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East Asia Regional Governance and Domestic Policies of Portfolio Investment in Post-Asian Financial Crisis: The Case of Indonesia

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East Asia Regional Governance and Domestic Policies of Portfolio Investment in Post-Asian Financial Crisis: The Case of Indonesia

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Abstract: Despite that the portfolio investments flow has been heavily linked to the onset of the financial crisis in East Asia (1997-1998), it is evident that ASEAN continues to further liberalize its portfolio investment regime. The response from ASEAN Member States (AMS), in this case the Government of Indonesia, is intriguing in the sense that Indonesian political elites, at the formal governance structure level (mostly at the high-level governance structure, for example, ASEAN Summit), express their best intentions and commitment to adhere to the regional standards being commissioned by ASEAN; to facilitate more open and liberal ASEAN portfolio investments flows. Meanwhile, domestic policies do not reflect this conformity with the regional standards or policy steps to achieve it partially or incrementally. This paper explores the idea to employ a historical institutionalism (HI) method within the regulatory regionalism field to look at the institutional decision making and policy in terms of domestic agents and structure. This will extend the explanatory value of regulatory regionalism, as well as represent the relationship between the regional governance policy initiatives on portfolio investment flows, and the domestic political/bureaucratic context in Indonesia.

Keywords: ASEAN, regional governance, portfolio investments liberalization, regulatory regionalism, historical institutionalism

Context

The Association of South East Asia Nations (ASEAN) is currently considered to be the most advanced regional multilateral organization in the East Asia region (Ba, 2014; Kim, 2014; Volz, 2012). Established in 1967 and nearly celebrating its 50th anniversary, ASEAN has been the institutional home of important regional forums, such as the ASEAN Regional Forum (ARF) established in 1994 and the ASEAN Plus Three (ASEAN+3)

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mechanism, established in 1997. Institutional support to ASEAN is provided by a dedicated Secretariat in Jakarta, Indonesia, as well as professional human resources to run the Secretariat (Kim, 2014). ASEAN had previously launched the ASEAN Economic Community (AEC) Blueprint 2015 setting out the financial liberalization targets to be achieved from 2008 to the end of 2015. The AEC Blueprint 2015 provides an overall guideline for each state to “transform ASEAN into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital” (ASEAN, 2008). Aside from the financial liberalization target in Blueprint 2015, ASEAN has also planned to achieve further economic development by targeting closer financial integration and broader Asian regionalism, or the so called ‘ASEAN 2030’ (ADBI, 2014).

Whereas the AEC 2015 focussed on building ASEAN’s domestic financial infrastructure and regulatory frameworks as the foundation for financial liberalization (ASEAN, 2008), “ASEAN 2030” aims to achieve longer-term economic development by placing more emphasis on increased ASEAN engagement with its partners and other states in East Asia, for example with China, Japan, South Korea or India (ADBI, 2014; Kusuma, 2014). This engagement of other states in East Asia with ASEAN is also acknowledged as one of the central factors shaping the regional governance of financial liberalization in ASEAN. China and Japan are arguably on the path to deepening financial liberalization in ASEAN on a wider scale. One of the identified factors potentially determining the dynamics of East Asia’s regional governance structure (other than the economic assumption that greater economic development can only be achieved by fostering closer financial integration) is the existence of China and Japan competing to be a dominant power. It is thus important that future research in the field takes into account the potential political and economic influence of the Plus Three Countries in shaping the policy platform of regional governance.

Progressing with more integrated financial services, ASEAN Leaders later formally signed a document (Kuala Lumpur Declaration) on 22 November 2015 titled “*ASEAN 2025: Forging Ahead Together*” (hereafter ‘ASEAN 2025’). The document, which was signed during the 27th ASEAN Summit held in Kuala Lumpur, Malaysia, provides the common goals to be achieved by ASEAN as well as guiding measures on how to achieve such goals. Within the AEC Blueprint 2025, more open and liberal ASEAN international portfolio investment flows are evident as one of the important components to achieve the AEC 2025 (ASEAN, 2015; ASEAN, 2016; Kusuma, 2015). In order to achieve the goals as set out in the document, ASEAN has further factored the strategic measures to be carried out by AMS. In the area of international portfolio investments flows, ASEAN has explicated that AMS needs to “strengthen financial integration to facilitate intra-ASEAN trade and investment by increasing the role of ASEAN indigenous banks, having more integrated insurance markets, and having more connected capital markets” (ASEAN, 2015, *ASEAN 2025: Forging Ahead Together*, p.65). Looking further, the document even provides more comprehensive measures to be undertaken. ASEAN is clearly expected to “enhance capital account liberalisation to encourage greater flows of capital among ASEAN Member States to facilitate cross-border investment and lending in the region” (ASEAN, 2015, *ASEAN 2025: Forging Ahead Together*, p.67-68).

In relation to such importance of international portfolio investment flows liberalization to ASEAN, the region will anticipate further dynamism in its integration efforts. This paper attempts to explore the possibility of utilizing the concept of regulatory regionalism, to observe the structural governance dynamics in East Asia. In doing so the responses of states can be taken reflect and implement the outcome of the governance structure into the domestic frameworks. Specifically, the paper intends to explore the possibility of employing a historical institutionalism (HI) approach within the regulatory regionalism field to look at institutional decision making and policy in terms of domestic agents and structure, using the case study of Indonesia. A core focus of such utilization is the existence and policy lag in Indonesia’s domestic policies as a response to rapidly acceleration of ASEAN financial liberalization, especially in the area of corporate bond markets. This is a contested policy area which is also a cause of tension. The paper further explores how relevant domestic authorities are showing altered responses to the commitment given by state’s political elites at high-level formal governance structure in ASEAN. The corporate bond market in Indonesia wherein altered responses are evidently shown is chosen as a case study in which to analyse these focal areas further. In addition, this area also possesses a significant number of initiatives in which Indonesian authorities are actively involved.

At the core of the regional financial liberalization agenda is the liberalization of investment flows, both in the form of Foreign Direct Investment (FDI) and international portfolio investment. International portfolio investment flows has been generally considered to be one of the major contributing factors to the onset of the financial crisis in East Asia (1997-1998). Liberalization of international portfolio investment flow is also attributed as one of the major problems facing the sustainability of Euro Zone, especially with the relations of (over) flowing international portfolio investment and the occurrence of the crises (Hall, 2012; Volz, 2013; Lefkofridi and Schmitter, 2015). Thus, the existence of financial liberalization initiatives, with the prospect of more investment flows in the East

Asian region needs to be approached cautiously to circumvent the occurrence of financial volatility in the region. Nevertheless, there are sometimes contradictory policies taken by states in encouraging FDIs or promoting international portfolio investment (Cavoli, McLver, and Nowland, 2011), which are mostly in favour of promoting international portfolio investment. Although there are risks associated with overflowing international portfolio investment, political elites seem to support policies promoting financial liberalization, in the belief that there are benefits to derive from freer capital inflows within the region.

