Constitution stated, production is done by all, for all the possession of community or under the direction of members of the community. Prosperity of society is the most important objective. Branches of production which are essential for the well-being of the country and its people should be controlled by the state and should not be granted to private sectors (Arief, 2002, p. 118).

An economic system based on the Pancasila is a market economy allocating funds and resources through price mechanism. At the same time, the elements of planning also play an important role in facilitating economic development in accordance with the priorities which has been determined in the planning process. Basically, macro planning focuses on the strategic goals, provides forecasts in relation to the development of each sector and points to factors affecting negatively the pace of development (Salim, 1979). In Nugroho (2016, p. 123) planning on a macro level does not restrict individual economic initiatives on a micro level. Actors are free to develop their businesses based on information acquired through price mechanism. Therefore, the coupling of the market economy system with some elements of economic planning is a main feature of the economic system described by the Pancasila. According to Nugroho, Salim's seminal work (1965) can be basically perceived as an effort to loosen the strictness of the ideas related to guided economy. In Salim's perspective, Sukarno's guided democracy is characterized by socialist-style economy and is situated somewhere in-between the free market system (the private economy) and a centralized economic system (i.e. highly controlled economy) to bring prosperity to the people under the guidance of the government

According to Mubyarto (1980) in Nugroho (2016, p. 127), Salim and other economists in Indonesia are influenced by the western mindset opposing socialist and capitalist or market economy and planned economy. The Pancasila economy proposed by Mubyarto from Gadjah Mada University took a diverging path from Salim's propositions. The term Pancasila Economy as a theoretical idea aims at criticizing the conventional economic theory. The Pancasila economy should be based on economic motives, moral, social and economic nationalism, the principle of egalitarianism, co-operative planning and balance between the central government and local governments. (Tjakarawerdaya et al, 2014, p. 139; Nugroho, 2016, p. 5). Pancasila economy is not located in-between two mainstream economic thoughts (market economy and centralized economy), but is a particular economic system which is rooted in the Indonesian culture. Mubyarto applies the framework of political economy and developmental economics (Raharjo, 2016) and he has already implemented his idea in empirical work. Tjakarawerdaja *et al* (2017, p. 67) mentioned that the principle of Pancasila economy differs from communist economy which denies individual rights such as private ownership. Yet, freedom must be balanced with moral and social responsibility.

The economics of Pancasila is based on harmony and prefers the prosperity of society and not the prosperity of individuals. In this respect, Mubyarto (1984) in Nugroho (2016, p. 731) argues that an economic system needs to be defined more broadly. If the economic system of Pancasila was born from Indonesia's fundamental principles and it is considered to be the most suitable method for bringing prosperity to the nation, then the system should not be easily changeable. Changes should only affect the political economic policies, but not the system itself. The reason why political economy is less in its focus, is because most often it aims at achieving short and medium term goals.

The Pancasila economy is centered around harmony as brotherhood, which requires further explanation**.** Pancasila economy is not an economic system dominated by a few families, but it must rather be based on social needs. Nevertheless, the basic definition of brotherhood is not so simple when it has to be defined formally. Usually the basis of brotherhood (familyhood) in economy is associated with the idea of a cooperative. Even so, cooperatives are not always acceptable for the community in

Indonesia. There are a couple of things why cooperatives are not always attractive to the Indonesian society. First, because of the very small scale of their economies, people try to maximize their labor and management until the marginal use of these factors of production is approaching zero in which cooperation is not needed. Second, they lack trust in cooperative organizations or even informal cooperation between them as they often face fraudulent administrators. Pre-condition for the establishment of a cooperative is the existence of a connection with its members' daily lives, either business or household (Mubyarto, 1979 in Nugroho, 2016, p. 130). The principle of brotherhood demands large companies not to be greedy so as not to turn off small counterparts from the business. This can be done through restraining expansionist and monopolistic ambitions by helping small companies to become suppliers or sub-contractors (Wibisono, 1978 in Nugroho, 2016, p. 103).

Actors and implementers of Pancasila economic system are (i) the government which represents the state, controls the production branches that affect most people's lives and the public goods such as drinking water, electricity, petroleum and other vital production sectors, (ii) communities through various forms of businesses, such as individual companies, cooperatives and also as partners of the government or as holders of a major role in the process of production and distribution of goods and services, outside of the branches that should be controlled by the government,(iii) foreign actors, as creditors, governments of foreign countries offering loans or foreign private capital investing in Indonesia (Wibisono, 1978 in Nugroho, 2016, p. 102).

Sarbini Sumawinata criticized the Pancasila economic theory for being unclear and absurd. Basically, Pancasila economic theory stems from the study of poverty. Therefore, it offers an idea of people's economy as a concept of how to eradicate poverty. Since then, the idea of Pancasila economy has been able to draw attention to the problem of poverty in Indonesia. In the 1990s Haryono Suyono found that poverty not only occurred in regions lagging behind, but can also be identified in more prosperous areas as well. With a special focus on family, he compiled indicators on family welfare levels. Yet, Haryono Suyono took a different path. He went further by institutionalizing the Posdaya (family empowerment movement) network, Takesra (family savings) and Kukesra (credit for the family business), a mutualist model of financial institution to alleviate poverty. Jokowi, with his inclusive populism, seems to follow Sarbini's thought (Rahardyo, 2016 in Nugroho, 2016, p. xiv).

8. Jokowinomics

Jokowi's thought on inclusive populism is a genuine one. Jokowi's populism presented something new, not only for Indonesia but also for Asia and the rest of the developing world (Mietzner, 2015, p. 3). As Indonesia is a globally unique country as regards its ethnic and religious diversity, its scattered geography, the richness of its natural resources and communalism, no ready-made models of development are applicable here. In this case, Indonesia needs its own developmental model as Mubyarto mentioned in 80s. Discourse on Pancasila economics flourished in the 1980s after witnessing ineffective developmental state by New Order Government under Soeharto.

Some of Jokowi's programs started with Nawacita (a manifesto of nine principles), which became a government work plan. It aimed at:

1. improving the presence of the state to protect the nation and provide a sense of security to all the people in Indonesia, advancing non-alignment foreign policy, setting up a reliable national security and improved national defense system based on national interests, and strengthening the national identity as a maritime state;

2. ensuring the presence of the government in society by building clean, effective, democratic and trustworthy governance by giving priority to restoring public confidence in democratic institutions and by continuing consolidation of democracy through the party system's reform, elections, and representation;

3. building Indonesia from the periphery by improving those areas and villages in the framework of the unitary State;

4. strengthening the state by creating a law enforcement system free of corruption, which have dignity and can be trusted;

5. improving the quality of human life by education and training through "Indonesia-Smart"; increasing social welfare through "Indonesia-Work" and "Indonesia prosperous" by encouraging land reform, building and modernizing kampong houses, subsidizing multi-family dwellings as well as providing social security for the people in the year 2019;

6. improving people's productivity and competitiveness in the international market so that the nation can move forward and Indonesia can rise along with other Asian Nations;

7. realizing economic independence by mobilizing the strategic sectors of domestic economy;

8. reorganize the educational system by prioritizing the inclusion of civic education, history, character-building and patriotism;

9. strengthening kebhinnekaan (diversity in unity) and social restoration in Indonesia through education of diversities and facilitating dialogue between citizens.

Inclusive populism implicitly drew on the points 3 and 8 of the Nawacita, which included minimizing the gap between villages, urban peripheries and cities as well as between Java Island and other islands while still improving their economic independence. A clean government, a good education, law enforcement and the eradication of corruption, as well as a mental revolution are more associated with behavior change. A clean and competent bureaucracy is a pre-condition for the success of development. The problem is how to make the principles of Nawacita work in practice. It seems that the government under Jokowi is still looking for the best model to implement inclusive populism.

According to Nehru (2014, p. 84), Jokowi as a leader is going to put an emphasis on the improvement of the quality, effectiveness, integrity and inclusiveness of the Government, rather than implementing drastic economic reforms. In Jokowi's manifesto only two points out of the nine focuses on economic policy. To be more specific, Jokowi sees the reduction of poverty and uneven income distribution as an important issue. Jokowi's administration is also seeking to make a shift in the economy from the Yudhoyono era's consumption-led growth to investment-led growth. These efforts are targeted at establishing opportunities in new sectors through infrastructural development, industrialization and innovation (Singapore Institute of International Affairs, 2016, p. 14).

By reducing poverty and uneven income distribution, Jokowi used Sarbini Sumawinata approach in which Pancasila Economics theory should be originated from the study on poverty. Therefore, he offers the idea of people's economy as the concept of poverty eradication.

8.1. Periphery development

Periphery development starts with developing the villages. One solution is to provide funds directly to the villages from the national state budget. By 2015, villages in Indonesia received funds worth of IDR 20.8 trillion, in 2016 IDR 29.1 trillion, in 2017 IDR 70 trillion, in 2018 IDR 111 trillion and in 2019 it is planned to reach IDR 113 trillion. Village funds can be used to build infrastructure in local villages, satisfy basic social and economic needs as well as empowering village community. If the infrastructure of the village concerned is already in good condition, then the village funds should be used to strengthen the village's economy and welfare system. Strengthening the economy of the village can be done by setting up a village-owned enterprise running business units in accordance with the village's potentials (Kementrian Desa, Pembangunan Daerah Tertinggal dan Transmigrasi, 2016, p. viii.).

8.2. Financial inclusion

After the Asian financial crisis in 1997–1998, Indonesia changed its national development strategy in all areas, including the financial sector, from an "exclusive" orientation toward a more "inclusive" one. Financial inclusion represents broad access to financial services. This implies an absence of price and non-price barriers that might deter people from seeking financial services (Tambunan, 2015). The country has a strong reason for adopting financial inclusion as its new national development policy objective, given that (i) the financial sector is highly concentrated, i.e., dominated by banks (which are highly profitable and generally stay away from low-value transactions); (ii) only a small part of Indonesia's total population has access to banking services; and (iii) poverty is still a fundamental problem in Indonesia, mainly in remote areas.

Approximately 80% of Indonesia's poor have no access to formal financial services. Bank credit is only accessible to 17 percent Indonesian people, while micro-finance institutions only reach another 10 percent (Widianto, 2012).

Wibowo (2013, p. 9) suggests that 68 percent of the population of Indonesia have savings, while the remaining 32 percent do not. Reasons given for failing to save include having no money (79 percent), having no job (9 percent), being unable to see its benefits (4 percent), and having a lack of understanding about banking services (3 percent). Half of the people who have savings keep them with institutions in the formal financial sector, while the other half keep them in the informal sector. 47 percent of people having savings with financial institutions hold them with banks and only 3 percent use nonbanking financial institutions. Out of the 47 percent who save with a bank, 41 percent use their own bank account and the remaining 6 percent use the bank account of another person. Regarding loans, 60 percent of the population borrow money, and 40 percent do not currently borrow for the following reasons: not creditworthy (60 percent), no wish to borrow (20 percent), has no collateral securing the loan (4 percent), and for other reasons (16 percent). Out of the 60 percent who borrow money, 43 percent do so from the informal sector and 17 percent from banks.

The government of Indonesia strongly believes that improving access to finance and the use of financial services will raise people's welfare. One concrete course of action taken was the launch of the National Strategy of Financial Inclusion, in December 2010, by Bank Indonesia (BI), the Indonesian central bank. Since then, the government and monetary authorities, such as BI and the Indonesia Financial Services Authority (OJK) have had many high-level discussions on financial inclusion, which have focused on how to provide better access to banking services. They have recognized that one of the key issues is asymmetric information between the supply (banks) and the demand, especially for the poor (Tambunan, 2015).

8.3. Micro and small scale enterprises

Micro and small scale enterprises are abundant in Indonesia: in 2015, there were 3,385,851 micro enterprises and 283,022 small scale enterprises (BPS, 2016). They can contribute to alleviate poverty in Indonesia. Most of the country's entrepreneurs tend to operate in sectors – from retail, food and beverage, and hospitality to fishing, agriculture and mining – that do not require much technological innovation. For poorer social classes, entrepreneurship is often the most realistic alternative entering to formal employment, given that a lack of educational qualifications often acts as a barrier to labor market participation. Furthermore, entrepreneurs are typically held in high regard in local society.

8.4. Improving domestic inter-regional trade

At present, wages in Jakarta are relatively high, compared with other provinces in Indonesia. Industries in Jakarta started to shift from labor-intensive to more technology-driven production, such as automotive, steel, food, electronic equipment and computer industries. The governor of Jakarta had declared that Jakarta should move towards more advanced industries instead of focusing on labor-intensive ones, since migration to Jakarta already exceeded the carrying capacity of Jakarta. Labor wages were substantially increased by local governments, providing disincentive for the labor-intensive industries. Labor-intensive industries, such as garment industries started to move to Vietnam or Central Java.

As a country with a very vast geographical area, inter-regional trade needs to be improved. The phenomenon of Flying Gees can be applied within the territory of Indonesia. For example, the garment industry can be relocated from Jakarta to Central Java, where labor wages are lower and the land is cheaper than in Jakarta. In addition, village-owned enterprises can be encouraged to become suppliers for more advanced industries such as the automotive industry. This can be realized by taking into consideration differences of endowment and economic progress among provinces in Indonesia. Infrastructure improvements could encourage such efforts as outer islands have to deal with the lack of infrastructure (especially energy supply and transportation).

8.5. Inclusive business

Another strength of inclusive business in Indonesia is socio-preneurship, especially in Java. People here do not hesitate to encourage their neighbors to get involved in their own businesses. Increased financial accessibility can contribute to the acceleration of socio-preneurship. Development policy from the periphery and villages requires business networking, which can be done through inclusive business and necessitates intra-regional integration within Indonesia. In order for businesses in the rural areas to become more developed, they should further improve their linkages to national markets.

