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Regulatory regionalism and the limits of ASEAN banking integration: The case of Indonesia

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Abstract

The Association of Southeast Asian Nations (ASEAN) aims to integrate the banking industry in the region. To achieve this, ASEAN members have agreed to create the ASEAN Banking Integration Framework (ABIF) to support such integration. Despite being endorsed in 2014, the framework remains vague and lacks clear policy coordination arrangements as well as standardisation instruments that enable ASEAN member states to integrate their banking sectors. This article examines why the member states agreed to such regulatory arrangements. Building upon the regulatory regionalism approach, we argue that the regulatory arrangement is underpinned by a socio-political struggle among dominant social forces in ASEAN. The article further argues that the political endeavour to internationalise domestic capital through the banking integration project remains problematic, given that local banking players seem to largely focus on protecting and penetrating domestic markets rather than regional expansion. This has hindered the progress of regional banking integration in ASEAN. To substantiate this argument, we use Indonesia's engagement in the process as a case study. This article contributes to the study of political economies of banking integration outside of the European experiment by emphasising the importance of state–society relations in shaping the outcome of regional integration.

Keywords

ASEAN, ASEAN Economic Community, banking integration, Indonesian banking, regulatory regionalism

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Introduction

The Association of Southeast Asian Nations (ASEAN) aims to establish a region that is highly integrated and stable. This is to be achieved through the creation of the ASEAN Economic Community (AEC), including through financial integration in the banking

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sector (ASEAN, 2015). Financial integration is important for its significant potential to positively impact economic growth, by enhancing capital allocation and risk-sharing (Fecht et al., 2012). Given that the financial sector in ASEAN is dominated by the banking industry, regional integration of banking systems would arguably provide substantial benefits for the region. Banking integration is expected to create more equal market access, in turn facilitating greater cross-border transactions, which would increase the number of such transactions in the region and eventually lower the cost of banking services (Syadullah, 2018).

ASEAN member states (AMS) have already established a framework for banking integration, as stipulated within the AEC Blueprint. In 2014, the ASEAN Central Bank Governors endorsed the ASEAN Banking Integration Framework (ABIF) with the aim of liberalising financial restrictions to achieve financial integration in the banking sector. Despite this, the framework remains vague, and lacks clear policy coordination arrangements and standardisation instruments that would enable AMS to integrate their banking sectors.

As a result, ASEAN banking integration has yet to show significant progress. Just four countries have implemented the ABIF: Indonesia, Malaysia, the Philippines, and Thailand. Moreover, only a few commercial banks are fully operating across borders, such as DBS Bank from Singapore, and Maybank and CIMB from Malaysia. These banks have high market capitalisation, are operating across the region, and are showing signs of engagement in banking integration.

This raises questions: why did AMS agree to regulatory arrangements for banking integration despite the lack of clear policy coordination and standardisation? Moreover, why – despite efforts to integrate the regional financial sector – are so few domestic banks operating across borders? To answer these questions, this article focusses on the case of Indonesia and its limitations in enhancing banking integration. Indonesia as a case study is important because, as the largest member of ASEAN, Indonesia sets regionalism in motion.

Understanding the political economy behind ASEAN banking integration efforts is important to shed lights on how banking integration has evolved outside Europe. Most studies on the political economy of banking integration focus on the European experiment in enhancing banking integration within the context of a highly institutionalised environment (Howarth and Quaglia, 2016). The ASEAN experience can shed new light on how banking integration processes unfold outside the Global North.

The study on the political economy of banking integration in ASEAN is still in its infancy. Most studies on the banking integration in the region revolves around econometric analysis such as intra-bank competition under the ASEAN Financial Integration Framework (AFIF) (Ventouri, 2018) and the relation between banking integration and regulatory quality (Ha et al., 2020). We situate our study within the emerging literature in political economy of Southeast Asia that focusses on state transformation as a key dynamic pushed by the internationalisation of state capital (Al-Fadhat, 2019; Carroll et al., 2020). Our article, then, aims to expand the empirical analysis of this approach through the case of ASEAN banking integration. Here, we frame the governance design and outcome of the ASEAN banking integration progress as a reflection of socio-political contestation within the state.