It is to the central interest of ASEAN to further liberalize its international portfolio investment regime, as the market also has a need to grow further. This interest has been previously marked in AEC Blueprint 2015 and included in the plan of "*ASEAN 2030*", as noted above. However, the response from ASEAN Member States (AMS), in this case including the Government of Indonesia, is intriguing in the sense that Indonesian political elites, at the formal governance structure level (mostly at the high-level governance structure, for example, ASEAN Summit), express their best intentions and commitment to adhere to the regional standards being commissioned by ASEAN; that is, to facilitate more open and liberal ASEAN international portfolio investments flows. Meanwhile, domestic policies do not reflect this conformity with the regional standards, or policy steps to achieve it partially or incrementally. Overall, the relevant authorities in Indonesia (that is, Ministry of Finance/MOF, Central Bank/Bank Indonesia and Financial Services Authority/Otoritas Jasa Keuangan (OJK))[2] appear to hold the view that strategies to actually implement the ASEAN liberalization of international portfolio investment flows should not be trialled further by Indonesia. The reasons for this tension and policy lag remain under-identified and under-explained in the current literature on regulatory regionalism and financial integration in East Asia.

Landscape of regionalism and governance theories

Neo-functionalism is based mostly on the existence of a "spillover effect". The "spillover effect" entails the notion that integration between states in one economic sector will create strong incentives for integration in the further sector, in order to adequately capture the perks of integration in the area in which it started. The original concept of Haas's (1961) neo-functionalism further describes and explains the process of regional

[2] MOF is the technical level-coordinator of Government of Indonesia's involvement in all financial services liberalization initiatives under AEC. While OJK has the authority over financial services regulatory framework (banking, capital market and non-bank financial institutions), Bank Indonesia is responsible for the macro-supervision of the banking and payment system.

integration with reference to how three causal factors interact with one another: (a) growing economic interdependence between nations, (b) organizational capacity to resolve disputes and build international legal regimes, and (c) supranational market rules that replace national regulatory systems. He also suggested that the process will eventually lead to political integration by the creation of so-called supranational institutions, which have a much more complex decision-making process. These supranational institutions are then expected to develop their capacities over time to better serve the integration process not only in the political area but also other sectoral areas (Sandholtz & Sweet, 2012). Nevertheless, there is further practical elaboration needed to substantiate this claim rather than a mere conceptual or theoretical instrument. In more recent research engaging neo-functionalism theory (Schmitter& Lefkofridi, 2016), it is currently even possible to determine the likelihood of disintegration of an integration process. Their research used empirical analysis with reference to causal factors of regional integration, including those three mentioned earlier in this paragraph, to observe the likelihood of European Union (EU) disintegration.

Meanwhile, Moravcsik's (1991, 1993) liberal inter-govermentalism initially is an opposition to neo-functionalism theory by rejecting the idea of equal level, as the interests of each state are different. The concept of liberal inter-govermentalism itself is the latest evolved version of inter-govermentalism theory as first introduced by inter-govermentalists, such as Hoffman (1966). It is acknowledged that both traditional inter-govermentalism and liberal govermentalism placed their emphasis on member states as the main actors. However, liberal inter-govermentalism suggested that the government of member states is just basically bringing the result of various domestic political interests or groups into inter-government level (Pollack, 1994). Moravcsik (1993) suggested that liberal inter-govermentalism believed in the power of international organizations possessed by the member-states and in decisions being unanimous. This concept informs decision-making in many existing international organizations, including ASEAN. He argued that integration, driven by national governments, is often based on the domestic political and economic issues of the day. The sequel approach for European integration, namely the new institutionalism, was then considered to be an alternative to debates on European integration. The new institutionalism itself eventually evolved into different approaches, namely historical institutionalism, rational-choice institutionalism, and sociological institutionalism (Hall & Taylor, 1996; Pollack, 1996). One of these approaches, historical institutionalism, is going to be used expansively in this paper. However, Rattanasevee (2014) critiqued the new institutionalism approach suggesting that it might not be adequate to describe the institutional problems occurring in the case of ASEAN. It was attributable primarily because new institutionalism did not take into account the dynamics happening in ASEAN as a result of the interactions of values and norms in contestation in the ASEAN region, possibly through the existence of the 'ASEAN Way'.[3]

The conventional literature views that established and widely implemented regional integration theory, especially in the case of the European integration, might not apply to non-Western countries. Kim (2014) suggested that these major regional integration theories and approaches underlying European integration, namely neo-functionalism, liberal inter-govermentalism, and new institutionalism, were not adequately compatible with the ASEAN integration. Acharya (2012) also argued that existing theories on regional integration might not be adequate to explain non-Western countries' experience of integration. Even in modern debate nowadays, these major regional integration theories and approaches were still considered to be relevant only for European integration, yet even lesser relevance to East Asia integration. For instance, neo-functionalism theory is still seemingly used by some scholars (such as Sandholtz & Sweet, 2012; Schmitter& Lefkofridi, 2016) to provide conceptual and theoretical instruments largely explaining and observing EU integration. Kim (2014) suggested that the incompatibility of these theories and approaches to East Asia integration was mostly due to the different level of democratization among ASEAN countries. He added that another reason would be the likely political-driven integration in ASEAN, as opposed to economic-driven as the case in European integration. However, he later also argued that theories and approaches underlying European integration, for instance, neo-functionalism, may serve as an underlying theory for ASEAN integration by taking into account the implementation of the ASEAN Way, in the sense that treating the ASEAN Way as an incentive for further integration. Besides, he further asserted that the concept of institutionalization used in these theories and approaches may also be relevant in the case of ASEAN integration if only ASEAN can utilize the various formal organs under the cooperation (Kim, 2014).

[3] The term 'ASEAN Way' mainly refers to the values that ASEAN holds in its interaction and inter-relationship with countries outside ASEAN. Most concepts to illustrate 'ASEAN Way' to date are dominated by regional security area. However, the term 'ASEAN Way' suggests broader implementation about engagement of ASEAN with its counterparts, including in the area of financial services liberalization. For instance, the current development of financial services liberalization in ASEAN is arguably affected by the diverse economic development within AMS. Thus, in its financial services liberalization negotiation with counterparts, ASEAN mostly take this diverse economic development into account. For more detailed discussion on the earlier concept of "ASEAN Way', especially in the regional security area, refer to an article by Amitav Acharya (1997), or Alastair Iain Johnston (1999).The more recent publications on 'ASEAN Way' includes Mely Caballero-Anthony (2005), or Logan Masilamani and Jimmy Peterson (2014).

As a result, the search for theories and concepts to better explain the distinctiveness of the East Asia regional integration has driven international relations scholars on regionalism to a seek additional explanations. Some scholars continue to explore the similarities and adjustments to the pre-existing regional integration theories. Breslin (2010) has introduced the use of comparative regionalism with a regional governance approach. He argued that East Asia regionalism should be approached from the motives (rationales) for integration. This concept of comparative regionalism as introduced by Breslin (2010) has evolved from that preceding concept introduced by Beeson and Jayasuriya (1998). They used the comparative regionalism approach from the point of view of the regional institution and political rationales, to compare the process of regional integration between EU and Asia Pacific Economic Cooperation (APEC). Breslin (2010) argues that while European integration debates mostly bring the concept of what would be the result of closer integration, in opposition, the more relevant concept to approach East Asian regionalism would be on the motivations for integration. These motivations then might lead East Asia regionalism into shaping its future regional architecture. Acharya (2012) also made a claim that the complexity of regional integration might just be the driver for a comparative regionalism to take place in the literature of regional integration. He concluded that the approach to see the complexity of issues might well be served by comparative regionalism. Nevertheless, comparative regionalism may need to evolve further to better taking into account the governance structure dynamics in East Asia. In particular, there is a need to develop further the use of comparative regionalism in approaching modern regional integration (Lombaerde et al., 2010).