8.6. Improving education

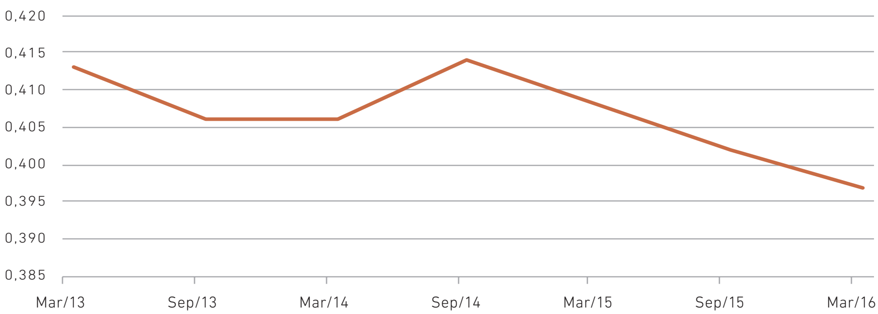
Education system plays a key role in the success of development in Indonesia in creating qualified bureaucracy, increasing the productivity of labor and preserving the specific values of Indonesia. The learning process in Indonesian schools is based on the approach of bivalent logic which is dichotomous in nature. Based on bivalent logic, confrontational populism is easier to be understood. However, it is easier to understand inclusive populism with a multivalent logic, so typical of Asia and of Java in particular. Tolerance can be advanced by means of multivalent logic.Problems that may be faced by Indonesia soon due to thinking being based on bivalent logic, such as a threat from neighboring countries (China and Australia) for Indonesia, the rise of religious radicalism, and the degradation of social networks in the community are used to support confrontational populism. Even so, based on past experiences, a variety of such issues are used by a tiny elite in Indonesia to mask their interests.

9. Preliminay results

The most recent detailed data indicate that since September 2014 the Gini ratio has declined and from March 2015 poverty rate too.

Figure 3

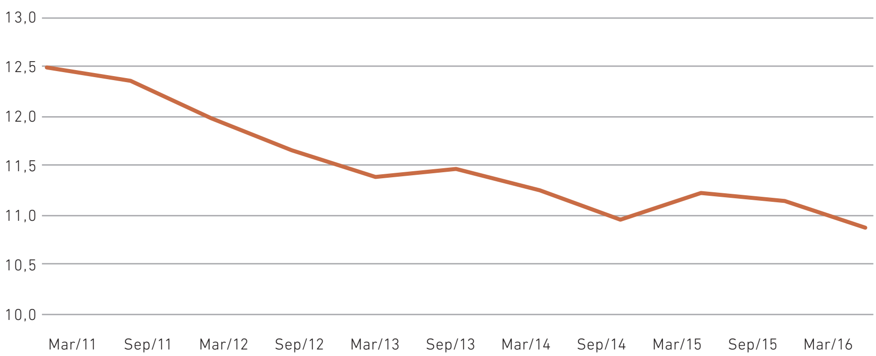
Gini Ratio (March 2013- March 2016)



Source: BPS, 2016

Figure 4

Poverty rate (%)



Source: BPS, 2016

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Trade between Indonesia and Hungary – Mutual Interests, Geographical limitations

Judit Kiss

Economic and trade relations between geographically distant countries are always difficult to be strengthened. High level diplomatic and economic meetings, negotiations and treaties may facilitate business relations to emerge. From this perspective, Hungary and Indonesia have developed a set of bilateral ties that can promote trade and economic interactions between the two countries.

International relations between Hungary and Indonesia have a 60-year long history with diplomatic ties established as early as 1955 and the Hungarian Embassy in Djakarta opening its doors in 1957. Since then, bilateral ties have been enhanced by high-level official visits: in 2002, the Indonesian President visited Hungary, in 2005 the Hungarian Prime Minister Ferenc Gyurcsány led an official delegation to Indonesia, in 2008 the President of Hungary László Sólyom made a state visit to Indonesia, in 2013 the President of Indonesia, Susilo Bambang Yudhoyono visited Hungary and recently, in February 2016, Hungarian Prime Minister, Viktor Orbán paid an official visit to Indonesia.

Economic and trade relations were significantly promoted by relevant bilateral agreements, such as: Agreement on Technical and Scientific Co-operation (1967), Agreement on the Avoidance of Double Taxation (1989), Agreement on the Mutual Protection of Investments (1992), Air Traffic Agreement (1994), Framework Agreement between Central Banks (1994), Co-operation Agreement between the Chambers of Commerce (2004), Agreement on the establishment of a Joint Business Council (2004), Economic Co-operation Agreement (2005), Co-operation Agreement between the Ministries of Foreign Affairs (2005) and Agreement on Tied Aid Credit (2013). Economic relations were enhanced by the activity of the Joint Commission on Bilateral Economic Co-operation (JCEC) established in 1988, by the Joint Business Council (JBC) set up in 2005 and by the opening of the Hungarian Trading House in Jakarta in 2015.

1. Development of bilateral trade relations

Despite the evident geographical distance between the two countries[1], Indonesia is considered one of the most significant and promising economic partners for Hungary in the Southeast-Asian region, and Hungary is the seventh largest trade partner for Indonesia in Eastern and Central Europe. Though bilateral trade had been steadily expanding for some time, it was significantly pulled back and faced several challenges due to international developments and economic problems. First, the Asian crisis of the late 1990s hit Indonesia the most in the South East Asian region and contributed to the decrease of the domestic demand. Second, Hungary's accession to the EU in 2004 caused trade to be diverted from other continents in favor of the single market of the EU, and lastly the world financial and economic crisis of 2008 has changed the global landscape for international economic relations. Since then, bilateral trade has been increasing rather dynamically with some fluctuations.

Hungarian exports to Indonesia increased from EUR 14.3 million in 2003 to EUR 45.0 million in 2015, while Hungarian imports grew from EUR 95.1 million to EUR 128.3 million (see Tables 1, 2). Despite the tripling of the Hungarian export values, the balance has not changed much and Indonesia still has a significant trade surplus: in 2015, it amounts to EUR 83.2 million (see Table 3).

Table 1

Hungarian exports to Indonesia, 2003-2015, million euros

	Food, beverages, tobacco	Crude materials	Fuel, electrical energy	Manufactured goods	Machinery, transport equipment	Total exports
2003	0.0457	0.065	0.273	2.727	11.239	14.349
2004	0.021	0.526	0.328	2.943	5.297	9.115
2005	0.008	1.229	0.472	3.613	7.152	12.474
2006	0.033	0.865	0.413	3.382	5.538	10.231
2007	0.0136	0.947	0.487	3.969	10.298	15.714
2008	0.0349	0.3788	0.686	3.534	5.267	9.899
2009	0.0118	0.869	0.457	4.291	33.582	39.211
2010	0.203	2.024	0.759	4.083	40.687	47.755
2011	0.454	0.465	0.633	3.676	46.882	52.111
2012	0.322	0.191	0.611	6.377	11.152	18.652
2013	0.413	0.433	1.023	6.033	21.486	29.387
2014	1.610	0.718	0.597	8.641	15.993	27.559
2015	2.544	1.239	0.659	8.845	31.738	45.025

Source: own calculations based on data of KSH (Hungarian Central Statistical office - HCSO)

1 The distance is around 15 000 km.

Table 2

Hungarian imports from Indonesia, 2003-2015, million euros

	Food, beverages, tobacco	Crude materials	Fuel, electrical energy	Manufactured goods	Machinery, transport equipment	Total imports
2003	2.989	3.319		28.670	60.127	95.104
2004	2.379	3.935	0.0396	20.504	66.221	93.078
2005	1.634	1.894		16.346	67.683	87.558
2006	0.904	2.588		15.013	53.543	72.047
2007	0.408	11.286		10.326	46.828	68.849
2008	0.618	11.703		10.224	38.489	61.034
2009	0.526	9.949	0.588	7.381	16.161	34.605
2010	0.9505	6.162		10.425	39.143	56.680
2011	2.245	21.392	7.680	9.772	36.789	77.877
2012	1.021	2.611	4.718	8.580	34.509	51.438
2013	0.978	3.937		12.369	54.769	72.054
2014	2.137	13.987		12.008	63.801	91.934
2015	2.524	42.920		16.981	65.831	128.256

Source: own calculations based on data of HCSO

Table 3

Hungary's trade balance with Indonesia, 2003-2015, million euros

	Food, beverages, tobacco	Crude materials	Fuel, electrical energy	Manufactured goods	Machinery, transport equipment	Total balance
2003	-2.943	-3.254	0.273	-25.942966	-48888002	-80755079
2004	-2.358	-3.408	0.288	-17.560642	-60923405	-83962509
2005	-1.626456	-0.665	0.472	-12.732886	-60531318	-75083199
2006	-0.870	-1.723	0.413	-11.630533	-48004676	-61815523
2007	-0.395	-10.339	0.487	-6.357718	-36529873	-53134812
2008	-0.584	-11.325	0.686	-6.690077	-33222126	-51134695
2009	-0.514	-9.080	-0.131	-3.090042	17420805	4605860
2010	-0.747	-4.139	0.759	-6.342259	1544294	-8925021
2011	-1.791	-20.927	-7.047	-6.095449	10094159	-25766373
2012	-0.699	-2.420	-4.107	-2.202722	-23357104	-32786074
2013	-0.566	-3.504	1.023	-6.336793	-33283164	-42666422
2014	-0.527	-13.270	0.597	-3.367034	-47808138	-64374943
2015	0,020	-41,681	0.659	-8.13541	-34,0926	-83,2311

Source: own calculations based on data of HCSO

Although objective statistical data are always the basis for economic analysis, in this case before drawing any far-reaching conclusions from the above figures, the lack of accuracy, transparency and reliability of trade statistics should be taken into consideration. Owing to the vast distances, a significant proportion of Indonesian exports arrive in Hungary via intermediaries and/or through illegal channels. This all means that official bilateral statistics do not fully reflect the volume of exports and imports between the two regions. Managed by intermediaries in Germany or the Netherlands, the incoming products from Indonesia are re-exported to the CEE countries. This type of trading is sometimes much easier for Indonesian producers, who are not familiar with the regional markets, business customs and language. As Dutch firms have strong positions in Indonesian trade due to the colonial past, large parts of Indonesian exports reach Europe through their corporate network.

Furthermore, since Hungary's accession to the EU in 2004, several products that originate from outside the EU are, in fact, statistically accounted for as imports from the EU, therefore actual Indonesian import may statistically be classified as originating from Germany or the Netherlands (Hegedüs–Kiss, 2014). Hungarian and CEE products may reach the Indonesian market either directly or indirectly, via the network of large transnational firms as intermediary products, to be built into the final product, or as final products, re-exported from other EU member states. It also means that the final destination of several intermediary products in the CEE (Hungarian) manufacturing export has not been covered by bilateral statistics. This supposition is confirmed (substantiated) by the data of the Hungarian Statistical Office: while in 2012 (when the largest difference was observed), for instance, the value of imports from Indonesia was, in fact, EUR 51.4 m, the value of products originating from Indonesia amounted to EUR 288.2 m. The gap between the value of imports arriving from Indonesia and originating from Indonesia varied between 1.8-5.6 times in the last 7 years (see Table 4). The size of this difference puts the importance of Indonesian import into perspective.

Table 4

Imports arriving vs. originating from Indonesia (million euros)

	2009	2010	2011	2012	2013	2014	2015
Arriving	34.6	56.7	77.9	51.4	72.0	91.1	128.0
Originating	137.6	173.0	251.7	288.2	246.3	188.1	235.0
O/A	4.0	3.0	3.2	5.6	3.4	2.1	1.82

Source: own calculations based on data of HCSO

Despite its dynamic development in foreign trade, Indonesia still remains a marginal partner for Hungary: in the last 13 years, on a yearly basis, not more than 0.07 percent of total Hungarian exports were directed to Indonesia, while 0.1-0.2 percent of its imports arrived from the South-East Asian country (see Table 5). This share is obviously insignificant, but given the intention of both governments to strengthen trade relations, the prospects theoretically can be favorable. This positive expectation is supported by the unified CEE market within the EU and the deepening integration in the South East Asian region.

Table 5

The share of Indonesia in Hungary's total exports and imports (percent)

Year	Exports	Imports
2003	0.04	0.23
2004	0.02	0.19
2005	0.02	0.17
2006	0.02	0.12
2007	0.02	0.10
2008	0.01	0.08
2009	0.07	0.06
2010	0.07	0.09
2011	0.07	0.11
2012	0.02	0.07
2013	0.04	0.10
2014	0.03	0.12
2015	0.05	0.16

Source: own calculations based on data of HCSO

2. Commodity structure of bilateral trade

2.1. Hungarian exports to Indonesia

The bilateral trade commodity structure is a "sophisticated" one, i.e. it is dominated by industrial products. 90 percent of Hungarian exports consist of processed goods with a declining share of machinery and transport[2] equipment (falling from 78 percent to 58 percent between 2003 and 2014, and rising again to 70 percent in 2015), and with an increasing share of manufactured goods (growing from 19percent in 2003 to 31percent in 2014 and falling to below 20 percent in 2015) (See Table 6).

If one considers Hungarian export figures by main product categories, one can get a deeper insight into the actual commodity structure. Within the food, beverages and tobacco product category (SITC[3] 0+1) the most important export items are tobacco and tobacco products with a 65 percent share. Apart from tobacco, sugar, sugar preparations and honey are worth to be mentioned. Crude materials and fuels (SITC 2+3+4) are insignificant. Within the manufactured goods product category (SITC 5+6+8) chemicals (medicinal, pharmaceutical, perfume materials) are the most important items providing more than 50 percent of the export value of the product

2 A long time ago Hungarian *Ikarus* buses used to be exported to Indonesia and maintenance services were also provided for years.