Building upon the regulatory regionalism approach, we argue that the lack of cross-border policy coordination and standardisation are underpinned by a socio-political struggle among dominant social forces. Technocratic elites in the Indonesian Central Bank

(*Bank Indonesia* (BI)) and Financial Services Authority (*Otoritas Jasa Keuangan* (OJK)) are driven to support the ASEAN banking integration not only to facilitate greater cross-border transactions, but also to enhance the nationalistic agenda of expanding Indonesia's banking sector regionally. This is to offset the growing domestic contention over the high degree of liberalisation of the Indonesian banking sector compared to other ASEAN nations. As a result, banking integration remains a political project for Indonesia as much as an economic one. The current regulatory arrangements for ASEAN banking integration – in the form of bilateral agreements as instruments for policy coordination and the provision of Qualified ASEAN Bank (QAB) status as an instrument for standardisation – reflect this condition. Moreover, the political endeavour to internationalise Indonesian capital remains problematic given that local banking players are largely focussed on protecting and penetrating domestic markets rather than regional expansion.

This article proceeds as follows. The second section provides a discussion on current debates surrounding regional integration in ASEAN and how the notion of regulatory regionalism can provide a compelling understanding of ASEAN banking integration. The third section elaborates on the development of ASEAN banking integration itself, while the fourth section provides an analysis of the political economy of the Indonesian banking sector. The fifth and sixth sections analyse the limitations of ASEAN banking integration through the lens of regulatory regionalism.

Regulatory regionalism and ASEAN banking integration

To understand the limitations of the regional integration project in Southeast Asia, this article reviews two mainstream international relations approaches: structural realism and liberal institutionalism.

Structural realism sees regionalism as the outcome of power relations between major states in a region. According to this approach, ASEAN was established during the Cold War as a means of stabilising Southeast Asia, particularly from outside great power interventions. Hence, structural realists are sceptical of viewing ASEAN's institutional development outside the security realm, given that such development is derivative of the main objective of ASEAN: managing great power relations in Southeast Asia (Eaton and Stubbs, 2006; Jones and Smith, 2007). This is because institutional building in ASEAN has never been accompanied by the capacity to sanction member states who do not comply with the rules the body establishes. This results in slow regional integration.

Regarding financial integration, structural realists would argue that limitations in banking integration could be explained through the notion of self-help. Structural realism asserts the importance of the nation-state as the primary actor, emphasising the anarchic system of international politics that leads states to pursue self-help methods to survive, including with regard to relative gains (Baylis et al., 2019). States' pursuit of the relative gain would create a zero-sum condition which, in return, hinders further cooperation among states (Snidal, 1994). Drezner (2001: 77) further asserts that, from the realist perspective, regional integration projects are merely arenas for bargaining among states. The success of regional integration thus depends on the dominant state's willingness to expand its regulatory standard (Drezner, 2004: 479). This would explain how banking integration in ASEAN has been limited so far, given each AMS would emphasise the development of their own domestic banks rather than pursuing cooperation for regional banking integration. Moreover, there are no dominant powers in the region that can force other members to accept their regulatory standards.

Contrary to the structural realist approach, liberal institutionalism sees regionalism as a tool to deal with common issues faced in a region. It provides the means to reduce transaction costs and will eventually build interdependence and create regional integration (Hurrell, 2013; Rüland and Michael, 2019). Liberal institutionalism also argues that international institutions can facilitate international cooperation, reduce transaction costs, and find more optimal outcomes among states (Keohane, 1984). Through this logic, the proliferation of regional integration projects can be seen as a result of states' pursuit of self-interest through regional cooperation that could benefit them in the long run.