Scholars engaging with the late comparative regionalism (Breslin, 2010; Lombaerde et al., 2010; Acharya, 2012) are still in the process of developing its theory in conformity with East Asia regional integration and liberalization. Recent critiques have also pointed out that the works on comparative regionalism are still mostly centered on Western country case studies (Risse, 2016). As a result, comparative regionalism might still need to find the best possible approaches to better engage with integration beyond the European Union or so-called "EU-centrism" (Acharya, 2016). In general, the concept of comparative regionalism might have succeeded in explaining the governance structure of the East Asia integration. However, it still is largely unable to identify the governance structure dynamics in East Asia. In addition, comparative regionalism might as well unable to explain the governance structure dynamics associations with the capacity of States to reflect and implement the outcome of the governance structure into the domestic frameworks. Specifically, in the area of East Asia financial liberalization, comparative regionalism even might not take a theoretical/conceptual position just yet. This, in parts, is unforeseen considering the recent development in regional financial governance in East Asia, as well as the occurrence of Asian Financial Crisis. In parts, the concept of regulatory regionalism (Jayasuriya, 2009; Jones and Hameiri, 2015; Fernández-i-Marín and Jordana, 2015) seems to be able to offer a theoretical/conceptual lens to help explain the governance structure dynamics for East Asia integration, including financial liberalization.

The concept of regulatory regionalism has emerged to complement comparative regionalism by taking into account these following two variables: (1) dynamics of regional governance structure, and (2) capacity of states to reflect and implement the contestation that occurs internally within states. On the variable of dynamics of regional governance structure, the regulatory regionalism approach to East Asian financial liberalization has focused on the existence of diverse and at times competing political powers trying to be the centre of the broader financial integration in the region (Pak and Wyplosz, 2008; Amador, 2010; Breslin, 2010; Hameiri and Jayasuriya, 2011; Hamanaka, S., 2011; Cho and Park, 2014). This focus might as well serve as an indication of the governance structure dynamics specifically in the area of East Asia financial liberalization. Meanwhile, on the second variable, Hameiri and Jayasuriya (2011) have argued that regionalism actors are upscaling their scope of initiatives to formulate wider regional frameworks and be induced into states' regulatory framework. According to Hameiri and Jayasuriya, the Asia-Pacific's regulatory regionalism utilises professional networking as tools to escalate issues to regional governance, which in turn created the regional regulatory framework.

Regulatory regionalism assumes that the approach of a shared regional regulatory framework facilitated a concomitant absorption of change into the domestic regulatory framework. For instance, Hameiri and Jones (2015) have identified the implementation gap in regional standards' induction to domestic regulatory mechanisms in the area of anti-money-laundering governance using the case study of Myanmar, to analyse the work of Anti-Money Laundering/Financial Action Task Force (AML/FATF). They demonstrate that what happen in states internally affects the overall outcome of regional governance. Increasingly regional governance takes the form of regulatory networks to embed governance practices, policies, and standards at the national level. Nevertheless, that implementation occurs at the domestic level, and is, therefore, subject to contestation at that level, shaping the actual outputs of the regional governance agenda. To this end, regulatory regionalism further strengthens the case of regional standards' induction to domestic regulatory mechanisms. Hameiri and Jones (2015) also argued that in regulatory regionalism, the state is transforming through the shifting of the regulatory focus to not only domestic level, but also to the wider regional level, involving the countries' regulatory agents and illustrating the existence of the regional regulatory framework. Some scholars engaging with the concept of regulatory regionalism (Jayasuriya, 2009; Jones and Hameiri, 2015; Fernández-i-Marín and Jordana, 2015) have argued that the governance structure of regional integration initiatives will take a particular space in the regulatory framework of the member countries, in such a way that it will affect states' policy responses.

Utilizing an appropriate approach to the context of regulatory regionalism concept will allow the depiction and insertion of contestation at the domestic level to the overall outcome of regional governance. It is acknowledged that a realist informed approach to regional governance may not be able to explain the implementation gap between the regional regulatory framework and the states' domestic capacity (Hameiri and Jones, 2015). However, the post-realist approaches, liberal (Mattli and Woods, 2009), constructivist (Sikkink, Risse-Kappen, and Ropp, 2013), and governmentality (Valverde and Mopas, 2004), might have successfully captured and taken into account the implementation gap in their approaches. The work of Mattli and Woods (2009) has captured the existence of domestic contestation in the overall process of shaping regulatory outcomes. Constructivists, such as Sikkink, Risse-Kappen, and Ropp (2013), have also taken into account that there were implementation gaps between standards that have been set up internationally with the implementation performed by states. Meanwhile, govermentalists, such as Valverde and Mopas (2004), believed that regulatory practices of states, in the end, affecting the overall regional regulatory outcomes. All of these post-realist approaches, at least, acknowledged that states might implement the regulatory differently at the domestic level as compared to that of regionally prescribed. This different regulatory practice takes the form of altered responses shown by domestic authorities in, for instance, regional forums.

Indeed, there are notable theories to explain the rationales of the altered responses provided by domestic authorities in Indonesia. There is still the considerable lack of scholarly works to date that analyses these altered responses in international portfolio investments flow with domestic political/bureaucratic context in Indonesia. The literature to date, however, has explored some aspects of altered responses identified. Explicitly around the area of financial liberalization, the responses provided by corresponding authorities might be a result of capital account domestic policies undertaken by other states (Simmons and Elkins, 2004). Hyde (2011), taking an illustrative case in the area of investment, also argues that the responses given by a state in the international forum are a form of “signalling” toward other states. However, in order to allow further analysis of the responses provided by Indonesia’s domestic authorities, there is a need to identify and assign its domestic agents and structure.

ASEAN and the dynamics of East Asia regional governance

The dynamics of the regional governance in East Asia is one of the central factors in shaping up the regional governance of international portfolio investments liberalization in ASEAN. One of the drives for the dynamics would be the relationship between ASEAN and its neighbouring countries, mainly the Plus Three Countries. For instance, China and Japan are motivated to escalate the international portfolio investments liberalization in ASEAN to a wider scope. Thus, an important part of the research on East Asia integration will also best to explore how the escalation creates the dynamic of ASEAN regional governance, which in the end affecting Indonesia responses internally to the ASEAN initiatives. One of the possibly identified factors shaping the dynamics of East Asia regional governance structure, other than the economic assumption that greater economic development can only be achieved by fostering closer financial integration, might be the existence of diverse competing political powers trying to be the center of the broader financial integration in the region. As Cho and Park (2014) pointed out, the evolution of East Asian regionalism in a general sense has not only been driven by the need for closer economic cooperation, but also via contested political agendas among regional states for leadership roles. They further argue that there are contested regionalism, both in terms of vision and policy approaches, as performed by Japan and South Korea, being the closest allies of the US in Asia, and China as the new emerging rivalry. They believe that while Japan and South Korea claimed to promote an open-and-inclusive regionalism (that is, in East Asia Summit/EAS case, or the “Asia-Pacifism”), China may have the intention to dominate the internal Asia (“Asianism”). Furthermore, the dynamics of regional governance in the East Asia might also be the result of the domestic political agendas of particular countries, seeking for wider global engagement (Hamilton-Hart, 2014). She argues that China’s strategy to employ labour-intensive and export-oriented in its monetary policy, especially after the Asian financial crisis, might be one of the contributing factors to its investment flows.