3 SITC = Standard International Trade Classification.

category. More than 20 percent are accounted for by the export of professional, scientific and controlling instruments and apparatus. As far as the machinery and transport equipment product group (SITC 7) is concerned, almost 60 percent is attributed to the export of power-generating machinery and equipment. The second most important item is electrical machinery, apparatus and equipment (electrical, electronic and optical products), while the third one is industrial machinery and equipment, machine parts included.

Table 6

Commodity structure of Hungarian exports to Indonesia (percent)

	Food, beverages, tobacco	Crude materials	Fuel, electrical energy	Manufactured goods	Machinery, transport equipment	Total exports
2003	0.32	0.46	1.90	19.00	78.32	100.00
2004	0.23	5.77	3.59	32.29	58.11	100.00
2005	0.06	9.86	3.78	38.96	57.33	100.00
2006	0.33	8.45	4.04	33.06	54.13	100.00
2007	0.09	6.03	3.10	25.26	65.53	100.00
2008	0.35	3.82	6.93	35.70	53.20	100.00
2009	0.03	2.22	1.17	10.94	85.64	100.00
2010	0.42	4.24	1.59	8.55	85.20	100.00
2011	0.87	0.89	1.21	7.05	89.97	100.00
2012	1.73	1.02	3.28	34.19	59.79	100.00
2013	1.40	1.47	3.48	20.53	73.11	100.00
2014	5.84	2.60	2.17	31.35	58.03	100.00
2015	5.64	2.75	1.46	19.65	70.50	100.00

Source: own calculations based on data of HCSO

2.2. Hungarian imports from Indonesia

Indonesian exports to Hungary are also dominated by industrial products, though to a lesser extent. In 2015, processed goods accounted for 63 percent of Hungarian imports from Indonesia. However, the composition of this product category was changing in an opposite way compared to the structure of Hungary's exports to Indonesia: the share of manufactured goods decreased from 30 percent in 2003 to 13 percent in 2015, while the proportion of machinery and transport equipment increased from 63 percent in 2003 to 76 percent in 2013, then dropped to 51 percent in 2015 (see Table 7).

Table 7

Commodity structure of Hungarian imports from Indonesia (percent)

	Food, beverages, tobacco	Crude materials	Fuels, electrical energy	Manufactured goods	Machinery, transport equipment	Total imports
2003	3.14	3.49	0.00	30.15	63.22	100.00
2004	2.56	4.23	0.04	22.03	71.15	100.00
2005	1.87	2.16		18.67	77.30	100.00
2006	1.25	3.59		20.84	74.32	100.00
2007	0.59	16.39		15.00	68.02	100.00
2008	1.01	19.17		16.75	63.06	100.00
2009	1.52	28.75	1.70	21.33	46.70	100.00
2010	1.68	10.87		18.39	69.06	100.00
2011	2.88	27.47	9.86	12.55	47.24	100.00
2012	1.99	5.08	9.17	16.68	67.09	100.00
2013	1.36	5.46		17.17	76.01	100.00
2014	2.32	15.21		13.03	69.40	100.00
2015	1.97	33.46	0.00	13.24	51.33	100.00

Source: own calculations based on data of HCSO

In order to get a more accurate insight into the commodity structure of Hungary's import from Indonesia, the broad product categories were disaggregated. The food, beverages and tobacco product category is dominated by food items with a share of 90 percent. 60 percent of Hungary's food imports from Indonesia consist of vegetables and fruits, followed by sugars, sugar preparation, coffee, cocoa and spices. The leading product of Hungary's crude materials imports is crude rubber with a total share of 96 percent. In contrast to Hungary the animal and vegetable oils product category is also important due to Hungary's vegetable oil (palm oil) imports accounting for 95.6 of the product category in 2015. The above figures show that Indonesia's agricultural products and raw materials exports to Hungary were not diversified at all, they have a monocultural nature meaning that exports highly depended on a single product.

As far as Indonesia's manufactured goods exports to Hungary is concerned, it is more diversified. The main items are organic chemicals, textile yarn, fabrics, rubber products, articles of apparel and clothing accessories, footwear, leather, rattan, plastic products and handicraft products.

Around 50 percent of Indonesia's machinery and transport equipment exports to Hungary are accounted for by electrical machinery, apparatus and appliances. Within the other 50 percent office machines, automatic data processing machines, telecommunication and sound recording apparatus and equipment are significant.

2.3 Commodity structure of trade balance

A peculiar feature of Hungary's trade with Indonesia is that Hungary has a trade deficit in all product categories with the exception of machinery and transport equipment in some years.

This structure seems to be similar to other trade relations Hungary maintains with rapidly developing and emerging economies from the South-East Asian region.

3. Prospects for strengthening trade relations

The future performance of bilateral trade is determined by the geographical location, the natural and economic endowments of the two countries as well as by their economic and foreign trade policy, including direct and indirect trade means and promotion strategies.

3.1. Mutual interests

Both countries have a strong interest in developing foreign trade for various reasons. Hungary is a small, land-locked, export-oriented open economy with high reliance on external trade in goods and services. Its foreign trade relations are dominated by the countries of the European Union: in 2015, eleven years after the accession, 79 percent of the country's exports are directed to the EU, and 76 percent of its imports arrive from the European Union. Hungary seeks to diversify its economic relations. This ambition is echoed in Hungary's Eastern and Southern Opening strategies (Discourse…2013) in that conscious efforts are made to boost economic relations with the Far East and Africa. Although this trade diversification strategy has not led to a skyrocketing of trade figures due to several reasons, such as the growing diversification competition among the European countries, but the prospects are promising.

As Indonesia is located at the heart of an emerging economic region with a large market and increasing effective demand, Indonesia is an ideal potential partner for Hungary and a gateway to enter ASEAN market. It has a dynamically expanding economy: in the last ten years (2003-2013) Indonesia's yearly GDP growth rate was around 5-6 percent (Vay-Farkas, 2014); in 2014, the growth rate was reported to be 5.0 percent, while in 2015 it dropped to slightly under 5 percent, but future predictions are generally favorable. After China and India, Indonesia is the third most dynamically developing country in Asia. The country is rich in natural resources and does have a vast market with a population over 255 million (2015) and with an emerging middle class.

The country is seen as politically stable democratic actor of the world economy, consequently it might well serve as a focal point for Hungary in the ASEAN region. Indonesia, as a member of the ASEAN, and Hungary as an EU member might provide two pillars of the co-operation between the ASEAN and the EU. As a member of the G20, Indonesia might play an important role in the changing architecture of the world economy too.

Although the Hungarian market is relatively small with a population of 10 million only, making an entry into Hungary provides access to the vast EU market of more than 500 million people where Indonesian products enjoy preferential tariff treatment owing to the General System of Preferences.

As a consequence, Hungary might serve as a gateway to the West for Indonesia and a perfect hub in the Central and Eastern European region. This latter region can be seen as a rapidly expanding market ready to absorb increasing amount of Indonesian products.

Of course, transport infrastructure needs to be further developed – transit routes from Adriatic Sea –, but given the very developed logistics infrastructure in Central Europe, and especially in Hungary, the opportunity for this development has opened up.

3.2. Trade promotion means

In order to boost bilateral economic and trade relations, different administrative, institutional and economic instruments are used. In recent years, the Hungarian foreign trade strategy and its promotion system has been significantly restructured. *Diplomacy*, such as exchange of high level official visits, delegations; bilateral ministerial meetings, business forums, signing international treaties, agreements and memorandums, provides the framework for economic cooperation and foreign trade, and plays an important role in creating the necessary favorable background. A good example is the recent (February 2016) state visit of Hungary's Prime Minister, Viktor Orbán to Indonesia, accompanied by the Ministers of Trade, Agriculture, Economy, National Development and Education. Indonesia was represented by President Joko Jokowi Widodo along with the Ministers of Trade, Foreign Affairs, Energy and Mineral

Resources, Maritime Affairs and Fisheries, Research and Technology, and higher education was also represented in the Indonesian delegation. The Hungarian Business and Investment Forum, organized by the Indonesian Chamber of Commerce and Industry, and the Hungarian Trading House, was attended by 150 businessmen and representatives of professional institutions (Indonesia to boost….2016; Indonesia-Hungary Business…2016). As a result, business contracts were signed at a value of US$ 37.6 million in the field of infrastructure building, informatics and telecommunications.

Different professional bodies and institutions, such as the Hungarian Chamber of Commerce, the Hungarian National Trading House, the Hungarian Investment Promotion Agency (HIPA) and the Indonesian Trade Promotion Centre (ITPC) also play an active role in enhancing economic cooperation.

One of the most recent important developments in this field was the opening of the Hungarian National Trading House in Jakarta in October 2015. Its main tasks are: to monitor the market and assess the demand for Hungarian goods, technologies, know-how and services; to explore potential business opportunities for Hungarian companies; to support exporting enterprises in finding business partners; to provide competitive offers and to conduct business negotiations on behalf of the companies; to provide complete business services from the offers to the contracting and follow-up stages. The Trading House provides financial support to Hungarian enterprises in order to encourage their participation in fairs and exhibitions in Indonesia and to help them make use of business opportunities.

According to the information given for this research by the representative of the Hungarian National Trading House, the Jakarta office seeks to promote market access of the following goods and services:

1. food products (dairy, honey, sunflower oil, meat products, snacks, sweets, drinks),
2. green technology,
3. agro-information solutions,
4. ICT products and services.

While in the short run there was an increased interest for food products and green technology, in the longer run exports of technology and innovative solutions might be the pillars of Hungarian export activity. In July 2016, the Hungarian Trading House had a national stand in the Indonesia International Smart City fair in Surabaya and organized business forums in two other cities of Java.

The Indonesian Trade Promotion Centre (ITPC) in Budapest also plays an important role in promoting bilateral trade. It provides information about Indonesian products, companies, government regulations and procedures, coordinates business contacts, participates in trade promotions, does business network development with trade institutions etc. (For further details see the homepage of the Indonesian Trade Promotion Centre.)

The Hungarian Investment Promotion Agency (HIPA) encourages foreign direct investment by providing high quality support through the whole investment process, from start to finish, in the decision making, implementation and operational phase, free of charge.

Given the fact that Indonesia is a lower-middle income country (according to the World Bank, per capita GDP was US$ 3,491 in 2014), it is eligible for foreign aid provided by the DAC (Development Assistance Committee) countries, other non-DAC donors and multilateral organizations. As Hungary is an OECD country and a member of the European Union, it is obliged to provide foreign aid to the countries on the DAC List of ODA (Official Development Assistance) recipients. In 2010, for instance, Hungary provided 0.13 percent of its bilateral ODA to Indonesia (Kiss, 2011).

In March 2005, the Government of Hungary offered a Tied-aid Credit Facility to Indonesia after the tsunami. In 2013, a new proposal was offered with a value of US$ 50 m for financing mutually approved projects. The offer was accepted by the Government of Indonesia and the implementation started in 2015. This concessional credit line might promote exports of Hungarian goods and services as well as transfer of technology and skills. The first program to be realized was a Water Supply Program and Small Water Treatment Plant for Water Scarcity Area in Indonesia (Fleit–Melicz, 2015).

Apart from tied aid credit, the Hungarian EXIM Bank provides a credit facility of euro 200 million for developing intra-firm cooperation between Hungarian and Indonesian enterprises. As this is a substantial amount, Hungarian and Indonesian firms must present viable business plans in order to gain access to it.

In our globalized world, foreign direct investment (FDI) plays a crucial role in generating and enhancing foreign trade as market seeking is one of the motives of foreign investment. As Hungary is a resource-poor country, it is interested in attracting foreign capital via providing conducive business environment: in 2014, the FDI stock equaled US$ 98.36 billion that is 71.7 percent of the country's GDP (UNCTAD, 2015).

At the same time, Hungary is a small, open economy seeking profitable investment opportunities and expanding markets. Up till now Hungary's investment in Indonesia was rather small: in the period between 1999 and 2009 it was valued at US$ 0.4 million. In 2014, it registered US$ 0.5 million in two tourism projects. Though Indonesia is not the easiest place to do business (Doing Business 2016..., Ease of Doing Business in Indonesia, 2016),[4] there are opportunities to increase FDI flow between the two countries.

3.3. Trading across borders

The above analyzed political, institutional and economic factors provide only a framework for bilateral trade expansion. Its utilization, time and costs depend on the local regulations.[5] According to the World Bank, "excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers" (Doing Business, 2016). The time and costs are associated with three sets of procedures: documentary compliance, border compliance and domestic transport. Documentary compliance means obtaining, preparing and submitting documents during transport, clearance, inspection and port or border handling in country of origin, plus documents required by origin, destination and transit economies. Border compliance includes customs clearance and inspections, plus port or border handling. Domestic transport covers loading and unloading of shipment, transport between warehouse and terminal/port, transport between terminal/port and border.

If one compares the above-mentioned indicators for Indonesia and Hungary (see Tables 8 and 9), one can conclude that trading across Indonesian borders is rather slow and costly even compared to other Asian countries, such as China, the Philippines, let alone Malaysia. In contrast, trading across Hungarian borders is very easy, quick and involves no additional cost.