ASEAN as a regional organisation has initiated banking integration through ABIF as a guiding framework. A liberal institutionalist would argue the limitations for such an integration initiative stem from ABIF's lack of comprehensive guidance for implementing banking integration. – as the regional organisation, ASEAN should have provided a clear and binding framework for integration (Permatasari, 2020). As suggested by Mattli and Büthe (2003: 40), international standards are particularly influenced by national-level conditions. Some states may possess organisational modes that can easily accommodate new international standards, while others may exhibit low complementarities with international standards. The unclear institutional design from the beginning might stem from different degrees of organisational modes among ASEAN countries. Thus, in line with the assumption of liberal institutionalism, the lack of comprehensive and binding guidelines provided by international institutions leads to delays in the process of international cooperation on banking integration.

These approaches provide a partial explanation of the limited progress of banking integration in the ASEAN region. However, these perspectives may in fact not be entirely suitable to understanding banking integration. First, while a realist perspective might explain the limitation of regional integration by emphasising the lack of dominant powers in asserting their banking standards, it cannot fully explain why some states such as Indonesia are eager to promote banking integration despite not having the dominant regional banking industry. In fact, the dominant financial power in Southeast Asia, Singapore, seems reluctant to participate in the banking integration project proposed by ASEAN, being much more focussed on the Greater China market. This can be seen in Singapore being the only country that has yet to start bilateral negotiations. Thus, looking at power alone in understanding banking integration efforts may lead to a misleading conclusion. Second, while ABIF's lack of comprehensive guidelines may hinder further banking integration, liberal institutionalism cannot explain why a state with a limited degree of complementarity with the international standard such as Indonesia has become a major promoter of ASEAN banking integration.

As suggested by Jones (2016: 649), scholars of international relations need to explore the domestic political economies and social conflicts of ASEAN states in understanding regional economic integration. This is because most ASEAN regional integration projects can be seen as processes of rescaling economic governance from the national to the regional level, as well as methods of promoting domestic regulatory changes that govern the national distribution of power and resources (Jones, 2016: 650). For example, in the case of Indonesia, explaining how far Indonesia has pursued regional integration cannot be separated from a discussion of state–society relations.[1]

We argue that the regulatory outcomes of the ASEAN banking integration project reflect socio-political contestations within member states. As such, we need an approach that enables us to further understand the process of regional integration with regards to how domestic social contestation may or may not strengthen regional mechanisms and

integration. As we will demonstrate, a regulatory regionalism framework can help us understand why ASEAN banking integration has been limited so far.

The concept of regulatory regionalism emerged to examine patterns of regional integration processes, especially in the Asia Pacific region (Hameiri and Jayasuriya, 2011). The Asian financial crisis of 1997 and the subsequent development of financial integration in Southeast Asia drove the emergence of regulatory regionalism. The approach explains a new mode of regional governance, where regionalism is influenced by the dynamics of member states' national regulatory bodies rather than formal regional institutions or international agreements (Saputro, 2017).

Jayasuriya (2009) defines regulatory regionalism as a new mode of governance where regional integration is incorporated as part of a state's domestic space. This concept shifts the attention of regionalism as an international process to that of a domestic process. Institutional outcomes of regionalism projects are driven by socio-political coalitions' struggles for power and resources at the domestic level (Hameiri and Jones, 2016; Karim, 2019).

One should note that regional integration is highly linked to how states wish to facilitate the internationalisation of capital (Al-Fadhat, 2019: 214). This is because regulatory regionalism should be seen as part of the transformation of statehood, which pushes the state to internationalise. In the case of ASEAN, cross-border capitalist expansion has become one of the most important indicators of the region's economic integration (Al-Fadhat, 2020: 178). The expansion of conglomerates has pushed Indonesian government economic policies towards facilitating further capital expansion across the region. In the case of banking integration, the project can be seen as part of efforts to expand the Indonesian banking to internationalise Indonesian capital. However, the initiative is also riddled with contestation between different factions of capitalist classes.