Breslin (2010) pointed out that the current emerging China dominance, to be in rivalry with Japan mainly, in East Asia was primarily caused by the needs of China for a greater security agenda. He further argued that the rivalry between the current emerging China with established Japan in the East Asia region may lead to multiple architectures in the region. Breslin (2010) argues that the existence of EAS, which pursued in parallel with the existence of ASEAN and its wider cooperation with the Plus Three Countries (ASEAN+3)[4], can be perceived as a neutralizer to the growing dominance of China in the East Asia region, with the inclusion of India, Australia, and New Zealand. Haacke and William (2009) also set out a theory based on the existence of ASEAN+3 and EAS, arguing that EAS existence is a political move to balance the impact of existing competing interests among internal ASEAN, the Plus Three Countries, as well as the Pacific countries (Australia). The experience of dominance is not uncommon in a regional integration setting. It also has happened in other financial liberalization initiatives, such as the Euro Zone, the Southern African Development Community (SADC) and the North American Free Trade Area (NAFTA), suggesting that over-reliance in one dominant State would most likely bring downside to the overall region in the occurrence of a crisis (Krapohl, 2015; Skidmore-Hess, D., and Skidmore-Hess, 2013; Webber, 2014; Volz, 2013).

In addition, there clearly is also an emerging sentimentality within ASEAN internally to claim itself to be the center of a regional process in East Asia. ASEAN, using its ‘centrality principle’ and the existence of the ASEAN Economic Community (AEC), confidently wanted to take the central role in the inter-regional integration process (Amador, 2010). Caballero-Anthony (2014) has defined ASEAN Centrality from both points of views, externally and internally. Externally, she argued that the existence of ASEAN Centrality emerged from the reluctance of the existing competing powers (China, India, Japan, and the US) to see the others rising for leadership in the region. For instance, it is unlikely that Japan is willingly able to accept China-led initiatives. The recent famously China-led initiative called Asian Infrastructure Investment Bank (AIIB) may serve as another indication of the competition between China and Japan for regional leadership. The AIIB itself is a multilateral development bank in the Asia-Pacific region, as compared to existing Asian Development Bank (ADB), that has started its operational in early 2016. It provides mostly funding for infrastructure building in the region. As most states in Asia-Pacific are participating in the AIIB, Japan, and the US are not included in this China’s originally proposed development bank. China currently holds more than 30 percent of shares in the AIIB. Each of the rest of the shareholders holds less than 10 percent. India, Russia, Germany, South Korea, Australia, France, and Indonesia are among the biggest

[4] Plus Three Countries (ASEAN+3) refers to a group of countries in East Asia, namely China, Japan, and South Korea. These 3 countries are in close cooperation with ASEAN in pursuing a more integrated East Asia region.

shareholders to the AIIB. Although discussions of the AIIB was included under the governance of the ASEAN Plus Three Finance Ministers' Meeting (AFMM+3), Japan as one of Plus Three Countries (China, Japan, and South Korea) has reiterated its no commitment policy to join the AIIB. There is even no indication in the near future that either Japan nor the US are going to voluntarily join the AIIB.

Meanwhile, internally, Caballero-Anthony (2014) further argued that ASEAN Centrality means that AMS need to consolidate internally, and presumably have common positions in its encounter with partners. She concluded that ASEAN Centrality does not necessarily mean that ASEAN takes the leadership roles in a forum. To this extent, she argued that ASEAN Centrality refers more to the impact or 'influence' ASEAN is having to the forum, for instance raising up an issue to the closer attention of whole members of the forum. This concept of 'influence' has also previously been captured by scholars in ASEAN studies, such as Jones (2010) and Stubbs (2014). While Jones (2010) focused on the concept of influence as parts of ASEAN Centrality, Stubbs (2014) further has determined the variables to measure ASEAN impacts to a forum, such as issues being raised and led by ASEAN in its international networks. Caballero-Anthony (2014) has also stressed the point that ASEAN Centrality may as well refer to the positioning of ASEAN to be involved in as many international networks as possible. To this extent, she assumed that ASEAN also opened itself to any international networks available and which are keen to work with ASEAN.

China's intention to dominate East Asia may have been in conflict with other countries in the region, affecting the dynamics of financial liberalization among countries in the region. This is, for instance, as suggested by Petroloulos (2014) that China and Brazil have shaped the new way of centered-regionalism, with both countries making efforts to be the new power in the region by strengthening their economic and financial development. Nevertheless, there is still ongoing debates and literature to the extent of China's intention to dominate East Asia, particularly in relation to security issues. Mearsheimer (2006) predicted that China is aiming to increase its domination in East Asia as he concluded that there are similarities between China's foreign policies stance to those of the US domination in the West. He further argued that China also ensures that its domination surpasses its rival, notably Japan in East Asia. Roy (2005) previously also argued that China is undoubtedly trying to dominate the Asia-Pacific region. Particularly in relation to ASEAN, he further argued that ASEAN carries out two strategies, namely 'hedging' and 'engagement'. He asserted that the term 'hedging' means that ASEAN tries to balance the domination of China by opening itself to other international networks, including China's rivals, such as the US and Japan. Meanwhile, he also asserted that the term 'engagement' means ASEAN is thriving to include China in most of its regional initiative. Thus, he believed that ASEAN employs strategies not to seclude China, yet simultaneously looking for balancing power.

As mentioned above, more recent literature on China mostly acknowledged that there are clear signs of China's rise for domination in the region. Johnston (2003) suggested that there is no adequately available empirical evidence that China is heading for its own hegemony with its security and economic development, including in Asia-Pacific. However, in a more recent article, Johnston (2016) also argued that the evidence may not suggest that China is heading for more aggressive policies for domination. He presented empirical evidence by using Beijing Area Study (BAS) method to conclude that there are no upward trends in 'popular nationalism' in China. Yet, the focus of China's intention may as well be drawn particularly into responses of states to the rising of China (Roy, 2005). For instance, it is perhaps more relevant to discuss responses of ASEAN states, and perhaps Japan as its dominating rivalry in the region, to encounter China's financial integration proposal in East Asia. Again, for instance, in the case of the AIIB, Japan's stance to exclude itself from the AIIB is clearly a response to that China-led and dominated bank. It is evident that China and Japan seek to deepen the scope of international portfolio investments liberalization in ASEAN (ADB, 2012; ADBI, 2014; Kusuma, 2015).

This paper does not aim cover the extensive debate and literature on the topic of China's domination efforts in East Asia. However, it is important to acknowledge within the context of this paper that China's leading power in the ASEAN region itself, or perhaps with any Plus Three Countries leading power, has emerged as problematic in various ways. The Plus Three Cooperation might have different priorities in pursuing the level of expected financial integration as compared to what expected by members of ASEAN (Pak and Wyplosz, 2008). Therefore, the Japan-Sino existing domination in East Asia region, as well as its current emerging rivalry with China, are important to be included in the setup of research on East Asian integration. China's ambition to lead the "Asianism" has recently also been reflected in the negotiation of Regional Economic Comprehensive Partnership (RCEP) (Kusuma, 2016). Furthermore, adding to the dynamics of the regional governance in East Asia, there is also Pacific countries' ambition as mostly led by Australia to lead wider financial integration in Asia-Pacific. Though there were dynamics along the way, it is expected that the level of East Asia's engagement with Pacific countries will even further be enhanced in the future (Beeson and Jayasuriya, 2009). Australia, for instance, is currently projecting herself to be the main hub of the financial center in the Asia-Pacific region by leading an initiative called the Asia Region Funds Passport (ARFP) (Weir, 2011).

