

CHAPTER I

INTRODUCTION

1.1 Background

Since the 1980s, Indonesia's international relations trajectory has gradually been hauled by intensifying trade with countries and creating an international economic agreement.¹ The trajectory of such concern compounds into the creation of study field on International Political Economic or IPE studies, Economic Statecraft, trade diplomacy, and commercial diplomacy. These new study fields look in-depth at how a state's economic foreign policies advance its national interest. In this classical realist sense, such policies are only driven for a political end.² The uses of foreign economic policies as a tool for political goals are studied in economic statecraft. Otherwise, the liberal perspective on policies assumes the goal serves as a political end and an economic end.³ In Indonesia's case, there such a magnitude changes in its foreign economic diplomacy goal from the former toward the latter during the Jokowi administration.

Then where does economic diplomacy stand? According to Heijmans, economic diplomacy is, before we define it, there is a need to understand the relationship between economics and diplomacy.⁴ These relationships are

¹ Dana Smillie. 2018. *Free Trade Agreement*. April 5. Accessed 10 26, 2020. <https://www.worldbank.org/en/topic/regional-integration/brief/regional-trade-agreements>.

² Hans J. Morgenthau. 1948. *Politic Among Nations: The Struggle for Power and Peace* 6th Edition. Beijing: Peking University Press.

³ Maaïke Okano-Heijmans. 2011. "Conceptualizing Economic Diplomacy: The Crossroads of International Relations, Economics, IPE and Diplomatic Studies." In *Economic Diplomacy: The Issues*, by Maaïke Okano-Heijmans, Jan Melissen Peter A.G. van Bergeijk, 7-36. Leiden: Martinus Nijhoff Publishers

⁴ Maaïke Okano-Heijmans, *Conceptualizing Economic Diplomacy*

understood differently from each fieldwork; either one element serves as others' means to advance other interests or vice versa. To capture the meaning of economic diplomacy implies understanding how the user's "tools" and "process" (in here state as the main actor), where "theatres" or place it conduct (at the domestic, IO, Region), and how the international "context" or situation on these policies being implemented. Thus, Heijman conclusively defines economic diplomacy as "a foreign policy practice and strategy that is based on the premise that economic/commercial and political interests reinforce one another and should thus be seen in tandem." ⁵

On the eve of Jokowi's ascension as Indonesia's 7th president in 2014, he represents a new outlook on Indonesia's foreign policies. He intends to use foreign policies to support national economic prosperity by attracting investors and foreign capital to invest in Indonesia.⁶ This inward-looking foreign policy is at the heart of the current Jokowi administration, and it is guided by two core principles: TRISAKTI and nine agendas of NAWACITA.⁷ TRISAKTI dwells in foreign political independence, economic independence, and cultural character.⁸ NAWACITA is nine agendas that pursue three segments of politics, economy, and culture.⁹ It encapsulates Indonesia's foreign policy utilization at the international

⁵ Maaïke Okano-Heijmans. 2011. "Conceptualizing Economic Diplomacy: The Crossroads of International Relations, Economics, IPE and Diplomatic Studies." In *Economic Diplomacy: The Issues*, by Maaïke Okano-Heijmans, Jan Melissen Peter A.G. van Bergeijk, 7-36. Leiden: Martinus Nijhoff Publishers

⁶ Dirk Tomsa . 2017. "INDONESIA IN 2016: Jokowi Consolidates Power." *Southeast Asian Affairs* 149-161.

⁷ Indonesia Ministry of Foreign Affairs. 2015. "Rencana Strategis Kemlu 2015-2019." Kementrian Luar Negeri Indonesia. April 6. Accessed October 27, 2020..

⁸ Indonesia Ministry of Foreign Affairs, *Rencana Strategis Kemlu 2015-2019*

⁹ Indonesia Ministry of Foreign Affairs, *Rencana Strategis Kemlu 2015-2019*

level, bureaucracy reform, push on the domestic economy, and increased Indonesia's competitiveness in the global market.

These principles are influencing Indonesia's foreign policy direction. For a start, the administration appointed Retno Marsudi as a foreign minister, whose goal is to spearhead *Membumikan Politik Luar Negeri*" or "To localize Foreign Policies."¹⁰ This newly founded creed roughly prescribes foreign policies as the tools to advance Indonesia's national interest, especially in the economic sector, to support economic growth by attracting foreign investment.¹¹

Under Retno's leadership and Jokowi's political vision, the Ministry of Foreign Affairs (MOFA) is transformed into a centre of economic diplomacy. She utilizes the ambassador's proactivity as "salespersons" who function as the marketing of Indonesia's economic potentials.¹² MOFA also outlines Indonesia's foreign policy objectives with intense economic diplomacy by collaborating with the economic stakeholders in health, education, agriculture, and vital element advantages in other countries.¹³

In the second term of the Jokowi administration, MOFA switches its focus more on economic diplomacy following a new vice minister, Mahendra Siregar. The new vice minister has a solid track record in economic diplomacy. He was the former

¹⁰ Bambang Susanto. 2016. *Membumikan Politik Luar Negeri Bagi Kepentingan Rakyat*. Yogyakarta, October 6. Accessed October 27, 2020. <https://slideplayer.info/slide/12218377>

¹¹ Dirk Tomsa. 2017. "INDONESIA IN 2016: Jokowi Consolidates Power." *Southeast Asian Affairs* 149-161.