To properly understand the socio-political dynamics within the processes of regulatory regionalism, we are particularly interested in the domestic struggles affecting policy coordination and standardisation. Policy coordination is arguably one of the most important aspects of regulatory regionalism, because it facilitates member states' exchange of information on and review of domestic policies (Majone, 2014). As a result, cross-border harmonisation of policies is the main objective of the economic integration process and can be promoted by governments, non-state actors, and international organisations (Saputro, 2017). In Southeast Asia, regulatory regionalism mostly operates through the development of policy coordination by networks of quasi-autonomous agencies embedded within states such as central banks. In the context of banking integration, policy coordination can be implemented through several methods, such as mutual recognition in which states recognise other regulatory banking frameworks; home country control, whereby supervisors from the home country supervise banks operating overseas; and the single passport programme, in which banks that obtain a licence in a particular state can automatically operate in all other states in the regional grouping, as is the case in the European Union (Lupo-Pasini, 2019: 132–133).

While policy coordination can be seen as a 'going outward' approach for a state to engage in regional integration, standardisation is the opposite. Standardisation means that states must have minimum standards to meet the needs of policy harmonisation. If one state does not meet the minimum standard, then a minimum level of effectiveness for regional integration is unlikely to be met. Standardisation is thus seen as a way to bring regional governance into national regulatory frameworks.

To comply with an agreed standard, the process of standardisation in ASEAN relies on a soft law approach. This is due to the strong adherence of AMS to the value of sovereignty and non-interference, leading to members rejecting a hard law approach. However, the problem with a soft law approach in enhancing standardisation is that it is time-consuming to maintain the process over time, especially in enforcing the criteria of standardisation (Abbott and Snidal, 2000).

Nonetheless, policy coordination and standardisation do not happen in a vacuum. The institutional design for policy coordination as well as the standardisation instruments agreed upon by ASEAN reflect regional socio-political coalitions. In the case of ASEAN banking integration, policy coordination comes in the form of bilateral cooperation, where two national banking regulatory institutions conduct supervisory coordination, including the exchange of information and the facilitation of consolidated and cross-border on-site supervision. ASEAN member states also negotiated the criteria for and agreed to the use of QAB status as a standardisation instrument.

Having discussed the theoretical framework for the analysis, the next section examines the progress of the AEC to understand the current development of banking integration in Southeast Asia.

The development of ASEAN banking integration

In the AEC's blueprint, financial integration is the main mechanism to create a highly integrated and cohesive ASEAN economy. Financial integration encompasses several sectors, including capital markets and banking. In Southeast Asia, the financial market is dominated by the banking industry. Due to the low rate of financial inclusion, the banking industry still has significant room for growth. As shown in Figure 1, only three out of ten ASEAN member states have a rate of financial inclusion above 50%. Other member states are thus a potential arena for growth, given large numbers of potential customers and room for market competition.

To achieve banking integration, the AEC blueprint states that integration should be measured by providing market access and operational flexibility for QABs through ABIF. ABIF – which was approved by ASEAN's Central Bank Governors to act as a guideline for banking integration – follows the protocol of the sixth Package of Commitments on Financial Services under the ASEAN Framework Agreement on Services (AFAS) to achieve financial liberalisation in the region.[2] The process of ABIF began with the Central Banks of each AMS drafting the multilateral agreement on banking integration, followed by bilateral cooperation among member states, based on reciprocity.

To ensure the smooth process of banking integration, the Central Banks agreed upon four points: (1) harmonising domestic regulations; (2) building infrastructure to stabilise the financial sectors; (3) developing banking capabilities of the Brunei Darussalam, Cambodia, Lao PDR, Myanmar, and Vietnam (BCLMV) countries; and (4) developing the criteria for QABs. QABs themselves must also meet certain requirements: QABs must be well-managed, have sufficient capital, have a recommendation from the authorities, meet the Basel provisions, and be considered as an important bank in their home country (Handayani et al., 2018).