Portfolio investment liberalization and Asian financial crisis

The impact of international portfolio investment inflows has long been the subject of scholarly debate in the area of financial liberalization. Some scholars argue that portfolios over-flowing in the case of financial integration might not be apparent or positively correlated with the emerging countries economic development, such as the works of Hwang and Sitorus (2014), and Rhee and Yang (2014). Most of these studies were conducted empirically correlating to one or more certain dependent variables, for instance, asset prices. Less or none attention was given in these studies to the issue of conditionality, such as domestic regulatory framework or policy responses. However, prominent literature on the subject still suggests that financial liberalization, especially in the form of more relaxed regulatory framework and/or unrestricted capital controls, would encourage more international portfolio investment flowing into the states demanding more appropriate policy measures domestically in each states and regionally (Agénor, 2003; Mendoza, Enrique, Quadrini, and Ríos-Rull, 2009; Kabigting and Hapitan, 2012; Xaypanya, Rangkakulnuwat, and Paweenawat, 2015). The appropriate policy measures are indispensable because the occurrence of financial crises might be mostly caused by massive capital flows (Mendoza, Enrique, Quadrini, and Ríos-Rull, 2009; Hall, 2012). Appropriate policy measures are also required because of the presence of inevitable spill over the impact of the financial crises. For instance, the 2007-2008 global financial crisis spilled over not only to East Asian economies domestically but also to the wider East Asian region. Hall (2012) has cautioned that the Asia-Pacific integration process should learn that the Euro Zone crisis was rooted from the overflowing of risky investment from financial services in the “North” to the “South”.

Rodrik and Subramanian (2009) suggested that financial liberalization might have an unpredictable impact, in addition to adverse effect to growth. In addition, they argue that domestic structural reform might be a constraint for emerging countries to implement. As a result, financial liberalization might need to be re-evaluated as it has reached the level of “hyper-liberalization” (Rodrik, 2011; Howse, 2013; Trachtman, 2013). Other scholars have advocated for an exploration of other important factors related to domestic and regional growth problem, such as diversifying exports (Tantisantiwong, 2010) or regional financial safety mechanism (Sethapramote, 2015). Rethel (2012) coined the term “disintermediation” to refer to a setback of financial liberalization, in which portfolio instruments (corporate bonds) are (over) flowing to countries as part of openness in financial architecture, which is also referred to commonly as “hot money”. Rodrik and Velasco (1999) has also previously included in their research the analysis of the potential threat of “hot money” in East Asia. They justified that the existence of “hot money” as a result of international portfolio investment overflowing to countries might possess a significant risk towards countries’ capital flows instability. To add further complexity to the issue, the governance of the regulatory structure in East Asia was also lacking the wider participation of stakeholders when it comes to policy-making process in response to “hot money” flows (Walter, 2005; Rethel, 2010).

Another focal problem with “hot money” flows is the case that the flows start to decrease, which in some cases can be swift. Calvo (1998) and Reinhart & Calvo (2000) have previously warned about this swift decrease in “hot money” flows. He suggested that swift decrease in “hot money” flows can negatively impact the economic and financial security of countries. Several scholars have also predicted the impact, such as “sudden stops have a large negative, but short-lived, impact on output growth; and that these effects are substantially larger (almost three times greater) than those associated with a currency crisis alone.” (Hutchison & Noy, 2006, pp. 245) This empirical research was carried out to basically observe the overall occurrence in emerging economies. However, to the extent of the research, Hutchison & Noy (2006) concluded that the empirical model used can also be applied to Asian Financial Crisis case, in which they observed 5 (five) Asian countries affected by the crisis, namely Indonesia, Malaysia, Philippines, Thailand, and South Korea. Calvo (1998) further concluded that the likely higher impact from the swift decrease in “hot money” flows will be experienced by countries with significant international portfolio investment inflows. According to Calvo, “Short term financing may add to those risks to the extent that they contribute to generating larger slowdowns in capital inflows (or downright outflows)” (1998, pp. 47) Thus, the issue of (over) flowing international portfolio investment is central to the occurrence of the crisis, including that of Asian Financial Crisis.

Literature has shown it perhaps started in the beginning of 1990s with the significant rises in investment flows shown among Asian countries that mostly were in the form of portfolio instruments and widespread credit from banks (Kahler, 1998; Haggard, 2000; Noble & Ravenhill, 2000; Grenville, 2000, Sheng, 2009).

> “This increase in capital flows was partly the result of an important policy development. All the high-growth countries in the region (with the notable exception of China and arguably Taiwan) had either opened their capital accounts some time earlier or made moves to do so in recent years.” (Haggard, 2000, pp. 5)

There are at least two important common themes discussed in the literature by these scholars in relation to Asian Financial Crisis. Firstly, they assumed that the liberalization of international portfolio investment inflows had been in process in the early 1990s, leading to international (over) flowing international portfolio investment to Asian countries. Secondly, they argued that the crisis was also fuelled by the weak domestic financial system of Asian countries, allowing the crisis to impact countries even deeper. However, they also revealed that the reform introduced by countries within region mostly dealt with the weak domestic financial system of domestic countries, with less attention to (over) flowing international portfolio investment. Thus, as suggested by regulatory regionalism, the regional financial reform will take a particular space in the regulatory framework of the member countries (Jayasuriya, 2009; Jones and Hameiri, 2015; Fernández-i-Marín and Jordana, 2015).

Yet, for instance, in the case of ASEAN, the liberalization of international portfolio investment inflows is somehow still being actively pursued. As a result, governments are confronted with the pressure to adopt international regulatory frameworks set up by international, such as IMF, or regional organization, such as ASEAN, to achieve more globally accepted regulatory practices. (Sheng, 2009). Countries were then faced with a required choice of addressing reform by following the international or regional regulatory frameworks, while on the other hand leaving the liberalization of international portfolio investment inflows moving forward (Kahler, 1998). However, considering its robust link with the occurrence of financial crises, the liberalization of international portfolio investment inflows is exactly the part that countries might take a more cautious and gradual policy approach in their future plans (Sachs, 1998). While it is not within the scope of this paper to empirically examine the relationships between liberalization of international portfolio investment inflows and the financial crises, the reasons of preserving more liberalized regime will be one of the main subjects in this paper. Furthermore, it is observed that, particularly in the case of Indonesia, the country is facing a domestic policy dilemma in reacting to the more liberalized regime pressure. For instance, Indonesia regulatory frameworks on international portfolio investment are still mostly ruled by discriminatory restrictions on the market access for non-residents or foreign investors. One of the most apparent indications on those discriminatory restrictions would be in the area of corporate bonds markets (ADB, 2012).[5]

Those discriminatory restrictions are one of the central issues of the ASEAN financial liberalization, especially in the area of international portfolio investment flows. Under the purview of ASEAN Finance Ministers Meeting (AFMM), a formal organ under the current governance structure of ASEAN for financial-related matters, ASEAN has mandated to liberalize those restrictions. The launch of the ASEAN Debt Securities Disclosure Standards Scheme (The Scheme) back on 1 April 2013 has signalled the first breakthrough to link the corporate bond markets of AMS by liberalizing and harmonizing regulatory framework in the disclosure part of cross-border bonds issuance (ASEAN Capital Market Forum (ACMF) Press Release, 2013). At the other end, ASEAN has also moved forward with the plan of ASEAN Exchanges Linkage, an ambitious proposal to link the capital market infrastructure in ASEAN, including integrating the system of ASEAN Stock Exchanges as well as the clearing and settlement system. Through this proposal, ASEAN is trying to offer an effective trading system for non-residents or foreign investors to purchase ASEAN domestic corporate bonds. Thus, say, if a Singaporean wants to purchase the corporate bonds of Indonesian public listed companies, he/she can easily do a cross-border trade using any AMS domestic brokers from any ASEAN Stock Exchanges. As for the moment, Singapore, Malaysia, and Thailand have put their commitment to implement the pilot project of this ambitious proposal. The liberalization of such capital market infrastructure offering easing access for non-residents or foreign investors will continue even further (ACMF Press Release, 2015).