4 As far as doing business is concerned, in 2015 Indonesia was ranked 120th out of 189 countries.
5 In the case of Indonesia, exports to the country is bound to a license or registration. The average import duty is around 6 percent. (See: [online form:] www.tariff.findthedaata.org/1/62/Indonesia)

Table 8

Time and cost for trading across borders in Indonesia

Indicator	Indonesia DB2016	China DB2016	India DB2016	Malaysia DB2016	Philippines DB2016	Best performer globally DB2016
Trading Across Borders (rank)	105	96	133	49	95	Denmark (1)*
Trading across Borders (DTF Score)	64.75	69.13	56.45	86.74	69.39	Denmark (100)*
Time to export: Border compliance (hours)	39	26	109	20	42	15 Economies (0.00)*
Cost to export: Border compliance (US$)	254	522	413	321	456	18 Economies (0.00)*
Time to export: Documentary compliance (hours)	72	21	41	10	72	Jordan (0.00)
Cost to export: Documentary compliance (US$)	170	85	102	45	53	20 Economies (0.00)*
Time to import: Border compliance (hours)	99	92	287	24	72	19 Economies (0.00)*
Cost to import: Border compliance (US$)	383	777	574	321	580	28 Economies (0.00)*
Time to import: Documentary compliance (hours)	144	66	63	10	96	21 Economies (1.00)*
Cost to import: Documentary	160	171	145	60	50	30 Economies (0.00)*

Source: based on Doing business 2016, Economic Profile 2016, Indonesia, 13th edition, World Bank, Washington, p. 14.

Table 9

Time and cost for trading across borders in Hungary

	Hungary	OECD high income
Time to export: Border compliance (hours)	0	15
Cost to export: Border compliance (US$)	0	160
Time to export: Documentary compliance (hours)	1	5
Cost to export: Documentary compliance (US$)	0	36
Time to import: Border compliance (hours)	0	9
Cost to import: Border compliance (US$)	0	123
Time to import: Documentary compliance (hours)	1	4
Cost to import: Documentary compliance (US$)	0	25

Source: Doing business 2016, Economic Profile 2016, Hungary, 13th edition, World Bank, Washington, p. 74.

4. Prospective fields of bilateral trade and economic cooperation

When analyzing the perspective for trade between very different countries, it is always a difficult matter to identify the sectors or products that might have business potential. Flagship or unique products always have market potential. Special coffee in the case of Indonesia or water technologies in the Hungarian case are obvious, but we need more diversified product portfolio which at the same time can reach substantial volume too. The followings seem to be the most prospective fields for trade expansion and economic co-operation between Hungary and Indonesia.

4.1. Agriculture, food processing, fisheries, aquaculture

Agriculture has a special role in both countries' economies. The geographical and climatic conditions of Hungary are ideal for agricultural production. The high proportion of arable land, the fertile soil, outstanding yields and the high level of technology make it possible to produce for export. Hungary has a rich water supply with one of the largest underground fresh water reserves in Europe. The share of agriculture (around 4 percent in the GDP in 2014) is above the EU-average, but it is evidently far below Indonesia's 14-15 percent, which corresponds to the different development levels and economic structures of the two countries. Hungarian agriculture is export-oriented, meaning that a significant part of its production, especially of arable crops, fruits and vegetables, is destined for external markets, mainly within the European Union. Around 70 percent of Hungarian agricultural exports were directed to the EU countries.

Owing to its exceptionally good agro-ecological endowments, Hungarian agriculture is characterized by a diverse production structure. The main products include cereals[6] (wheat and maize), potato, oilseeds, fruits and vegetables and wine grapes. Animal husbandry (cattle, cow, pigs, poultry and sheep) accounts for around 40 percent of the total agricultural production. A strictly controlled certification system is applied in both agriculture and the food industry. Growing genetically modified crops is prohibited. The country's GMO-free status is stipulated by the Constitution of Hungary.

The important role of agriculture in Hungary's foreign trade is demonstrated by the fact that between 2003 and 2015 the share of agricultural products in Hungarian imports increased from 3.1 to 5.2 percent, while in exports it grew from 6.5 to 7.3 percent. The most important Hungarian agricultural export products are cereals, meat, animal fodder, vegetable produce, oilseeds, beverages, and fats and oils. The main import items are meat, animal fodder, fats, oils, cereal and dairy products.

In Indonesia agriculture is also an important export sector: while in 2006 18 percent of the country's export revenues derived from agriculture, by 2013 this figure has risen to 24 percent (Aid for trade at a glance…2015). As Hungary and Indonesia are located in different climatic zones, their production structure is complementary rather than competitive, providing solid grounds for increased exchange of agricultural and food products. Though agricultural products play a minor role in bilateral trade, the trends are promising: while in 2003 only 0.32 percent of Hungarian exports to

6 Occupying 70 percent of arable land.

Indonesia consisted of food and beverages, by 2015 the share of this product category has increased to 5.64 percent. (See Table 6) Hungarian agricultural imports are still marginal, adding up to around 2 percent of total imports from Indonesia.

The highly developed Hungarian agriculture is coupled with a well-developed food processing industry, the main branches of which (like vegetable oil, meat and meat processing, dairy industry, sugar industry, beverages, tobacco) have been acquired by big multinational companies. As in Indonesia, food consumption is expected to increase due to population growth and higher income levels, the Hungarian food industry is ready to deliver food products and beverages. Food consumption patterns are changing in both countries, which also provides opportunities for agricultural trade. Consuming palm oil and coconut oil has recently become very fashionable in Hungary due to health reasons and there is also an increasing demand for tropical fruits, tea, cacao and coffee. When exporting food items to Indonesia, Hungarian exporters should keep in mind that 90 percent of the population in Indonesia are Muslims requiring specifically prepared food (like halal), and as a consequence, of that, important Hungarian product groups simply cannot be sold there.

Apart from the exchange of agricultural products, Hungarian experience and expertise in agricultural development might also contribute to enhanced co-operation in agriculture, food industry and rural development via technology transfer. The main fields are as follows: sunflower and maize cultivation, grain technology, animal husbandry, slaughterhouse and meat processing technology, turnkey dairy processing plant/dairy processing technology, aquaculture, fishery, irrigation, water management, and storage.

During the recent official visit of the Hungary's Prime Minister to Indonesia the Indonesian Minister of Agriculture encouraged Hungary to invest in wheat plantations as Hungary has outstanding records in wheat production and as in Indonesia the demand for wheat is increasing due to the changing consumption pattern. However, Indonesian wheat production cannot meet increasing domestic demand due to local climatic conditions. The country needs to import 7 million tons of wheat every year, consequently Hungarian wheat export is welcome, provided it can compete with the biggest suppliers (USA, Australia, Canada and Russia). In addition to wheat, Hungary might boost sugar, corn and beef production in Indonesia via technology and knowledge transfer (Indonesia & Hungary, 2016).

During the above-mentioned state visit, the Indonesian partner confirmed its interest in cooperation in fishery. In 2004, a Technical Cooperation Agreement was already concluded between the Indonesian Directorate General of Aquaculture (Ministry of Marine Affairs and Fisheries) and the Hungarian Research Institute for Fisheries, Aquaculture and Irrigation (HAKI). In February 2016, a memorandum of understanding on fisheries and aquaculture was signed. With due regard to the changing consumption pattern, Indonesia aims to expand its fisheries market to Hungary and to cooperate in the maritime sector. The cooperation includes fish farming, working together on special spices for fish breeding as well as processing technology (Indonesia eyes fish market... 2016).

4.2. Water management and renewable energy

As Hungary has more than 200 years of experience in water management, while for Indonesia clear water and reliable water supply are strategic issues, water management is one of the most prospective fields of cooperation. As a consequence of the recent high level visit, Hungary provides US$ 36 million water supply projects to 34 districts in Indonesia and intends to take part in the modernization of the water supply system of the capital of Indonesia. (Indonesia & Hungary, 2016). Hungarian companies bring the technology and they install it together with Indonesian companies. The logistics, the pipelines will be provided by local companies.

Indonesia is interested in exploring greater cooperation in the renewable energy sector with special reference to solar energy. Hungary is interested in investing in renewable energy, including solar energy. Indonesia plans to build 5000 megawatt solar power plants in the next four years, which offers great opportunities to Hungary. Hungary is planning to construct a 5-megawatt solar energy plant in North Sumatra valued at US$ 20 million and to cooperate in solar cell manufacturing (Indonesia intensifies... 2016).

4.3. Other cooperation areas

The information and communication technology is an emerging field for trade and cooperation as digital economy is a dynamically developing branch of the Indonesian economy. Hungarian technologies are offered in the field of e-education, communication softwares, radar-modernization, health and e-government. In September 2015, the Hungarian ambassador to Indonesia negotiated with the mayor of Bandung about creating an ICT incubation center for displaying innovative solutions provided by Hungarian small and medium sized enterprises in connection with the Smart

City concept. Such Hungarian solutions can provide the Indonesian city management with services such as smart lighting system, waste management, mobile parking etc. Hungarian IT firms are going to make development for Indonesian IT companies valued at US$ 1.6 million. (See the detailed analysis of trends related to digital industry in this volume: on p.151.)

The importance of education was highlighted in 2016 by signing a memorandum of understanding on higher education exchange programs. Hungary grants 50 full scholarships for Indonesian students to study in Hungary in the fields of agriculture, engineering, economics and medicine. Although it is a small grant, cooperation in the field of education might contribute to upgrade Indonesia's Human Development Index (HDI) which is medium compared to Hungary's high position. In 2015, the HDI for Indonesia was 0.684 (110th place), while Hungary scored 0.828 (44th place) (Human Development Report, 2015).

Apart from agriculture, water and energy sectors, further promising fields of co-operation are environmental protection, knowledge-based industries, infrastructure building, pharmaceutical and beauty industries, and tourism.[7] The research in these prospective fields and the elaboration of concrete business plans should be a priority in the next few years.

5. Conclusions

Although foreign trade between Hungary and Indonesia has developed dynamically throughout the last decade, the two countries have remained marginal partners. However, prospects for trade expansion are promising. The two countries are committed to strengthen economic cooperation and boost mutual trade. Indonesia is considered to be one of the most significant economic partners for Hungary in the Southeast-Asian region and Hungary is the seventh largest Indonesian trade partner in Eastern and Central Europe.

High level diplomatic negotiations and economic meetings can contribute to the strengthening of business relations. The future performance of bilateral trade is determined by the geographical location, the natural and economic endowments of the two countries as well as by their economic and foreign trade policy, including direct and indirect trade promotion means and strategies.

7 In 2014 6,392 Hungarian citizens visited Indonesia.

The prospective fields for trade expansion and economic cooperation are: agriculture, food processing, fisheries, aquaculture; water management and renewable energy; digital economy; higher education and joint research. Further promising areas of cooperation are environmental protection, knowledge-based industries, infrastructure building, pharmaceutical and beauty industries, and tourism. Research in these prospective fields as well as the elaboration of concrete business plans should be a priority in the next few years.

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Doing Business in Hungary and Indonesia – An Intercultural Approach

Judit Hidasi

Business is business the world over and in every country, but the way it is conducted differs widely. Too often, businessmen assume that their partners have the same business values as themselves – but that is not correct. As the Indonesian saying goes "*Lain ladang lain belalang, lain lubuk lain ikannya*" (Different fields have different insect, different ponds have different fish.) meaning that different countries have different people, different people have different values and different behavior patterns. One of the biggest challenges of doing business in a foreign country is learning how to operate in a different cultural setting. For those who wish to take advantage of the rapid economic growth taking place in Indonesia and for professionals who wish to develop successful partnerships with Indonesians, this brief overview of the differences between Hungarian and Indonesian business cultures, values and expectations might be of use. And vica versa, for those Indonesians and for those professionals from Indonesia who intend to develop links with Hungarian partners in the field of education, science or industry, this comparison of cultural values and characteristics might be in place. All in order to minimize misunderstandings, miscommunication or clashes, that all might result after all in loss of time, energy and relations.

1. The imperative of understanding cultural traits

Nothing defines a culture as distinctly as its language, and the part of a language that best encapsulates a society's values and beliefs is its proverbs. Hence, from time to time, we will be quoting well-known proverbs of both cultures – both in the original language and in its English translation with the aim to reflect the collective wisdom of their people.

The largest archipelago and the fourth most populous nation in the world, Indonesia is comprised of approximately 17000 islands. It has the world's largest Muslim population (over 200 million). It is an extremely diverse country where ethnic groups are joined by a national language, *Bahasa Indonesia* (Jones et al., 1977), and the country's motto (in old Javanese language: *Bhinneka tunggal ika)***:** *Unity in Diversity.*

Indonesian, or Bahasa Indonesia as it is known by the locals, is the official language of the Republic of Indonesia. Indonesian, along with its closest relative, the Malay, developed from Old Malay, an Austronesian language actually spoken in the kingdom of Srivijaya on the island of Sumatra.

Foreign companies are attracted by the large population, rich natural resources (gas, oil and many others) and political stability. Business opportunities continue to expand as Indonesia has made major progress in recent years in becoming a major player in the world's markets. However, doing business successfully in Indonesia requires a comprehensive understanding of Indonesia's unique fundamental beliefs and values that affect daily life and business practices. Indonesia has a rapidly changing cultural landscape. Behaviors are dependent upon age, exposure to global ideas, region of origin as well as education and socio-economic background. Indonesian business culture is diverse and heterogeneous depending upon the region of the country, the industry, and the ownership of the company.

In Indonesia business is always personal, motivation depends strongly on more personal factors than in Western European countries. The axiom of successful business in Indonesia that "*never write when you can call and never call when you can visit*".

If compared, Hungary falls in between the two extremes, but is still slightly more relation-oriented than transaction-oriented. Hungary's (10 million inhabitants) location – on the crossroads between East and West, North and South – puts the country into the virtual focus of cultural influences. For many centuries, Hungarians were forced to cope with an ever-changing environment (geographically, politically and culturally); hence ingenuity was vital to survive. This ability to adjust to contingencies can be summed up, not without irony, in the saying: "*A Hungarian is one who enters the revolving door after you and emerges in front of you*". This saying also implies that the ability to circumvent the rules might be used for bad as well as good purposes.