Given the criteria laid out, the ABIF is intended to remove restrictions so that banks can operate across regional borders, resulting in equal market access and greater competition in Southeast Asia. Banks with QAB status will more easily penetrate the wider

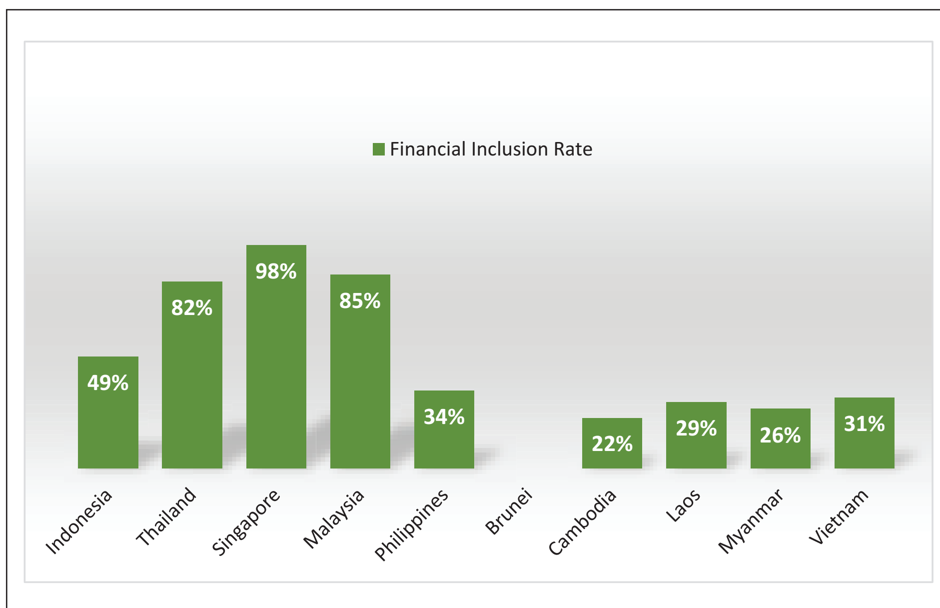

Figure 1. ASEAN financial inclusion rate.
Source: World Bank (2017) (data about Brunei are not available).

ASEAN market, and, crucially, banks operating beyond their home state will receive equal treatment with domestic banks in the same state.

Nevertheless, banking integration in Southeast Asia has achieved little progress. Major milestones in implementation are being driven by Indonesia, Malaysia, and the Philippines. In the case of Indonesia, the integration process was initiated by BI and OJK, and the Ministry of Finance. In 2016, Indonesia and the Central Bank of Malaysia (*Bank Negara Malaysia*) signed a bilateral agreement on the implementation of ABIF, while in 2017, OJK pushed for a bilateral agreement with the Central Bank of Philippines (*Bangko Sentral Ng Pilipinas*) and urged the Philippines to begin drafting an ABIF bilateral agreement with Indonesia.

The political economy of the Indonesian banking sector

This section further discusses the domestic political economy context of banking integration, focussing on Indonesia. As studied by many scholars of Indonesian political economy, alongside the democratisation process that has led the country to embrace democratic norms, Indonesia has also undergone a state fragmentation process that has altered the organising principle of the state (Firman, 2009; Karim, 2017; Tajima, 2018).

In the post-authoritarian era, the Indonesian state fragmented due to the absence of the ordering principle built by Suharto's authoritarian regime, which put the regime above society. According to Aspinall (2013: 31), on a political level, fragmentation occurs due to the democratisation process creating 'a marketplace of potential patrons and enabling them to compete with one another'. Thus, within a democratic landscape, each technocratic agency within the state can be mobilised by political and economic elites to influence overall state policy to benefit their own agendas. This can result in incoherent or

clashing policies, such as on trade issues where some social forces want to liberalise the Indonesian market while others want it to remain restricted to foreign players.

Competition between domestic political actors in capturing and influencing government agencies and the state apparatus has been more apparent in Indonesia within the realm of the economic policymaking process (Basri and Hill, 2008). Under Suharto's authoritarian regime, economic policymaking was centralised and based on the technocratic outlook of elite circles, but in the post-authoritarian era, Indonesia's economic policy making has been democratised, with a growing number of domestic actors playing more significant roles in affecting the shape of the country's financial policies.