In response to the liberalization of capital market infrastructures, MOF Indonesia, in a briefing presentation, explicated the position clearly that:

> "…Indonesia needs to prioritize the development of domestic capital market to optimally contribute to the national development, before committing to international cooperation, including ASEAN Exchanges Linkage.[*…Indonesia perlu terlebih dahulu mengembangkan pasar modal dalam negeri, sehingga memberikan kontribusi optimal terhadap pembangunan nasional, sebelum memberikan komitmen kerjasama internasional, termasuk dalam Linkages.*]" (AEC 2015 Development in Financial Sector, 2015, Slide Number 24).

[5] Regulatory framework in Indonesia related to corporate bond market consists of the following: Law No.8 of 1995 on Capital Market, Government Regulation No.45 Year 1995 on Management if Activities in Capital Market, as well as technical level regulation (Minister of Finance Decrees and Indonesia FSA Rules).

The position implies that international portfolio investments liberalization, especially in the area of the capital market, is clearly not a priority for the authorities. Indonesia prioritizes domestic capital market interests for the optimal contribution to the national development on top of committing herself to the international cooperation framework. Officials at OJK also ever shared his view personally that Indonesia is just far away from joining the ASEAN Exchanges Linkage. The same tones of responses are assumed to be in concurrence for the ASEAN Debt Securities Disclosure Standards Scheme. Indonesia may need to get through a major regulatory framework overhaul just to get herself into the Scheme.

However, at high-level governance structure, e.g. ASEAN Summit or politicians' commitment, Indonesia continues to give its commitment and endorse further international portfolio investment liberalization. Meanwhile, the corresponding authorities in Indonesia (i.e. MOF, Central Bank/Bank Indonesia and OJK) view that the ASEAN liberalization of international portfolio investment flows not to be trailed further by Indonesia. Authorities might even opt to halt the current progress of international portfolio investment liberalization. In a briefing document, Bank Indonesia, OJK, and the MOF agreed to:

> "…considering the recent global situation and sustainability of capital flows to developing countries, Indonesia is keen to maintain its current regulatory regime for international portfolio investment.[*…dengan memperhatikan situasi global dan kelangsungan aliran modal ke negara-negara berkembang saat ini, Indonesia akan mempertahankan rezim liberal yang berlaku saat ini.*]" (Roadmap for Financial and Monetary Integration of ASEAN: Liberalisasi Aliran Modal [Capital Account Liberalization], 2015, p. 7).

The position implies that considering the current global condition, Indonesia is keen to maintain its current level of a liberal regime for the investment portfolio. In the same document, Indonesia considers itself to be liberally adequate for investment portfolio. The document suggests that the current access for non-residents or foreign investors is adequate for them to flow their money into Indonesia. As this section provides the more specific contextual of portfolio investment in Indonesian context, the next section aims to provide the experience of Euro Zone crisis. Thus, the next section attempts to highlight the relations between the occurrences of financial crises with (over) flowing international portfolio investment in European financial integration context.

The Euro Zone crisis experience

From the perspective of the political economist, financial crises derived from a combination of interrelated inter-disciplinary aspects. Thus, it is important to draw lessons from past financial crises to avoid future occurrences. In political economy, financial crises can include, at least four following aspects as suggested by Epstein and Wolfson (2013). Firstly, they asserted that financial crises are related to the recent trend of financial deregulation. They further argued that the existing financial deregulation needs appropriate policy responses, or otherwise inappropriate policy responses may be a catalyst for the spread of financial crises. Secondly, Epstein and Wolfson (2013) associated financial crises with the learning aspect that future policies may need to examine the causes of crises and prepare prevention measures. Thirdly, they mentioned that "the crisis has become a global crisis because of relatively unregulated and globalized nature of finance and the massive degrees of uncontrolled capital mobility and global financial trading" (Epstein & Wolfson, 2013, pp.3). In reference to that third aspect, they further concluded in the fourth aspect that there should be reforms in the area of the financial sector. To this end, they suggested that there should be the process of institutional changes within countries and/or region and/or globally. The last two aspects are clearly relevant to the experiences of financial crises as part of the focus of this paper. The case of capital flows as well as domestic financial policies (institutional issues) is by far the most significant contributing factor to the occurrence of Euro Zone crisis, to be described in later parts of this section.

It is useful to briefly recap on the experience of the Euro Zone. The experience is mostly related to the relationship between (over) flowing international portfolio investment and the occurrence of the crises (Hall, 2012; Lefkofridi and Schmitter, 2015; Volz, 2013). The same observation also has been made on the association of greater possibility of financial crisis occurrence with the existence of (over) flowing capital inflows for both advanced and emerging economies (Reinhart & Reinhart, 2009). East Asian integration shares the same characteristics with the Euro Zone, in the sense that both were pursuing a more liberalized international portfolio investment regime. However, in the case of Euro Zone, such policies were leading to (over) flowing and triggering the occurrence of the crisis. Hall (2012) cautioned that Asia-Pacific integration elites to appreciate that the Euro Zone crisis was rooted in the overflowing of risky investment from financial services in the "North" to the "South". He concluded that such occurrence was added to the fact that Euro Zone was not entirely an integrated market, aside monetarily, making countries' political economy decisions uncontrollable, especially those related to government spending and financial sector policies. He also noted that the monetary union in EU might be considered in failure to response to the current crisis, due to the late responses attributable to the institutional issues. This was mostly related to the fact that measures taken by the European Central Bank (ECB) need to go through a collective decision made by the EU.

Although parts of the Euro Zone crisis can be attributable to the policy responses made by the ECB, the origin of the crises undoubtedly was (over) flowing capital inflows as argued by scholars in preceding paragraph. Volz (2013) further argued that Euro Zone crisis was mostly attributable to the condition where European banks lending money to countries with unsound economic, like in the PIIGS (Portugal, Ireland, Italy, Greece, and Spain), mostly only based on the trust that the country was in Euro Zone, and in reference to the Euro-regional agreement. The same problem also has been previously highlighted by Buiter and Siebert (2005) as Euro Zone was treating all intra-sovereign risk to be at the equivalent level. Volz (2013) further asserted that the root problem was on the unsound condition of European banking sector's, especially after the collapse of the famously Lehman Brothers in the United States (U.S.). However, he also shared the view that (over) flowing capital within countries in the Eurozone may be the initial point triggering the crisis. In the case where (over) flowing capital meets with unsound financial and banking system, as well as unsound domestic fiscal policies, as the case in the Euro Zone crisis, the result will show the imbalances of the region. The imbalances were also further facilitated by the "mispricing of risk by capital markets and an ensuing misallocation of capital in the decade before the outbreak of the crisis." (Volz, 2013, pp. 360) This is particularly appealing if the region has economic and financial integration in place. The next stage would be the wide spreading of the crisis to other countries within the Euro Zone, deteriorating the economic and financial overall condition of the region altogether (Bergsten, 2012).