¹² Sekretariat Kabinet Republik Indonesia. 2015. *Buka Raker Kemlu, Presiden Jokowi Minta Para Dubes Indonesia Kedepankan Diplomasi Ekonomi*. February 2. Accessed October 27, 2020.

¹³ Ministry of Foreign Affairs. 2019. *Home: Foreign Policy: Foundation, Vision and Mission: Ministry of Foreign Affairs Strategic Goals*. March 26. Accessed February 24, 2020..

head of BKPM (*Badan Koordinasi Penanaman Modal*) or the Investment Coordinating Board, former finance vice-minister, and former commissioner at several government-controlled companies.¹⁴ This background is hoped to formulate Indonesia's economic diplomacy. In addition, MOFA's RPJM (Rancangan Program Jangka Menengah) or the institutional medium-term program plan for 2015-2019 emphasizes strengthening bilateral and regional relationships with Africa, the Pacific, and Europe to open their market.¹⁵

Another front that encapsulates Indonesia's growing economic diplomacy effort is the increasing prominences of BKPM and the newly established body of Coordinating Ministry on Maritime and Investment led by Luhut Binsar Pandjaitan first half of Jokowi's term in his second term.¹⁶ In support of the new foreign policy's direction, these two bodies attract foreign investors and simplify foreign capital entry into Indonesia. Moreover, they are also responsible for coordinating with monetary authorities. They are the Finance Ministry and the Central Bank to improve the domestic economy's attractiveness to investments.¹⁷

Lastly, the Jokowi administration has also set the Ministry of Trade (MOT) as the point of reference for dealing with trade and commercial issues related to export and import issues. They are expected to become vital sectors as the country attempts to increase bilateral relationships on trade through the FTA (Free Trade Agreement)

¹⁴ Kementrian Luar Negri Republik Indonesia. 2019. Struktur Organisasi: Wakil Menteri Luar Negri. March 25. Accessed October 27, 2020..

¹⁵ Ministry of Foreign Affairs. 2019. Home: Foreign Policy: Foundation, Vision and Mission: Ministry of Foreign Affairs Strategic Goals. March 26. Accessed February 24, 2020. s

¹⁶ Badan Koordinasi Penanaman Modal. 2019. About BKPM: Profile. January 1. Accessed October 27, 2020.

¹⁷ Menko Kemaritiman dan Investasi. 2019. Profil Kemaritiman. January 1. Accessed October 27, 2020. <https://maritim.go.id/profil/>.

and CEPA (Comprehensive Economic Partnership Agreement) framework.¹⁸ Subsequently, improving their authority is hoped to support the country in dealing with international trade issues, directly concerning Indonesia's primary commodities such as palm and paper pulp in WTO.¹⁹ Its two directorate general of foreign trade and International trade negotiation further focus on multiple fronts of Economic diplomacy. The Directorate of Foreign Trade is promoting the Indonesian product toward foreign countries and increase imports.²⁰ Directorate International Trade Negotiation is developing a new trade agreement.²¹

The institutions mentioned above form the foundation for Indonesia's economic diplomacy, where economic interests and elements gain more importance in formulating foreign policies. The multiple institutions and newly bureaucratic reform to achieve efficiency in economic diplomacy leave possibilities of clashes between the institution's policies or the institutional bureaucracy of old law bureaucracy vis-a-vis the newer one, which functions to increase policies efficiency.²² Each policies' underline idea focuses on bringing as many as an investor to help Indonesia's economic interest.

His view on foreign policies has notified an example of this dynamic change in SBY MOFA's structure (Susilo Bambang Yudhoyono). He emphasizes Indonesia's

¹⁸ Kementrian Perdagangan Republik Indonesia. 2019. About Us: Tugas dan Fungsi. January 1. Accessed October 27, 2020. <https://www.kemendag.go.id/id/about-us/main-duty/staff-ahli-menteri>.

¹⁹ Kementrian Perdagangan Republik Indonesia, *About Us: Tugas dan Fungsi*.