Hungary has a rich cultural heritage, with a tradition of world-class arts, music and cuisine. Hungary's transition to an open market economy (since 1990) has given rise to improvements in trade and investment regimes. The business culture encourages entrepreneurship and risk-taking: capital markets are open to foreign investment.

Hungarians are traditionally known for being good fighters, but less successful strategists. In communication and in business relations, this attitude might sometimes lead to surprisingly frank utterances that may lack tact. "Luck belongs to the brave" (*Bátraké a szerencse*) – goes the Hungarian saying, but in certain situations some cautiousness would be in place. In educational and academic settings, students do not fear direct and outspoken confrontation with their superiors – once they are convinced they are right. Pride prevents Hungarians from compromising – servility and adulation are regarded with equal disdain. In return, they expect respect from others: respect for the honest display of their feelings and respect for what they have achieved. In historical perspective, this attitude has not proved very helpful in attaining their goals, neither in diplomacy nor in business. Hungarians often exhibit ambivalence towards their international partners. They are apprehensive of failure, averse to openly saying "no", but condescension also irritates them.

2. Understanding cultural dimensions for business purposes

What are our business partners likely to be if they are Indonesians (Hirata, 2009) and what are they likely to be if they are Hungarians (Bart, 1999; Lackfi, 2013)? For comparison, we turn to the 6-dimensional model of the Dutch intercultural management scholar Geert Hofstede (Hofstede et al., 2010). He identified six cultural dimensions that most affect the way how people behave and act in business situations (Figure 1).

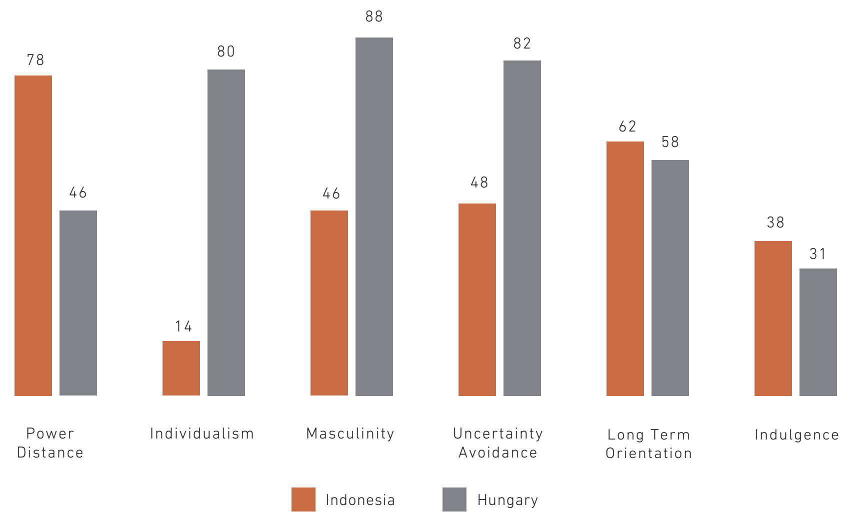
2.1. Power distance

Power distance index shows the extent to which the less powerful members of organizations expect and accept that power is distributed unequally.

Indonesia scores high on this dimension (78) which means that people accept being dependent on hierarchy and acknowledge unequal rights between power holders and non-power holders. Power is centralized and managers count on the obedience of their team members. Employees or inferiors expect to be told what to do and when. An example from the field of education:

Figure 1

Indonesia in comparision with Hungary



Source: www.geert-hofstede.com

Three students from Indonesia have come to their Hungarian professor to request that he spend more time lecturing and less on class discussion. They prefer to be told what to know and how to interpret things instead of being involved in speculating on certain issues.

Indonesians respect hierarchical relationships (status, position, and age) that are also part of the business culture where managers often take on a patriarchal role. Subordinates expect to be given clear, explicit directions regarding duties and deadlines. Decisions are made through discussion and consensus, with a great deal of emphasis placed on maintaining group harmony. Most decisions are nevertheless taken and finalized at the top of the hierarchy and passed down. Decision makers' opinions and orders are as a rule not directly questioned. Superiors are often called *bapak* or *ibu*, the equivalent of father or mother, sir or madam. Titles tell Indonesians where to place their partner relative to themselves, which is vital in a culture where status is important. The partner's title should be readily understood and unambiguously displayed on his business card.

If compared, Hungary scores relatively low on this dimension (46). Still, deference is paid to those in positions of authority. Visible signs of respect for hierarchy are made clear in the way people are addressed. In general, honorific, academic and professional titles are used with the surname and moving to a first-name basis without an invitation is considered to be rude. The way you greet someone determines how he or she will welcome you: *Amilyen az adjon isten, olyan a fogadj isten!* – says the Hungarian proverb. People prefer to act independently, hierarchy is applied mostly for convenience reasons. Management facilitates and empowers, coaching leadership would be the ideal case. Employees expect to be consulted. Control is disliked and attitude towards managers is informal: communication is participative. Still, decisions are made at the top of the company and employees do not publicly question a decision made by someone senior to them.

2.2. Individualism

This dimension refers to the degree of interdependence a society maintains among its members. Based on whether people´s self-image is defined in terms of "I" or "We", cultures can be classified as individualist or collectivist.

Indonesia, with a low (14) score, is a collectivist society. This means there is a high preference for a strongly defined social framework in which individuals are expected to conform to the ideals of society and the in-groups to which they belong. Indonesians see themselves as members of a group first and as individuals second. They define themselves in a group based on both family and place of birth. Extended families are the backbone of the culture since they provide emotional security to their members. Traditionally, several generations of the family live under the same roof. Family members are expected to help each other with financial difficulties and to offer a place to live if an extended family member needs support. Parents exert control over their children, even if they move away from home to work.

In contrast, Hungarians (score of 80) see themselves as individuals first and as members of a group (family, organization, nation, etc.) second. Although family ties are outstandingly strong in Hungary in family-related issues (child-raising, elders' care, etc.), if compared to other European societies, when it comes to business, Hungarians tend to rely less on their families as a resource and prefer to be rewarded for their own achievements.

How many persons to invite? If you want to host a party for 50 people, you have to act differently as for the number of invitees in Indonesia and in Hungary. In an Indonesian setting you should send out no more than 40 invitations – and you can expect 55 people to arrive. People might like to bring along their friends or relatives as well.

In a Hungarian setting you should send out 60-65 invitations – and you will receive approximately 50 guests to arrive. People might decide not to attend if they have something else to do.

Employees in Indonesia are rewarded in groups; promotions will draw heavily on seniority, relationships, and experience, and not necessarily on performance and achievement. The decision-making process may be slow, as many individuals across the organization will need to be consulted. However, once consensus is reached, implementation may be surprisingly rapid. In Hungary, as in most individualistic societies, the employer/employee relationship relies on a contract, based on mutual advantage: hiring and promotion decisions are supposed to be decided on merit only.

Indonesians are careful to show respect and to avoid situations that could embarrass their business partner. They seek to show respect and to deliberately avoid putting an emphasis on another person's imperfections. Doing this would make the other lose his or her face, which would also bring shame to the group the other belongs to (family, department, etc.). This concept in Indonesian business culture is called *malu*, literally translated as shyness or feeling embarrassed, but in the business context it also means social shame or the loss of face. The idea of loss of face is external, as it also involves an element of self-reflexivity; it is how one believes others perceive him or her. The idea of social shame is internal; it is how one perceives himself or herself.[1] It is the inner feeling that one is ashamed of one's actions and that one really did do something wrong to let the group down. Although more individualistic than their parents, generation Y (born between 1980 and 2000) people still understand everyone's need to retain face and avoid shame. They want to be heard, but are generally willing to do so in a manner that does not negatively impact others. This attitude might be subject to change though in the future as values of the upcoming generations are different.

In Hungarian business culture offence causes guilt and a loss of self-esteem, but does not lead to a "loss of face" in front of others. Hence, individuals tend to act less carefully to protect face. This might manifest itself in a less tactful or a more direct communication style. In work-place settings individuals tend to keep their integrity by protecting individual values as opposed to values of the group; work teams operate less as a seamless entity and more as a unit composed of individuals cooperating with each other. Although Hungarians are transactional and do not require long-standing personal relationships to conduct business, they nonetheless expect to develop a relationship beforehand.

1 See more details: http://www.expat.or.id/business/business.html

2.3. Masculinity

Countries scoring high (masculine) on this dimension are driven by competition, achievement and success (referring to the will to become the best in a given field) – a value system acquired in school which also plays a significant role at work. Becoming the best is what usually motivates people. Hungary with its score of 88 highly stands out among most European countries.

Low-scoring (feminine) countries are caring for others and the quality of life. They prefer doing things they like. Indonesia with its score (46) on this dimension can be considered "low masculine", particularly if compared to some other Asian countries like China, India or Japan. Indonesia displays the traits of the masculine societies but to a lesser degree. In more traditional settings the father or the eldest male remains the most senior individual as his opinion is important and respected. In Indonesia status and visible symbols of success are important, but it is not always material gain that brings motivation, but rather the position that a person holds. This *gengsi* (outward appearance) is part of the status and dignity – so important to Indonesians.

Indonesian people define a woman's role as that of a wife, a mother and a housewife – in this very order. Traditionalists view women who deviate from these roles as "less than whole people". Pursuing a career for self-expression and self-development is viewed as selfish. Women are portrayed in media more in their traditional gender-roles than in their career positions.

When Indonesia opened its doors to foreign investment in the 1970s, women became the primary workforce in multi-national factories. Women own 38 percent of Indonesia's small and medium sized enterprises (SMEs), and it is these businesses that drive economy. Globalization coupled with modernization means that traditional roles no longer work for everyone and many women choose to pursue a career. They have been able to vote since the country regained its independence (in 1945: approved in 1949), they also have full civil rights and on many islands, they hold leadership positions.

Although most businessmen in Jakarta are somewhat cosmopolitan, men in other parts of the country may be less open to dealing with businesswomen – neither locals nor foreigners. Older or more traditional Indonesians may automatically defer to men on the team. If a woman is to lead negotiations, she has to have men on her team. The team members should then defer on certain questions to the businesswoman as a leader – all this for establishing credibility.

The role of women in most parts of the country remains bound by traditional views, but more and more women come to power in the political arena. The mandatory quota (30 percent) in political parties' nominees helps to provide opportunities for women to run in elections, most of whom are either members of political dynasties and families, celebrities (*caleg cantik*), professional women or business women. (Okky Asokawati, Lower House MP, Jakarta; Nur Indaqh Cintra Sukma Munsyi – Emilia Contessa – Upper House MP, Banyuwangi; Sylviana Murni, mayor of Middle-Jakarta (2008-2013); Retno Marsudi, Minister of Foreign Affairs, since 2014; Yahana Yembise, Minister for Women's Empowerment and Child Protection, since 2014; etc.)

In Hungary educated women with good skills have been taking on professional jobs for decades, nevertheless the attitudes towards gender roles remain conservative. Women are more often than not seen as primary caregivers who are meant to maintain the family unity and cater to the male head of the house. Women are paid about 15 percent less than men for similar work. Surprisingly, this gap further increases when it comes to higher status jobs.

Women's participation in Hungary's key managerial positions is low both in the public as well as in the private sector. There is a marked tendency to appoint a man a senior level position even in professions dominated by women (education, medical institutions, etc.). A strong glass-ceiling effect is detected here: women reach a lower level in the hierarchy and their proportion in management positions reduces linearly with the prestige and level of position. Women fill less than 10 percent of board positions. Women comprise 3,4 percent of non-executive directors and 2,5 percent of executive directors in the largest publicly listed companies. Women's participation in the political arena is the lowest among EU countries, with the share of women in Parliament slightly under 10 percent. Since Hungarian labor market views part-time work negatively, many women feel compelled to make a choice between having a career and raising their children.

2.4. Uncertainty avoidance

This dimension has to do with the way that a society deals with the concept of the "unknown": can we try to control the future or just let it happen? This index shows the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions to handle them.

Indonesia scores 48 on this dimension and has thus a low preference for avoiding uncertainty. This means that maintaining work place and relationship harmony is very important in Indonesia, and no one wishes to be the bringer of bad news or of negative feedback. Meetings are often quite large so that all the stakeholders can be present.

Subordinates try hard to present only good news to the manager, if possible. This practice is referred to as “keeping the father happy”. Bad news is generally delivered in private, often by a trusted advisor.

If a manager tells a subordinate that something must be done by a given time, the subordinate does not tell the manager that the timing is impossible, since doing so would be disrespectful. Instead, the subordinate agrees and believes that the manager will understand that other circumstances prevented him/ her from achieving the agreed-upon deadline.

Hungary scores 82 on this dimension and thus has a strong preference for avoiding uncertainty. Therefore, trust is deemed critical to building social and business relationships. Often the people involved in a business take precedence over other more objective business criteria. The process of relationship building may be more formal and ritualized, and take a while to establish. Once established though, the expectation is that it will last a long time. In some business situations, personal relationship may take precedence over price, speed and the reputation of a competitor. Even if the rules often seem not to work, there is an emotional need for rules as people feel safe and secure only if they “know the rules”. Bitter historical experiences have taught Hungarians to stay alert so as not to be cheated or let down by outer forces. Contracts and written agreements are considered to be of increasing importance in a globalizing business environment.

In this regard, conflict resolution is also an important issue. In Indonesia, direct communication as a method of conflict resolution is often seen as threatening and disrespectful. Instead, a well-established method of conflict resolution is to take the safer route of using a third-party intermediary, which permits to exchange views without loss of face as well as to maintain the appearance of harmony in the workplace.