It is also important to highlight here the pre-existing conditions present within Euro Zone at the time. It is especially related to the overflowing risky investment from financial services in the "North" to the "South", as well as institutional treatments to these two polarizations. Guttman & Plihon make the following argument:

> "[T]his crisis has been fundamentally an asymmetric shock within the eurozone. Even before the crisis erupted, the eurozone was marked by swelling imbalances between two groups of countries engaged in unstable macroeconomic strategies. On one side, the neomercantilist strategies of a group of northern "virtuous" countries (Germany, Austria, Netherlands) reaped competitiveness gains and huge external surpluses. On the other side, a group of southern countries experienced rapid yet

unbalanced growth, driven by negative real interest rates and accumulating large external deficits (Mathieu and Sterdyniak, 2007)." (Guttman & Plihon, 2013, pp. 370)

The above is very similar to the claim hitherto made by Hall (2012), and Volz (2013), as well as other political-economy scholars, in elucidating the possible sources of Euro Zone crisis. This exact "swelling imbalances" condition that was facilitated by the "mispricing" and "misallocation" acts, as assumed by Volz (2013). In summary, this section provides theoretical framework regarding the relations between the occurrences of financial crises with (over) flowing international portfolio investment in European financial integration context. In both contexts, East Asia (AFC) and European (Euro Zone crisis), financial crises highly corresponds with the portfolio investment liberalization efforts. The last section of this paper then discusses the methodological frameworks using HI method, and how the method fits into the context on portfolio investment liberalization in Indonesia case study.

Domestic policy contestation and the historical institutionalism (HI) approach

The term historical institutionalism (HI) was firstly brought into the literature of new institutionalism of political science in the early 1990s. The literature record shows that the term was first used extensively in the 1992 publication in which comparison was drawn to earlier approaches of new institutionalism (Steinmo, Thelen, & Longstreth, 1992). They argued that HI takes into account the "understanding policy continuities over time within countries and policy variation across countries". (Steinmo, Thelen, & Longstreth, 1992, pp. 11). Since then HI was considered to be an alternate for the debates on European integration. New institutionalism itself eventually evolved into different approaches, namely historical institutionalism (HI), rational-choice institutionalism (RCI), and sociological institutionalism (SI) (Hall & Taylor, 1996; Pollack, 1996). These different approaches came into place mostly because of the evolving nature of knowledge to reflect scholars' view upon the importance degree of institutions as a variable to explain social and political issues in countries. "All of these approaches developed in reaction to the behavioural perspectives that were influential during the 1960s and 1970s and all seek to elucidate the role that institutions play in the determination of social and political outcomes." (Hall & Taylor, 1996, pp. 936). Steinmo, Thelen, and Longstreth (1992) has previously compared HI to RCI in which they concluded that HI places institutions in higher importance than that in RCI. They argued that institutions affects the politics as an "endogenous" variable, as opposed to RCI that treats institutions as an "exogenous" variable. This way, HI puts institutions as an internal variable affecting the interests of parties or actors and actively shapes the political history of an issue. Meanwhile, SI departs from the cultural practices in the society leading to a formal form of institutionalization of those cultural practices (Hall & Taylor, 1996). The following figure and paragraphs further describes how HI is taking a position in between SI and RCI in new institutionalism.

In order to further illustrate the different approaches under new institutionalism, Fioretos, Falleti, and Sheingate (2016) draw the figure to relatively locate the three different approaches in the quadrants noted. The figure shows four quadrants of new institutionalism approaches, namely macro, micro, interests, and ideas. HI, as one of the approaches is moderately placed in the macro-interests quadrant. This means that HI is expected to put more attention to the macro-level of institutions, while simultaneously emphasizing the interests of the parties, or actors, related to the institutions. However, HI still takes into account the micro-level conditions as well as ideas surrounding the institutions. "In exploring the institutional foundations of preferences, historical institutionalists sought a balance between macro- and micro- level theories." (Fioretos, Falleti, & Sheingate, 2016, pp. 7). In addition, unlike SI that departs from collection of ideas which later being formalized within institutions, HI is largely affected by interests from agents or actors. Thus, identification key agents or actors is important feature in using HI approach. This has been figuratively shown in the figure as HI is closer to the intersection point among the four quadrants, unlike RCI and SI. Later on, this section elucidates the core concepts in employing HI method, as well as its earlier operationalization in the area related to financial services liberalization. Moreover, last part of this section is also looking at how HI method can be operationalized and fit into the case study of Indonesia.

In general, the core concepts of HI lies on what scholars termed as the "critical juncture" and "path dependence" that highly correlate with institutional changes. Path dependence is often considered as the later stages or consequences of the critical juncture (Capoccia & Kelemen, 2007; Fioretos, Falleti, & Sheingate, 2016). While some scholars (such as Collier & Collier 1991, and Capoccia & Kelemen, 2007) have provided variations on defining the concept of critical juncture, there was an agreement that critical juncture corresponds to a "turning point". This refers to a point that triggered changes in institutions (critical juncture) and eventually leading to long-term normalized conditions (path dependence) until, perhaps, the next critical juncture. Rixen and Viola (2016) further referring to both the concepts of critical juncture and path dependence in international relations field as "change" and "stability". However, they also introduced a third concept, “event sequencing”. This concept basically views that there were sequential relationships between one to another critical juncture affecting the existence of path dependence. It means that the existing critical juncture may as well be the result of past events or earlier critical junctures. Moschella and Vetterlein (2016) offered instances of “event sequencing” in the development of IMF roles as an international institution of financial sector surveillance. They argued that there were series of past financial crises that had shaped IMF roles as today’s financial sector surveillance.

From the concepts above, HI has then offered various methodologies to better explain the outcome of institutional changes. The next development of HI put much emphasis on the institutional changes, at least starting from the introduction of the so-called “institutional dynamism”. According to Thelen & Steinmo (1992), institutions change over time through the effect of different variables. They argued that “institutional dynamism” can occur either using existing institutions or through the formation of new institutions. On the first one, existing institutions were going through the transformation process because there were changes as follows:

> “First, broad changes in the socioeconomic or political context can produce a situation in which previously latent institutions suddenly become salient, with implications for political outcomes…Second, changes in the socioeconomic context or political balance of power can produce a situation in which old institutions are put in the service of different ends, as new actors come into play who pursue their (new) goals through existing institutions…Third, exogenous changes can produce a shift in the goals or strategies being pursued within existing institutions – that is, changes in outcomes as old actors adopt new goals within the old institutions.” (Thelen & Steinmo, 1992, pp.16-17)

Those three changes above presumably creates dynamism, yet not necessarily using new institutions. Thelen and Steinmo (1992) argued that such dynamism is more likely to happen with fewer changes in the institution itself. Meanwhile on the second, “institutional dynamism” can also be undertaken through the formation of new institutions. However, the parties, or actors, related to the institutions will apparently be unchanged. The parties, or actors, expect themselves to adjust to the transformation happening within the institutions. The dynamism, in this case, happened as a result of parties or actors’ responses to interests in the institution. However, Thelen and Steinmo (1992) argued that the dynamism may only be happening in the case that there are extraordinary pressures to the institutions internally and externally. They took the case as provided by Thelen (1991) in explaining the dynamism that happened in Germany's labor politics. Thelen (1991) concluded that internally the pressures may come from the political behavior of parties or actors within the institution. Meanwhile, he added that externally the pressures may come as a result of an event outside the institution yet affecting the responses of parties or actors within the institution.