²⁰ Kementrian Perdagangan Republik Indonesia, *About Us: Tugas dan Fungsi*

²¹ Kementrian Perdagangan Republik Indonesia, *About Us: Tugas dan Fungsi*

leadership on the international stage as it rose from the ashes of the financial crisis and authoritarian regime under Suharto. This view influences his MOFA to prioritize Indonesia to pursue an active position as an arbiter of peace and Indonesia branding as a democratic country.²³

SBY's MOFA under minister Hasan Wirajuda employed a foreign policy that he called "Total diplomacy." It underlines the need for each foreign policymaking process submitted under the stakeholder minister.²⁴ Thus, MOFA changed its structure and dissolved the Directorate General of International economy Relation or HELN, considering MOFA's primary focus on building Indonesia's political power rather than an economic one.²⁵

However, under the Jokowi administration, there is total turnback of the past approach of MOFA conduct in only involved in the political goal. As the stagnating economic growth leave behind his predecessor.²⁶ Jokowi's MOFA is expected to promote the Indonesian economy and make the FTA toward non-traditional partners like Africa.²⁷ Jokowi's advisor on foreign policies, Rizal Sukma, also emphasizes Indonesia's possibilities to focus on bilateral and more beneficial agreements rather than pursue a massive multilateral agreement.²⁸ Thus Rizal's

²³ Amitav Acharya. 2013. *Indonesia Matters*. Jakarta: World Scientific Publishing.

²⁴ Philip J Vermonte . 2014. "Foreign Policy Begins at Home: the Domestic Sources of Indonesia's Foreign Policy under SBY." *The Indonesia Quarterly* 201-215.

²⁵ Vermonte, *Foreign Policy Begins at Home*

²⁶ Winarno Zain . 2014. National: SBY economic legacy will cloud Jokowi's prospects. September 18. Accessed October 30, 2020. <https://www.thejakartapost.com/news/2014/09/18/sby-economic-legacy-will-cloud-jokowi-s-prospects.html>.

²⁷ Ministry of Foreign Affairs. 2019. Home: Foreign Policy: Foundation, Vision and Mission: Ministry of Foreign Affairs Strategic Goals. March 26. Accessed February 24, 2020. https://kemlu.go.id/portal/en/read/20/halaman_list_lainnya/ministry-of-foreign-affairs-strategic-goals

²⁸ Prashanth Parameswaran. 2014. *ASEAN Beat: Is Indonesia Turning Away From ASEAN Under Jokowi? Early signs point to a far more bilateral, domestic-oriented foreign policy.*

statement that ASEAN becomes "one of the cornerstones of Indonesia foreign policies" change from SBY's era "ASEAN is the cornerstone of Indonesia" shown to change Jokowi foreign policy direction.²⁹

Another clash of policies is at The Indonesia fast train project played a stake in the project between Japan and China in 2015³⁰. The new bureaucratic structure under the Jokowi administration creates confusion within the ministerial office. The clash between Luhut Binsar Pandjaitan as Coordinating Minister for Political, Legal, and Security Affairs prefers China investment compared to Japan as the latter offer is more expensive than the former³¹. On the other hand, MOFA must ensure relationships with Japan as they are the ones who build the study to the fast train project since 2008³². The outcome of china wins the tender proven to be bane toward japan-Indonesia relationships that deem as safer politically as china encroaching in the south china sea that becomes the task MOFA to rebuild it back.³³ This situation makes MOFA policies to ensure relationships with Japan that prove to be politically safer than China vis-à-vis policies to pursue cheaper investment that provides by china in an economical option. All this dynamic will be further explained in chapter 4.

December 18. Accessed October 30, 2020. <https://thediplomat.com/2014/12/is-indonesia-turning-away-from-asean-under-jokowi/>.

²⁹ Prashanth Parameswaran. *ASEAN Beat*

³⁰ Detik Finance Detik. 2015. Berita Ekonomi Bisnis: Jepang dan China Rebutan Proyek Kereta Cepat Luhut Ibaratkan RI seperti gadis. April 27. Accessed April 2020, 2020. <https://finance.detik.com/berita-ekonomi-bisnis/d-2899308/jepang-dan-china-rebutan-proyek-kereta-cepat-luhut-ibaratkan-ri-seperti-gadis>.

³¹ Detik Finance, *Berita Ekonomi Bisnis: Jepang dan China Rebutan Proyek Kereta Cepat Luhut Ibaratkan RI seperti gadis*

³² Bhubhinder Singh. 2019. "Contending visions of East Asian regional order: insights from the United States, China, Japan, and Indonesia." *Asian Affairs: An American Review* 9-41.

³³ Bhubhinder "Contending visions of East Asian regional order"

It becomes complex as the domestic element vis-à-vis the externalities of the international Arena. The trade war between China and the US has plagued the international trade trajectory into a more protectionist atmosphere or EU discriminatory import policies toward Indonesia products such as palm oil and agriculture products. It propelled into full front use of influencing buying strategy or effective diplomatic policies as both challenging each other economic dominance using the vehicle of economic diplomacy.³⁴ China's "Belt and Road Initiative has been a strategy that economically incentivizes other countries to protect themselves from the residue left behind.³⁵ The other example of EU green policies that discriminate several Indonesia product exports at such a given time to compel Indonesia policies machine into the direction of reform and ensure a sustainable environment needs to be taken as an example for this research.