2.5. Long-term orientation

This dimension describes how a society cherishes its own past while dealing with the challenges of the present and the future. Normative societies, which score low on this dimension, prefer to maintain tried and tested traditions and norms while viewing societal change with suspicion. Cultures with high scores, on the other hand, take a more pragmatic approach: they encourage thrift and invest more in education of younger generations with a view to ensuring them a better future.Indonesia's relatively high score of 62 indicates that its culture is pragmatic. In societies with a pragmatic orientation, people believe that reality depends very much on situation, context and time (high context culture – Falkné 2008, p. 225-226). They show an ability to adapt traditions easily to changing conditions, a strong propensity to save and invest, and perseverance in achieving results. This is a dimension on which Hungary scores the closest to Indonesia (58), which is mostly attributable to the strong agricultural heritage in mentality, demanding thinking ahead and staying flexible by adapting to changing conditions. It is by no accident, that there are plenty of witty proverbs in Indonesia, which reflect this flexibility. Just to quote some of them:

"The shadow should be of the same length as the body" *Setajam-tajam pisau, masih lebih tajam lidah.* Words are different, but the meaning is the same in Hungarian: Addig nyújtózkodj, ameddig a takaród ér! (Don't stretch longer than your blanket!) "No rattans, roots will do", *Tak ada rotan, akar pun jadi.* This means that if you are desperate, you must not be choosy. Put it in a positive way, it usually means: if the best solution is not available, try the second best one. The same is expressed in Hungarian: *Ha nincsen ló, jó a szamár is.* (If there is no horse, a donkey will do as well.)

2.6. Indulgence

This dimension is defined as the extent to which people try to control their desires and impulses, based on the way they were socialized. Relatively weak control is called "indulgence" while relatively strong control is referred to as "restraint".

The low score of 38 in this dimension shows that Indonesia has a culture of restraint. In contrast to indulgent societies, restrained societies do not put much emphasis on leisure time and tend to keep their desires under control. People with this orientation have the perception that their actions are restrained by social norms and being indulgent makes them feel guilty.

Hungary scores even lower (31), but this refers only to the “official” domain – where people behave. In private, Hungarians give up restraint: they love to eat, sing and dance, and pride themselves on the quality of their food and drinks. Thanks to the great number of excellent spas, cultural and wellness tourism facilities attract many visitors from abroad who enjoy themselves and enjoy the Hungarian ambience. Visitors appreciate the somewhat easy-going lifestyle in Hungary; the number of foreigners purchasing apartments and country-cottages is growing rapidly.

Hungarians often tend to spend more than what they can afford. They may be tempted to spend a fortune on a wedding or on holiday travel. This mentality is best summed up in a quip by a Hungarian comic genius of the 20^{th} century: “I wish I could afford the standard of life I am actually pursuing”.

To sum up: if we compare Indonesia and Hungary, out of the 6 cultural dimensions the score more or less similarly on 2 dimensions (Long Term Orientation and Indulgence), but score very differently on the 4 other. They differ the most from each other on the individualist – collectivist scale, to be closely followed by the masculinity, power distance and uncertainty avoidance dimensions. These are the areas where business partners might experience the greatest differences in values, approaches and judgements. These differences might also affect decision-making, negotiation styles, and management practices. Therefore, to be aware of them, to understand them and to count upon them are the key to successful interactions.

3. Customs, conventions, messages, neanings

3.1. Greetings

Greetings in Indonesia are formal and meant to show respect. The handshake is often accompanied with *Selamat* (congratulations/I greet you!) or with greetings like *Selamat pagi!* (Good morning!), *Selamat siang!* (Good day!) or *Selamat malam!* (Good evening!). Smile and a genuinely pleased look is a must when meeting someone.

When meeting someone for the first time, both men and women shake hands in Hungary – and particularly so in business settings. *Örvendek!* (How do you do?) is the most frequent greeting formula. Greetings appropriate for the time of the day are also common: *Jó reggelt!* (Good morning!), *Jó napot!* (Good day!) or *Jó estét!* (Good evening!), *Jó éjszakát!* (Good night!) respectively.

3.2. Naming conventions

Some Indonesians have only one name (this is also the case for some famous politicians, like Sukarno, the first President of Indonesia). By contrast, many Indonesians (typically from Java) may have extremely long names – that might get shortened for convenience into a sort of nickname to be used in conversations (the current President Joko Widodo – "Jokowi"). Many Muslims do not possess surnames, but they add the father's name with a conncetor "*bin*" (for men) and "*binti*" (for women) instead. The title *Haji* (for men) and *Hajjah* (for women) before the name indicates that the person has already made his or her pilgrimage to Mecca.

Hungarians introduce themselves by their surname followed by their first name. This is the official order of names – unique in Europe. Hungarian language distinguishes in its expressions the level of intimacy by formal and informal conjugation. Many people acknowledge the move from the formal "you" to the informal version by a celebratory drink. At small gatherings, it is polite to wait for the host to introduce all guests to each other.

3.3. Gift-giving

In general, Indonesians give gifts at Ramadan, birthdays, and for major life events. Business gifts are often given at the first meeting as they are seen as an effort to further the personal nature of business relationship. In business settings, mutual gift exchange is common - so get some smaller tokens of appreciation ready. Gift giving etiquette depends on your business partner's ethnic background, although some rules apply to all nationalities, like: "Gifts are not opened when received. This allows both partners to save face should the recipient not like what is given!" or "Elaborate gift wrapping demonstrates respect!"

In general, Hungarians offer gifts on name days (the feast day of the saint after whom they are named) and Christmas. On name days, it is common to have a party with friends and business colleagues. There are no restrictions as to wrapping paper or the color of the paper. Gifts are usually opened when received – to show the sincere excitedness of the receiver. In business settings, only small company-logo gifts are exchanged – if at all.

3.4. Invitations

Indonesians prefer to socialize in restaurants and are generous hosts. Business entertaining plays a central role in the Indonesian culture. According to the general rule, the inviter is supposed to pay the bill. It is a nice gesture though to offer to pay, even though the inviter is expected to take care of the bill. Muslims do not drink alcohol and do not eat pork – so the host should also have fruit juices to offer. Leaving a small amount of food on the plate indicates that the hosts have provided abundant hospitality!

Hungarians usually enjoy each other's company in restaurants and occasionally in their homes. If invited to a dinner or a party, it is expected to give in due time clear positive or negative response. No-show without warning is considered as an insult. Table manners (continental) are rather formal in Hungary. The more formal the occasion, the stricter the protocol. The guest of honor usually proposes the first toast. At the end of the meal, one of the guests proposes a toast to the hosts for their hospitality. Empty glasses on the table are refilled immediately – so leaving the glass half-full indicates that one had enough. In restaurants, the person who extends the invitation is the one who pays. Friends or colleagues might go out for dinner and split the bill evenly – but only paying one's own consumption is considered to be rude.

4. Time management

Most Indonesians view time as being outside of their control. They often refer to time as *jam karet* (rubber time), which is indicative of their relaxed approach to punctuality. They see time as elastic and as something that adapts to fit the circumstances. A schedule is viewed as an objective rather than a true commitment. Indonesians have a fatalistic attitude: things will happen when they are meant to happen. Although Indonesians are not generally punctual, they expect foreigners to be so. The person in the weaker position might be kept waiting while the person from whom something is desired will be treated with great benevolence.

Most Hungarians grant an automatic 5-minute grace period and expect people to arrive within that window for both social and business occasions. Hungary is an achievement-oriented culture where people work hard – many of them working extra-hours. So, the "time is money" principle requires respect for the partner's precious time and does not allow too much deviations from the time-frame. In general, theatre, concerts and other performances or public events start 10 minutes later than scheduled.

5. Importance of non-verbal communication

Non-verbal communication is an important issue as well. Indonesia is a high context culture (Hall, 1976) where the tone of the voice, body language, eye contact, and facial expression can be as important as the spoken word. To some extent this is true for Hungary as well, but Hungarians might have difficulties in hiding their emotions. Hungarians are more outgoing – both in language use and behavior. They pay attention to personal space when conversing and they use few gestures. Apart from shaking hands, touching is not common in Hungary.

Indonesians seek to maintain an outer appearance of calm control regardless of their actual feelings. They use an indirect communication style that includes figurative forms of speech, gestures, and other forms of body language. Hungarians who come from a more direct culture are advised to tailor their messages carefully so that they do not sound rude or harsh. Indonesians are equally concerned with the message and the manner in which it is delivered. Indonesians will go out of their way to keep someone from experiencing shame (*malu*). They often speak in circles, use passive voice, approach the problems from unexpected angles. They may include a third-party expert in the conversation, it is almost unthinkable for an Indonesian to overtly say "no", although they have 12 ways to say no without using the word. The word *belum* (not yet) is usually a negative response.

Looking good in the eyes of the others is important to Indonesians. It is considered though disrespectful and rude to stare into another person's eyes, particularly into those of a person who is senior in age or status. In Hungary eye-contact indicates sincerity. Avoiding eye-contact means that one has something to hide.

Consequently, they will judge their partners not only on what they say, but also on the way they present themselves. The hotel business partners stay at, the clothes they wear, as well as their understanding of the Indonesian culture tell a lot about them.

Smiling is something that is often misunderstood: in Indonesia, as in many other countries of Asia, smiling don't always refer to happiness: sometimes it is only meant to conceal embarrassment or discomfort. In contrast to Indonesia, in Hungary smiling usually represents a state of happiness or a sign of friendliness.

In collectivistic cultures maintaining group harmony is of primary importance. Indonesian communication style is geared to prevent the loss of face and embarrassment. Even if offended, Indonesian people will try to mask their feelings and maintain a veil of civility.[2] To be polite, they may tell you what they think you want to hear. They take great care to avoid communicating anything directly that would hurt or offend a colleague as it would likely cause a loss of face.

Hungarians, on the other hand, are emotive speakers who are not afraid to argue their position. At the same time, they may use stories, analogies, metaphors, anecdotes or jokes to get their point across in an indirect manner. Raising one's voice does not necessarily indicate anger – it merely demonstrates the intensity of the Hungarians' sentiments.

Indonesians do not make hasty decisions because they might be viewed as not having given the matter sufficient consideration. Indonesians will do almost anything to avoid confrontation and the risk of losing face. Out of politeness they may tell you what they think you want to hear. If you offend them, they will mask their feelings and maintain a veil of civility. On the contrary, Hungarians might seem to be more direct – they might even appear uncontrolled in the eyes of Indonesians. For Hungarians frank and honest communication is more vital than politeness or harmony.

6. Multiculturalism in Indonesia

It is important to acknowledge the special case of Indonesia from the point of view of its diversity. Due to this outstandingly high level of diversity, rules that may apply to a particular ethnic group, might not work for others; customs that are true for a group of people of a particular denomination might not hold true for another group of people. Therefore, we feel the need to devote a brief but separate chapter to multiculturalism in Indonesia in order to raise awareness of diversity bias.

In Indonesia, there are 300 ethnic groups that live in relative peace, in spite of the fact that different provinces often have their own languages, and also have different ethnic composition or religious beliefs. The cultural heritage of Indonesia is a mixture of Arab, Chinese, European, Indian and Malay influence. The Javanese, who live mainly in Central and Eastern Java, are the largest ethnic group in Indonesia. On the western end of Java live the Sundanese people, who are counted as the second largest ethnic group. Other significant ethnic groups include the Madurese, off the northern coast of Java, and the ethnic Malay, who are dispersed in different areas of the country.

2 See more details: http://www.commisceo-global.com/country-guides/indonesia-guide

Several million Indonesians of Chinese descent are concentrated in urban areas and play an important role in the country's economic life. They make up the largest group of the non-indigenous population. Their actual and perceived wealth has led to riots on Java and in other parts of Indonesia, particularly in 1997 and 1998 when the Chinese were blamed for Indonesia's economic problems.

The major religious communities are Muslims, Protestants, Catholics, Hindus and Buddhists: religious freedom is guaranteed by the Constitution. Still, Indonesians are obliged to be attached to one of the five recognized religions. This information is needed for official documents such as a person's identity card. The same is expected from foreigners – who might be required to confess their religion when applying for a visa. Some Muslim, Christian, Hindu and Buddhist holy days are also national holidays. On Bali island, all Hindu holy days are regional holidays.

During the month of Ramadan Muslims (who comprise the vast majority of the population) refuse to eat, drink or smoke from dawn to sunset. After sunset and completing the prayer, people organize a feast with family members and close friends. This can also affect businesses as employees may be tired at work, their attention span may be shortened and their efficiency may be reduced.

7. Conclusions

We should keep in mind that not all people from a given culture act the same way, but in order to describe cultural traits, generalizations are inevitable, even though in some cases they may not apply. When it comes to intercultural interactions, every situation should be approached with an understanding of the basic tenets of a given culture and yet one should remain alert to the specific cultural signals one receives in each situation and adjust one's behavior and expectations accordingly.

Space only allowed us here to give a brief overview of Indonesian and Hungarian culture and business approaches, which could not provide a full comparative and in-depth analysis. We still believe that raising awareness of intercultural differences might be a first and necessary step in order to establish smooth cooperation and working relations between our cultures.

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Students' Perceptions of Higher Education – Hungary and Indonesia Compared

Issye Margaretha Kamal

This study discusses the choice of Indonesian and Hungarian students in the context of the higher education system and the details and research findings of a survey conducted among students who previously studied in each other's country. The overall objectives of this survey were to acquire an in-depth understanding of the perception of Hungarian students of Indonesian higher education system, and vice versa. This study can also be used to formulate recommendations for the higher education sector in both countries to see which important factors should be improved in order to enhance the bilateral relations between Hungary and Indonesia. The survey was conducted among Hungarian and Indonesian students with different backgrounds and in different periods of their studies.