Indeed, in the post-authoritarian period, there is an effort to isolate policymaking in Indonesia's banking sector from the broader political agenda. The isolation of economic institutions from politics in Indonesia can be seen in how BI is an independent institution as per Law No. 23/1999. Indonesia also established OJK in 2011 under Law No. 21/2011 to break the central bank's overarching power over both monetary policy and banking supervision. The role of OJK is to maintain a system of regulation and supervise financial services, such as banking, capital market, insurance, and other financial services. The separation of these two economic institutions allows them to maintain independence in regulating and supervising monetary and financial systems in Indonesia.

Despite such efforts, Indonesia's financial sector remains an arena for contestation among different social forces in Indonesia. Overall, just like in capital markets (Hardie and Rethel, 2019), Indonesia's banking sector is strongly shaped by the government's developmental objectives for the country. For instance, BI does function not only to maintain the stability of the Indonesian Rupiah, but also to coordinate with central and local governments in controlling inflation through holding National Coordination Meetings for Inflation Control and participating in market operations in maintaining the prices of basic necessities, such as chilies and rice.

The situation is similar for OJK. OJK is not only a passive banking supervisor, but also an active regulator in enhancing the capability of Indonesian banks to expand abroad. For example, OJK legally facilitates banks' need for long-term funding by providing banks the flexibility to have multiple business activities. Indonesia's state-owned banks, which control almost half of the country's bank credit, are often mobilised to help meet governmental developmental objectives, especially to fix market failures and support the fiscally constrained government (Kim, 2018).

Foreign-owned banks are also major players in Indonesia. As part of the post-Asian financial crisis liberalisation process, Indonesia implemented a banking liberalisation programme with the help of the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB). This liberalisation created a new category of actor in the Indonesian banking sector: foreign-owned private banks, mostly from Singapore, Malaysia, and Japan (Sato, 2005). Indonesian banking restructuring since 1999 has dismantled the business groups associated with the pre-crisis banking sector, leading to increased opportunities for foreign banks. As a result, due to their importance in Indonesia's banking sector, policymakers are prone to accommodate the interests of foreign investors, including banks.

Based on data from OJK (2021), there are currently at least 32 banks out of 107 whose majority shares are owned by foreign investors and eight foreign banks with branch offices in Indonesia. Although it hopes that Indonesian banks can expand abroad, OJK continues to facilitate the aspiration of foreign investors to invest in the Indonesian banking sector.

This is because there are more than 20 small banks that must meet the minimum core capital requirement of IDR 3 trillion (USD 211 million) until 2022. To achieve this, OJK heavily relies on foreign capital to be injected into these banks.

Given this condition, many nationalistic actors – particularly in the Indonesian House of Representatives (DPR) – argue that Indonesian banking industry players should receive equal treatment when it comes to expanding into other ASEAN countries within the framework of the AEC (Febrinastiri, 2018). These politicians not only narrate the dangers of the domination of foreign capital in Indonesian banking, but also point out the imbalance in how foreign capital can easily enter Indonesia yet Indonesian banking actors cannot expand outward (DPR RI, 2020). These actors complain that Indonesia is currently very open to foreign investors in the banking sector, by allowing ownership of up to 99% through mergers, but that this situation is not reciprocated by other ASEAN countries (DPR RI, 2015). Malaysia, for example, only allows foreign ownership of banks to 30%, while Singapore requires special permits if foreigners want to invest more than 5% in their domestic banking sector although Singapore is much more permissive with regard to the offshore sector. To appease such concerns, the technocratic elites of BI and OJK have become increasingly eager to push for a greater overseas expansion of Indonesian banks. By doing so, the liberalisation agenda of the Indonesian banking sector cannot be not attacked by nationalists. Consequently, Indonesia's banking expansion is framed as a nationalistic move, pushing in turn the urgency for ASEAN economic integration in the banking sector (Pusparisa, 2019). This seems to be the case as it allows to pay lip service to regional integration without much happening on the ground.