The HI approach, in part, as well arguably offers an appropriate institutional explanation for the existence of policy contestation at the domestic level - between elites' commitment at formal governance structure level and at the implementation level by the corresponding domestic authorities (Thelen and Steinmo, 1992; Bell, 2011). This inclusion of domestic policy contestation context in the analysis of HI is an important feature to this paper. Domestic policy contestation, as evidently elaborated in Indonesia's positions upon international portfolio investment liberalization, is central to the puzzle provided in research questions. The methodology of HI as noted below then is important:

> "The ontological claims of early historical institutionalist made them methodologically committed to in-depth study of events and cases. They favoured methods of agreement and difference among a small number of cases to identify the causal role of institutions. Instead of using historical narratives to illustrate theoretically deduced propositions, historical institutionalists used narratives to identify mechanisms that shape political contestation over time." (Fioretos, Falleti, & Sheingate, 2016, pp. 9)

Nevertheless, the "black box" of the 'what' and 'why' of contestation at the domestic level still needs further development to complement and add to our understanding of existing regional integration environment. The HI approach is relevant to be employed in this research as it provides a framework to look at institutional decision making and policy in terms of domestic agents and structure. It also allows for the incorporation of historical and socio-cultural factors influencing agents in the research design. It has been utilized previously in the field of financial services and regulatory frameworks, such as the work of Bell and Feng (2013), Moschella and Vetterlein (2016), and Deeg & Posner (2016).

Moschella and Vetterlein (2016) engaged in the concept of "path dependence" in his search to explain the expansion of IMF roles in the financial sector. He argued that the IMF was going through a series of transformation, most notably since the Mexican currency crisis back in the mid-1990s. Since then, he further argued that the IMF has transformed into a financial sector surveillance institution. Meanwhile, focusing on the European financial system generally, Deeg and Posner (2016) suggested that HI might serve as the appropriate approach in studies to apprehend the financial crises as well as regulatory development in the context of financial liberalization or regional integration. They argue that future research might need to engage in, firstly, both the concepts of "critical juncture" and "path dependence". Secondly, an analysis may be made in relation to financial domestic policies and the regional initiatives. Lastly, it is important to also examine the divergence or convergence process between both financial domestic policies and the regional initiatives. Although Deeg and Posner (2016) were particularly engaging their works to the context of European financial services, yet their future research argument using HI approach can also be applied in the case of East Asia. Particularly to the point of examining the divergence and convergence process between both financial domestic policies and the regional initiatives, this relates well to the context of ASEAN Plus Three.

The work of Bell and Feng (2013) has previously also employed HI approach, particularly in explaining the institutional transformation of the People's Bank of China (PBC) in the form of expanded authorities. Their work also notably emphasized the identification of related parties, or actors, in the context of banking and monetary reform in China. In doing so, they expanded the analysis of different variables affecting the transformation. This is, in part, referring to the concept of "institutional dynamism" by Thelen & Steinmo (1992). However, Bell and Feng (2013) employed a different approach to HI that they called as "agents-in-context", allowing the analysis of key agents' responses to the context of causes on institutional changes. Thus, they believed that the analysis is not primarily focusing on, for instance, the financial crises as the external pressures to PBC institutional change, but also how agents are interacting with such external pressures. They argued that "agents-in-context" approach is an alternative to the traditional HI concept. "Our agent-centered institutional approach-essentially a variant of HI theory-focuses on how agents operate in relations of constraint and opportunity within institutional and wider meta-institutional contexts; essentially an "agent-in-contexts" approach." (Bell and Feng, 2013, pp. 27). In their work, however, Bell and Feng (2013) seemed to disregard the concept of "path dependence". They do not take into account this core concept of HI as to allow possibilities of capturing wider causes to institutional changes. They mainly critiqued the concept of "path dependence of being "too sticky" and "too static".

> "Our first criticism is that the above approach is too sticky. It gives insufficient scope to agency within institutional life and assumes that crises are the only or at least the main source of substantial change…This leads to a second critique. Path dependency approaches are too static, notwithstanding their emphasis on the temporal dimensions of change. As just noted, such approaches pay too little

attention to how nature and extent of institutional constraint (or empowerment) can change over time." (Bell and Feng, 2013, pp. 37)

The work of Bell and Feng (2013) particularly explored the PBC as the key party or actor behind China rapid economic and financial development. They argued that the institutional changes in the case of the expanded authorities of PBS are attributable to domestic politics condition among China's party elites. "Our answer is that the rise of the PBC has been based on a relationship of growing mutual dependency with the party leadership." (Bell and Feng, 2013, pp. 5). This conclusion was based on the analysis using HI with "agents-in-context" approach as previously explained in preceding paragraph. The approach involves identification of parties or actors playing a central role in institutional change settings. Bell and Feng (2013) further argued that there was an interaction between parties or actors in PBC with China's party elites bringing the result of institutional changes. However, they took into account that such interaction is happening due to the occurrences of external pressures to China's overall economic and financial development. To this extent, their work, even though seemed to disregard the concept of "path dependence", was also involving the identification of "critical juncture". They later treated the "critical juncture", including the description about reform era in China, as paths to "institutional dynamism" of PBC. Overall, employing HI within the context of financial services and regulatory frameworks allows the capture of the essence of 'what' and 'why'. This is the untapped potential in applying HI analysis to the context of East Asia financial services liberalization.

Employing the HI approach in the context allows not only the understanding of the evolution of ASEAN to a more liberalized portfolio investment regime but also the comprehension of institutionalisation of portfolio investment within ASEAN. Although the work of Bell and Feng (2013) on China seemed to disregard the concept of "path dependence", Indonesian context can strive to engage with that key concept. Such is due to the fact that there seem to be long-term normalized conditions (institutionalisation) for liberalized portfolio investment regime within the governance structure of ASEAN. Employment of "path dependence" in the Indonesian context also allows the analysis to capture the 3 components of "path dependence" as suggested by Moschella and Vetterlein (2016). Those components are "the connection between specific outcome back to an initial event, the contingency of that event, and the existence of (causal) mechanisms of change in the sequence." (Moschella and Vetterlein, 2016, pp. 147).

Further Research

Further research is needed to examine the relationship between the impacts of the current regional governance architecture in ASEAN with Indonesia’s policy responses in the area of international portfolio investment inflows. Specifically the research may pose questions on how this relationship influences and shapes domestic investment portfolio policies, with the focus on the corporate bond market in Indonesia. There are questions left unexplored to the extent the rationales for Indonesian political elites keep agreeing on ASEAN initiatives for a more open and liberal international portfolio investment regime as evident in formal governance structure level (mostly at the high-level governance structure, that is the ASEAN Summit). The puzzle also still left unexplained on why the corresponding authorities (that is, MOF, Bank Indonesia and OJK) evidently showed altered responses at the bureaucratic level to maintain the existing regime in place for the investment portfolio. It may also be to the interests of further research to discover the influence of the Plus Three Countries, especially Japan and China, in shaping the policy platform on regional governance of international portfolio investments liberalization in ASEAN. Initial evidences may suggest that China and Japan seek to deepen the scope of international portfolio investments liberalization in ASEAN (ADB, 2012; ADBI, 2014; Kusuma, 2015).

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