1. Methodology

This study is based on surveys destined to Hungarian and Indonesian students who have experienced studying in the partner country.

Sample size: 60 students participated in this survey (including 30 Hungarian students and 30 Indonesian students).

Field of studies: 100 percent of the Hungarians in the sample went to Indonesia to study arts (literature, dance, traditional arts and design, music, and cultural studies), while Indonesian students who studied in Hungary mostly came from more diverse fields: 66.7 percent studied social sciences (law, economics, business, sociology, etc.), 23.3 percent of them humanities (linguistics, arts, literature) and 6.7 percent medicine. Both groups followed exchange programs and only a small proportion of Indonesian students came to Hungary for a full-time degree. This tendency was related to the limitation of scholarships, mainly available for the exchange program participants, for Indonesian students at the time of the survey. However, the new scholarship program by *Stipendium Hungaricum* allows 50 Indonesian students each year to study in Hungary with a full-time degree.

2. Survey results

2.1. Choice of the studies

(Why did you choose Hungary as your country of destination for studies?)

There are many factors that come into play when students consider choosing a destination country for their studies. The survey sought answers on subjects ranging from how participants eventually have chosen a destination country, and why students pick Hungary or Indonesia as their country of destination. Table 1 shows that nearly 60 percent of Hungarian students chose Indonesia as a country for their studies because of the willingness to acquire new experiences and learn more about Indonesian culture. Their choice was first of all motivated by the attractiveness of Indonesia. Likewise, 43.3 percent of Indonesian students agreed that Hungary's attractiveness was the main reason for them to choose Hungary as a destination country for their studies. However, while the majority of Hungarian students said that those attractiveness factors were more related to the natural and cultural richness of Indonesia itself, Indonesian students revealed that the appealing factor was highly related to the chance of having new experiences in Europe.

In the case of the Hungarian students the second most important factor that came into play was the scholarships offered by the Indonesian government. 26.7 percent reported that *Darmasiswa* scholarship was the main reason why they wanted to go and study in Indonesia, and that it was very hard to find a similar program that would allow them to study in Southeast Asia. The second most important reason why Indonesian students decided to study in Hungary relates mainly to the program managed by their home universities. 23.3 percent of Indonesian students revealed that they chose Hungary because of a joint program offered by a Hungarian and an Indonesian university.

Table 1

Reasons for choosing Hungary or Indonesia

Reasons	Hungarian students studying in Indonesia	Indonesian students studying in Hungary
Appealing factor in host country (nature, culture, possibility of acquiring new experiences, etc.)	60.0	43.3
Travelling opportunities	10.0	3.3
Joint program offered by university	3.3	23.3
Scholarship	26.7	13.3
Other personal reasons	0	16.7
Total	100	100

(How important would you consider the following aspects as reasons for your decision / intention to study abroad?)

Respondents then were asked to rate a list of reasons for deciding to study abroad based on how strongly they affect their decisions. For Indonesian students, the most popular factors influencing their choice were:

- Willingness to acquire social and cultural experiences (32.5 percent, appears in 86.7 percent of the cases)
- Improve career prospects (21.8 percent, appears in 63.3 percent of the cases)
- Improve language and social skills (19.5 percent, appears in 56.7 percent of the cases)
- Intention to enrich academic profile (17.2 percent, appears in 50.0 percent of the cases)
- Lack of suitable universities or course programs in home country (8 percent, appears in 23.3 percent of the cases)
- Other (0 percent, appears in 0 percent of the cases)

Since respondents were asked to choose at least 3 out of 5 possible options plus (others) as an additional option, 32.5 percent (of 100 percent) of respondents stated that they were mostly interested in acquiring social and cultural experiences. However, this has appeared in as many as 86.7 percent of cases since there are 266.7 percent of cases in which the same option was selected (meaning that of the 3 options that people checked, the majority opted for this option). When standardized, this number of appearance represents as many as 32.5 percent.

For Hungarian students the most popular factors, influencing their choice in selecting a destination for studying were:

- Willingness to acquire social and cultural experiences (32.5 percent, appears in 86.7 percent of the cases)
- Improve career prospects (8.8 percent, appears in 23.3 percent of the cases)
- Improve language and social skills (28.7 percent, appears in 76.7 percent of the cases)
- Intention to enrich academic profile (18.8 percent, appears in 50.0 percent of the cases)
- Lack of suitable universities or course programs in home country (7.7 percent, appears in 20.0 percent of cases)
- Other (3.8 percent, appears in 10 percent of cases)

The willingness to acquire social and cultural experiences was the main reason behind the choice of study destination for both Indonesian and Hungarian students. However, Indonesian students believed that the choice of a country would positively affect their career prospect and their social and language skills. Conversely, Hungarian students reported that the improvement of their social/language skills was the major factor for finally choosing Indonesia as a destination country. Consequently, both groups of respondents believed that by taking part in an exchange program either in Hungary or Indonesia would help them to improve their academic profiles.

3. Perception of Hungary and Indonesia as destination countries

3.1. General opinion about Hungary and Indonesia

(What was your opinion about Hungary BEFORE and AFTER your arrival to Hungary?)

Table 2

Indonesian students' perception of Hungary

Opinions	Ex-ante		Ex-post	
	Frequency	Percentage	Frequency	Percentage
Rather positive –Beautiful historical country located in the center of Europe	13	43.3	30	100.0
Rather Negative – Underdeveloped Eastern European country	3	10.0	0	0.00
Neutral – No or very little information about Hungary	14	46.7	0	0.00
Total	30	100.0	30	100.0

Table 2 shows that 46.7 percent of Indonesian respondents knew nothing or very little about Hungary before their arrival. Many of them also believed that Hungary was so to say a "hidden treasure of Europe", a country completely underrated on a global scale (especially by the students' community). Hungary's image as an ex-socialist country have not totally vanished, as some of the respondents previously believed that Hungary still has some remnants from its underdeveloped "Eastern European" past. However, the second biggest group (43,3 percent) of Indonesian students had a rather positive image of Hungary prior to their arrival. They believed that Hungary is a country full of history and heritage.

However, the result of the ex-post situation was astonishing. 100 percent of Indonesian students stated that they had had some memorable experiences during their stay in Hungary. Many of them revealed that Hungary had offered them a great student life, mostly thanks to affordable living expenses, good environment and social life, and a charming capital city becoming for them a "second home" of sorts. Hence, it can be said that the very limited or rather negative information about Hungary of more than fifty percent of Indonesian respondents have changed thanks to their personal experiences they had gained during their stay in Hungary.

(What was your opinion about Indonesia BEFORE and AFTER your arrival to Indonesia?)

Table 3

Hungarian students' perception of Indonesia

Opinions	Ex-ante		Ex-post	
	Frequency	Percentage	Frequency	Percentage
Rather positive – Beautiful and historical country located in Southeast Asia	18	60.0	20	66.7
Rather negative – Underdeveloped country	1	3.3	5	16.7
Neutral – No or very little information about Indonesia	11	23.3	0	0.00
Other (50:50)	1	3.3	5	16.6
Total	30	100.0	30	100.0

While almost half of the Indonesian respondents revealed that they had had a very limited knowledge about Hungary, only 23.3 percent of Hungarian students shared the same opinion. By contrast, 60 percent of Hungarian students said that they had had a positive image about Indonesia prior to their arrival, mainly based on the natural and cultural beauties of Indonesia. However, unlike the 100 percent of Indonesian students, who changed their previously negative opinion to positive after their stay in Hungary, the majority of Hungarian students indicated that they had enjoyed their stay in Indonesia, but they also expressed concerns about the country. This is shown by the increasing tendency of positive, negative, and other (50:50) opinions.

They stated that despite its natural and cultural richness, not all Indonesians they had met during their stay had been concerned about the future of their country. People had been indeed very helpful and friendly, but the majority of local people they had met during their stay had not made many issues too seriously, such as the protection of the environment. In addition, their fragile political environment made some of the Hungarian respondents feel that Indonesia is a country rather for traveling than for living. Put it differently, many Hungarian students believed that Indonesia was a very rich country with a lot of potentials in many respects that, if managed carefully, could make Indonesia a country more livable for foreigners.

3.2. Strengths and Weaknesses of the Host Country

(What do you like the most and the least about Hungary?)

In order for us to get a more complete idea of Hungarian students' perceptions of Indonesia, we also asked respondents to select five possible reasons from a list of statements about Indonesia.

Table 4

Hungary's attractiveness from Indonesian students' point of view

	Responses		Percentage of cases
	Frequency	Percentage	
Affordability, Hungary is not an expensive country to live in	28	18.4	93.3
Hungary's geographical location makes it easier to travel	24	15.8	80.0
Hungary is a beautiful and historical country	23	15.1	76.7
Hungary has a cultural richness and heritage	19	12.5	63.3
Good quality of Hungarian Education	13	8.6	43.3
Warm and welcoming Hungarian people	12	7.9	40.0
Easy adaptation to local people and to everyday life	11	7.2	36.7
Easy to find accommodation	9	5.9	30.0
Great food	9	5.9	30.0
Language	3	2.0	10.0
Other	1	0.7	3.3
Total	152[1]	100.0	506.7

18.4 percent of all respondents agreed that the affordability of living expenses in Hungary was the most appealing factor of choosing Hungary as their country of destination. The second most important reason was the strategic geographical location of Hungary. This is followed by the history and the beauties of Hungary that have attracted them to study in Hungary. Furthermore, the table above showed that the quality of education is one of the five top priorities (ranked 4th) for Indonesian students when choosing Hungary as a place to study. While they placed Hungary's affordable living costs, geographical location, history and culture among the top priorities, they also indicated that the standardized and advanced quality of education was important to them. Students were also asked to rate what they liked the least about Hungary.

1 This figure can be explained by the fact that some respondents gave more than five reasons when they were asked to "choose at least five reasons".

Table 5

Hungary's weaknesses from Indonesian students' perspectives

	Responses		Percentage of cases
	Frequency	Percentage	
Language barriers	28	37.8	93.3
Visa difficulties	16	21.6	53.3
Adaptation difficulties	13	17.6	43.3
Different tradition and culture	8	10.8	26.7
Education system	5	6.8	16.7
Other	4	5.4	13.3
Total	74[2]	100.0	246.7

Indonesian students agreed that handling language barriers was the biggest difficulty they had to face during their stay in Hungary (28 out of the 30 Indonesian students agreed with this statement). The difficulties of getting an entry visa to Hungary, as well as the cultural barriers were the highest ranked complaints on Hungary. However, as to the education system, differences between Hungary and Indonesia were not their biggest challenge.

(What did you like the most and the least about Indonesia?)

In order for us to get a fuller idea of Hungarian students' perceptions of Indonesia, we also asked respondents to name five possible reasons from a list of statements about Indonesia.

Table 6

Indonesia's attractiveness from Hungarian students' point of view

	Responses		Percentage of cases
	Frequency	Percentage	
Indonesia is a beautiful and historical country	26	17.4	86.7
Indonesia has a cultural richness and heritage	26	17.4	86.7
Warm and welcoming Indonesian people	25	16.8	83.3
Affordability, Indonesia is not an expensive country to live in	19	12.8	63.3
Indonesia's geographical location makes it easier to travel	17	11.4	56.7
Language	12	8.1	40.0
Easy adaptation to local people and to everyday life	11	7.4	36.7
Great food	7	4.7	23.3
Other	5	3.4	16.7
Easy to find accommodation	1	0.7	3.3
Quality of HE	0	0.0	0.00
Total	149[3]	100.0	496.7

2 This figure can be explained by the fact that some respondents gave more than five reasons when they were asked to "choose at least five reasons".
3 This figure can be explained by the fact that some respondents gave more than five reasons when they were asked to "choose at least five reasons".

The five most important reasons why Hungarian students were attracted to Indonesia were related to the culture, the geography, the open-mindedness of local people and the affordable living expenses. 17.4 percent of Hungarian students agreed that the natural beauty, history and cultural heritage of Indonesia were the most important factors when considering to go and study in Indonesia. However, unlike Indonesian students who agreed that Hungary's quality of education was one among their top priorities, 0 percent of the Hungarian students gave the same response. They rather believe that things related to cultural richness are something that Indonesia should always try to promote in order to attract more people or foreign students.

In order for us to get a fuller idea of Hungarian students' perceptions of Indonesia, we asked the respondents to mention what they liked the least about Indonesia

Table 7

Indonesia's weaknesses from Hungarian students' perspectives

	Responses		Percentage of cases
	Frequency	Percentage	
Visa difficulties	23	31.5	76.7
Education system	19	26.0	63.3
Language barriers	15	20.5	50.0
Adaptation difficulties	9	12.3	30.0
Other	7	9.6	23.3
Different tradition and culture	0	0	0.00
Total	73[4]	100.0	243.3

Unlike Indonesian students, Hungarian students agreed that Indonesian education system had become one of the things that they liked the least about Indonesia (19 out of the 30 Hungarian students agreed with this statement). However, Hungarian students believe that the strict criteria for entry in Indonesia were perceived as the greatest inconvenience in this country. Furthermore, traditional and cultural differences between Hungary and Indonesia were not perceived as a weakness for Indonesia since none of the respondents have named this option.

4 This figure can be explained by the fact that some respondents gave more than five reasons when they were asked to "choose at least five reasons".

4. Pre-departure preparations

4.1. Sources of information

(Where did you first hear about the universities in Hungary and its programs?)

Answers to this question will inform us on perceptions that can be turned into an asset, potentially helping to attract more foreign students from the partner country.