The Foreign and Domestic interests have collided, and the current frame working of economic diplomacy has pushed the equal strategy from the targeting state. The state needs to balance its economic diplomacy to pursue economic (domestic interest) and politics (Foreign Interest). Therefore, there is a need to analyze the nature of Indonesia's economic diplomacy strategy to face the current need Through two-level game analysis. This interaction between domestic

³⁴ Heather Timmons . 2020. Timeline: Key dates in the U.S.-China trade war. January 15. Accessed October 27, 2020. <https://www.reuters.com/article/us-usa-trade-china-timeline-idUSKBN1ZE1AA>.

³⁵ Jeffrey Goldberg. 2016. The Obama Doctrine: The U.S. president talks through his hardest decisions about America's role in the world. April. Accessed October 27, 2020. <https://www.theatlantic.com/magazine/archive/2016/04/the-obama-doctrine/471525/>. And Hoo, Tiang Boon. China's Global Identity : Considering the Responsibilities of Great Power. Washington, DC: Georgetown University Press, 2018. <http://ezproxy.library.uph.edu:2069/login.aspx?direct=true&db=e000xww&AN=1922493&site=e-host-live>

negotiation and foreign negotiation will nail the dynamic of economic diplomacy's economic foreign policies. Government structure involving foreign economic policies will be analyzed further by looking at the domestic interest influences and principles of possible influence toward government such as MOT, MOFA, and BKPM.

At the international level, the negotiation conduct and promotion in an economic stratagem that defines each institution's economic foreign policies will be in tandem with its domestic counterpart. Using Indonesia's policies toward palm oil export and investment policies within the policymaking process is more specified. Finally, the result of this analysis will be a basis for understanding the nature of Indonesia's economic diplomacy and facilitate a new direction in Indonesia's future use of economic diplomacy.

Thus, a thorough observation of Indonesia's palm oil policies' conduct in facing the EU's green policies' threat needs to become the point of reference to expand Indonesia's economic diplomacy studies. The intense rivalry between the ministerial function, the reform under the Jokowi administration, and several point policies affected the palm oil policies.

1.2 Research questions

According to problems introduced in the background, this study has three main questions as follows:

1. What is the Institutional Framework of Jokowi's economic diplomacy?
2. How is the Foreign Policies Analysis describing Jokowi's economic diplomacy in the study case of palm policies

1.3 Research objectives

This research seeks to explain the correlations between the institutional set-up geared towards economic diplomacy and Indonesia's domestic interests with a two-level game approach by analyzing specified policies such as palm oil policies. In doing so, this study also looks at the nature of Jokowi's economic diplomacy: whether it leans toward the economic or political goal by reflecting upon the practices of economic diplomacy of MOT, MOFA, and BKPM in the current international environment at palm oil policies.

1.4 Research contribution

This study will provide a clear fundamental understanding of domestic interest and its power to influence Indonesia's economic foreign policymaking structure. The characterization of Indonesia's economic diplomacy will help understand Indonesia's future economic diplomacy trajectory.

1.5 Thesis structure

The first chapter introduces the thesis's background while establishing the research questions that underline this thesis. Additionally, it also elaborates on the objective and significance of this study.

The second chapter will be discussing the theoretical framework of the thesis. The first part of this chapter is a literature review of the past peer-reviewed studies on the research's respective topics. It begins with previous studies on economic diplomacy and its application. It continues by talking more in-depth about Indonesia's case, covering topics such as the institutional structure of Indonesia's foreign policy decision-making and the influence of Indonesia's previous economic

diplomacy's experience on its current effort. The last half of the chapter covers the theory and concepts of two-level game analysis and economic diplomacy framework. They will contribute to exploring domestic interest influence in economic diplomacy making, and later this finding will become the basis for mapping the nature of Jokowi economic diplomacy.

The third chapter explains a four-part research methodology. The first part is the research approach, the second is the research method, the third is the data collection technique, and the final part is the data analysis technique. These methodologies will be used in addressing the research questions of the research.

The fourth chapter is the analysis of the research and the most critical part of the research. This chapter will analyze Indonesia's economic diplomacy conduct and its implications toward the nature of Indonesia's economic diplomacy in systematic methodology using the theory and concept, as mentioned in the previous chapter. The result of the analysis will be answering the research questions.

Finally, the study closes with a conclusion and a recommendation based on the research findings. It addresses potential topics for upcoming studies that may help unveil the future of Indonesia's economic diplomacy for different administrations.