Table 8

Sources of information for students

Sources	Indonesian students		Hungarian students	
	Frequency	Percentage	Frequency	Percentage
Internet (websites, search engines, etc.)	10	28.6	9	30.0
Education fair/exhibition/ student events	4	11.4	0	0.0
Friends/alumni	4	11.4	14	46.7
Professor/Home University	17	48.6	0	0.0
Brochures, newspapers, etc.	0	0.0	2	6.7
Partner's country's embassy	0	0.0	5	16.7
Total	35[5]	100.0	30	100.0

48.6 percent of Indonesian students listed "professor/home university" as their major source of information on how they ended up choosing Hungary as their destination country. Given the fact that many Indonesian students coming to Hungary within the framework of a partnership program, it is not surprising that the majority of them got their information from their home universities. As to Indonesian students, 0 percent of them got any information about study opportunities from the Embassy of Hungary in Indonesia.

These responses are quite different compared to the ones coming from Hungarian students. 46.7 percent of Hungarian students obtained the information from their friends or fellow students who had previously studied in Indonesia. The second main source of information was the Internet for about 30 percent of the respondents, followed by information from the Embassy of Indonesia in Hungary. Less important sources of information were commercial education agents, education fairs, and home universities. The difference between Indonesian and Hungarian students' answers is highly visible as the biggest part of Indonesian respondents got their information

5 This figure can be explained by the fact that some respondents gave more than five reasons when they were asked to "choose at least five reasons".

from their home universities, while none (0 percent) of Hungarian students responded the same. The alumni relationship within the Darmasiswa community is much closer and tighter between the Hungarian students in Indonesia than that maintained by their Indonesian counterparts. This might be related to the fact that there had been no specific communities or organizations for Indonesian students in Hungary before. To some extent, this could be a good opportunity to promote Hungarian higher education programs among Indonesian students. The proof of how effective a student community can be in delivering information about programs in partner countries is obvious in the case of the Hungarian students the majority of whom heard about the program from their friends or alumni.

4.2 Pre-Departure Difficulties

(What are the main obstacles you have to overcome before finally arriving in Hungary?)

Table 9

Major Pre-Departure difficulties for Indonesian and Hungarian students

Difficulties	Indonesian students		Hungarian students	
	Frequency	Percentage	Frequency	Percentage
Language preparation	22	30.1	18	22.5
Immigration procedures	20	27.4	20	25.0
Finding accommodation	16	21.9	21	26.3
Financial concern	13	17.8	15	18.8
Others (preparation, etc.)	2	2.7	6	7.50
Total	73[6]	100.0	80	100.0

22 percent of Indonesian students revealed that language preparation had been their biggest difficulty to face before their arrival in Hungary. If we combine this result with the results in Table 5, we can also state that this obstacle had not been overcome until the end of their stay in Hungary, as 37.8 percent of respondents agreed that dealing with language barriers proved to be for them the most important negative aspect of Hungary. 27.4 percent of respondents also indicated that were preparing their study period in Hungary they also encountered problems with complicated visa procedures including slow visa process.

6 This figure can be explained by the fact that some respondents gave more than five reasons when they were asked to “choose at least five reasons”.

From Hungarian students' perspective, the major problem they had to deal with was finding a place to stay at in Indonesia as 26.3 percent of Hungarian students agreed with this statement. 25 percent of Hungarian students also revealed that they had experienced difficulties with the immigration and visa process as this issue appeared in Table 7 as the main disadvantage of Indonesia.

5. Perception on Hungarian and Indonesian higher education

5.1. Information available about the scholarship in the host country

(Have you ever heard of Stipendium Hungaricum before coming to Indonesia? If yes, where did you get that information?)

76.7 percent of Indonesian respondents agreed that they had never heard of *Stipendium Hungaricum*. The rest of the respondents who said 'yes' had received the information from a friend, at the home university or found it on the Internet. By contrast, 100 percent of Hungarian students who went to learn in Indonesia with the Indonesian government's scholarship (*Darmasiswa*) stated that they had already heard of it before. As it can be seen in Table 10 below, the majority of the Hungarian students obtained the information about this program from their friends and fellow students who had participated in this scholarship program, and the Embassy of Indonesia was ranked the second most important source of information.

5.2. Opinions on higher education in the host country

(What is your opinion about higher education in Hungary based on your own experiences? and What do you think about the differences of quality between the Hungarian and the Indonesian educational system?)

This question above aims at providing us with the information based on what more students from the partner country could be attracted by. It depicts the views which students (and other stakeholders) hold on Hungary's or Indonesia's higher education system.

Table 10

Difficulties	Perception of Indonesian students of Hungary's HE system		Perception of Hungarian students of Indonesia's HE system	
	Number	Percentage	Number	Percentage
Positive	21	70.0	5	16.7
Neutral	2	6.7	0	0.00
Improvements needed	3	10.0	19	63.3
Totally negative	0	0.00	5	16.7
No opinion	4	13.3	1	3.3
Total	30	100.0	30	100.0

When it comes to comparison, the majority of the Indonesian students compared Hungary's higher education system with that of Indonesia or the country in which they had pursued their studies prior to their arrival in Hungary (given that many Indonesian students had previously studied abroad before coming to Hungary). 70 percent agreed that compared to Indonesia Hungary has a well-structured high-quality system. Another 10 percent said that the Hungarian higher education system needed some more improvements. The fact that Hungary conforms to the European educational standards was also mentioned by several students. However, many of them revealed that they had encountered some problems in the system compared to the system in the US or Western Europe (Germany for instance), but they believed it still was better than what they had experienced in Indonesia. Some students also mentioned that Hungary successfully combined practical and theoretical approaches in its teaching system. In addition, some of them had also mentioned that many lecturers with international academic experience had knowledge of well-organized educational systems. These have thus become the key elements based on what they concluded that the higher education system in Indonesia in in bigger need of improvements than in Hungary.

When asked about the main differences between the education system in Hungary and Indonesia, Indonesian students stated that Indonesian higher education system was too formal, while in Hungary the evaluation focused more on the process than on the result. By contrast, in Indonesia, lecturers were more concerned about the grades than a student's actual performance. Respondents also related this situation to the quality of the teachers. As Hungarian higher education institutions hired a lot of foreign teachers from around the world, the quality of education is therefore showing signs of improvement. However, different comments were made by students who had previously studied in either of Indonesia's three big universities (*University of Indonesia, Institute of Technology Bandung, and Gajah Mada University*). They mentioned that when comparing Hungarian and Indonesian systems they did not see any significant differences. The only difference they experienced was the fact that they could meet a lot of students from various countries creating a more vibrant atmosphere in the classrooms. Nevertheless, some Indonesian students stated that Indonesian universities found it more important to give them the latest information on educational possibilities in overseas countries, while Hungary seemed to be too Eurocentric. This might relate to Table 8 where the majority of the Indonesian students stated that their university had provided them with some information about overseas scholarship programs on a regular basis.

(What is your opinion about the Indonesian higher education system based on your own experiences? and What do you think about the differences of quality between the Hungarian and the Indonesian education system?)

If we take a look at Table 10, we will see that Hungarian students revealed that they had found higher education system in Indonesia worse than that of Hungary. 63.3 percent of them believed that the Indonesian system needed a lot of improvement with regard to the quality of the teaching staff, the openness to foreign students, and the mentality of the students themselves. However, many of them could not really make a comparison between the Hungarian and the Indonesian education system as they studied arts and their opinion might not be very relevant, they stated. But since different institutions deliver a different quality of education in Indonesia, some responses implicitly suggested that the European standardized system plays an important role in the determination of the quality of higher education. While Hungary follows the EU standard, Hungarian students believed that the standardized quality of higher education is not equally secured in every region of Indonesia. This is also confirmed by some relevant opinions from Indonesian students, and some different answers from Hungarian students who studied in one of the big public universities as against those who studied in smaller public institutions. However, almost all of them affirmed that Indonesian universities' infrastructures and facilities should be improved because it may highly affect both the teachers' and the students' performance. Some of them also stated that being foreigners not speaking Bahasa in Indonesian public universities prevented them from totally immersing themselves in the local culture. Thus, Hungarian students believe that Indonesian universities should improve their readiness to receive more foreign students in order to attract more foreigners to Indonesia.

Finally, 83.3 percent of Indonesian students stated that they were satisfied with the academic system in Hungary (opinions ranging from specific and high-quality offer in their area of specialization to an up-to-date and well-managed institution), while only 20 percent of Hungarian students revealed that reality could not live up to their expectations. This huge gap should rather stimulate Indonesia to evenly improve the quality of its higher education system across the country.

5.3. Opinions on how to improve the quality of the higher education system

(What do you think should be improved in Hungarian universities compared to other accredited universities around the world?)

This question allows us to understand the expectations of Indonesian and Hungarian students after studying in the partner country. The answers from students' perspective can be used to help attract more students from Indonesia or Hungary.

Table 11

Improvements needed in higher education system in the partner country

Improvements needed	Percentage of respondents who agree	
	Indonesian Students	Hungarian Students
Promotion and information about the available programs	36.7	6.7
Quality of the Education System	20.0	76.7
Easier Admission Requirements	0	0
Scholarships and Supported Programs	40.0	13.3
Others	3.3	3.3
Total	100	100

Indonesian students underlined the importance of promoting the available programs and the need for more scholarships and supported programs in the Hungarian higher education system. Many students said that they had had some difficulties to find relevant information about Hungarian scholarships and programs due to rarity of promotion. Most respondents stated that it had been their home universities (their university in Indonesia or in their previous country of study) keenly informing them about the programs in Hungary. They believed that improvements in promotion and providing information would enhance the partnership between Hungarian and Indonesian higher education institutions in the future. They also agreed that this promotion should be followed by establishing scholarships granted by the Hungarian government, which is now being implemented. In the previous years, 80 percent of Indonesian students said that they had never heard of *Stipendium Hungaricum*. Hence, although it is now possible for Indonesian students to apply, adequate promotion should also be considered in order to encourage many qualified Indonesian students to go and study in Hungary.

From the Hungarian students' perspectives, the most important problem with Indonesia's higher education system was its poor quality. The majority of them suggest that the quality of Indonesian higher education system should be improved and revitalized in order to be able to welcome foreign students. They admit that the implementation of a standardized system would also improve the opportunities for Indonesia to compete in the context of globalization. They also believed that the promotion of Indonesian scholarships must be accompanied by making improvements to the higher education system itself.

This overall result indicates that Hungary should pay more attention to helping international students obtain adequate information about Hungary or the scholarships offered. On the other hand, Indonesia should really be thinking of improving its education policies as well as invest in infrastructure and student facilities to make the conditions more attractive for graduates. By making progress in these areas Indonesia and Hungary will attract more students to study in both countries which may open the possibilities to attract highly qualified students. By doing so, we believe that qualified students will be an asset for both countries to innovate and intensify the cooperation with its partner country.

The Oriental Business and Innovation Center (OBIC)

Mission and objectives

The Oriental Business and Innovation Center (OBIC) was established by the Budapest Business School, University of Applied Sciences and the Hungarian Central Bank in 2016. The OBIC's overall goal is to improve the competitiveness of the Hungarian economy by contributing to a better understanding of the South-East Asian region. It is the goal of OBIC to employ its cutting-edge knowledge and efficient operation to become a leading institution in oriental business studies not only in Hungary, but in the broader Central European region. As such, it is also a very important institution dedicated to the implementation of the international strategy of BBS. Target countries are India, Indonesia, Japan, Malaysia, People's Republic of China, the Republic of Korea, Singapore, Vietnam and many others in the Asia Pacific region.

Why?

After the 2008-2009 economic crisis hit Europe and Hungary, it quickly became clear that sluggish economic growth in Western Europe and North America does not generate sufficient demand to maintain economic growth in the Central European economies. Thus, the Great Economic Crisis brought about a need to diversify trade and investment relations in Hungary. In principle, this need for international diversification, coupled with the evolving international economic environment, can open new prospects for economic exchange and knowledge-sharing between South-East Asia and Hungary, despite the geographic distance. The new "Eastward Policy" of the Hungarian government is just one governmental initiative to which Budapest Business School can provide feedback, by broadening the economic, political, and cultural knowledge base through strengthening the exchange of ideas, scholars and students

Activities

To achieve its objectives, OBIC uses a variety of tools and instruments along the following lines:

- OBIC promotes courses of Asian languages, as well as intercultural and business training programs at the Budapest Business School.

- The Centre also sponsors inbound and outbound research mobility grants, and it helps provide opportunities for BBS students to travel to Asian countries as well.

- OBIC is dedicated to research promotion and it attempts to organize events (conferences, workshops) related to the region in the following fields: international business management, international relations, finance, accountancy, commerce, catering and tourism.

- OBIC closely cooperates with the International Director of the BBS and takes part in the ambitious internationalisation and networking efforts of the university.

Historical background

The predecessor of the Faculty of Commerce, Catering and Tourism (Budapest Business School) was the Academy of Commerce established in 1857. Expanded by the Eastern Academy of Commerce in 1899, that was the first college of commerce in the Austro-Hungarian Monarchy in the Central European region. Experts of commerce and banking were trained at this school, special attention was paid to the history, culture and economic development of the Middle East countries, the Balkans, and the Far East (Japan and China). Not only courses in history and economy were emphasized during the programme, but besides German and French, languages of the East (Arabic, Russian and Turkish) other Western languages (Italian, Spanish) and those of the Balkans (Serbian, Greek Bulgarian) were taught at the Academy as well. In 1896, excellent graduates of the Eastern Academy received travel grants to countries in focus. After WWI, the Eastern Academy merged into the Faculty of Economics of the Budapest University.