The politics of ASEAN banking integration

Over the past 5 years, the Indonesian government has pushed for AMS to establish a framework for regional banking integration. Indonesia warmly welcomed the establishment of ABIF and has even developed two bilateral arrangements. However, since the beginning, ABIF has resulted in limited cross-border policy coordination activities. We argue that current policy coordination under ABIF is arranged to cater to the political objective of the status quo rather than to solve technical issues.

Ideally, policy coordination in the banking sector would mean that all ASEAN member states agree on a prudential regulatory platform that provides a minimum level of regulatory harmonisation. This regulatory platform would guarantee a basic level of stability for all ASEAN banks. However, the ABIF emphasises bilateral agreements as the key method of coordinating regional policy. Bilateral agreements enable the states to negotiate policy coordination that accommodates the interest of their domestic agendas as well as recognises the very different levels of development of banking sectors in AMS. This strategy also reflects the need to accommodate nationalist elites to support banking integration efforts. Through bilateral agreements, ASEAN banking integration can be negotiated by two parties through reciprocal arrangement that emphasises mutual benefit and adoption of voluntary 'most favoured nation' status that opens the opportunities for one country to give special concession to a single chosen country. This approach is arguably a politically savvy strategy in ASEAN, especially given the disparity in domestic financial strategies (Lupo-Pasini, 2019: 140).

Given this context, policy coordination achieved through bilateral agreement is thus sometimes subject to strong political consideration. For instance, during the process of opening its first branch in Malaysia, Indonesia's Bank Mandiri stated that the main

obstacle was not a technical but rather a regulatory issue (Wiyanti, 2012). The minimum capital funds required for foreign-owned banking institutions to open branches in Malaysia were set to RM300 million (USD 72 million), which Bank Mandiri argued was too high for them to operate in Malaysia. After lengthy negotiation, Bank Negara Malaysia eventually agreed that Bank Mandiri could pay this requirement in instalments over a period of 5 years (Fadila, 2016).

Policy coordination through bilateral agreements in ASEAN also allows state-appointed banks to operate abroad. In its plea to the DPR to ratify the AFAS protocol regulating the ABIF, the then-Governor of BI, Agus Martowardojo, said that the Indonesian banking industry had not received justice to boost the banking market in ASEAN countries (Asmara, 2018). As a result, the penetration of Indonesia's domestic industry on a regional scale remains limited. Banking integration through ABIF is thus framed as a strategy for Indonesia to 'catch up' and reduce the gap between itself and other ASEAN member states.

The way standardisation is arranged within the ASEAN banking integration project also reflects how states work to enhance their domestic agendas. Standardisation is an important instrument for regional and international economic integration, as it encourages the voluntary participation of national authorities to incorporate standards across levels of governance (Mattli, 2001). Standardisation is thus a mechanism to bring regional governance into national regulatory frameworks. In the case of banking integration, ASEAN members agreed to put forward the QAB standard as the holy grail of banking standardisation. The designation of QAB is designed to indicate that the ten member states' commercial banks are qualified to take part in regional banking integration.

However, although broad requirements are identified for QABs, there is a lack of detailed indicators. Consequently, this attempt at standardisation does not provide any clear set of standards that banks can meet. For instance, one of the requirements to become a QAB is that the bank must have sufficient capital. Yet the framework does not mention how much is 'sufficient capital'. For example, is capital sufficiency to be measured through the capital adequacy ratio (CAR)? This ratio would represent a bank's capability to provide funds that would be used to mitigate risk. Besides capital, a bank's performance could be measured by their non-performing loans (NPL) rate. An NPL under 5% is usually considered healthy; if the rate is above 5%, then it should be taken into consideration whether the bank is performing the business well and the potential risk of the business. Which of these – or perhaps some other measurement – should be used in identifying QABs? ASEAN's frameworks do not clarify this issue.

This lack of clear requirements makes it harder for ASEAN member states to prepare their commercial banks to take part in banking integration activities. By not having clear and specific requirements for QABs, ASEAN member states face difficulties in interpreting the requirements and ensuring their commercial banks meet said requirements. In addition, not all commercial banks in the region will be able to achieve the QAB requirements, leading to their exclusion from regional banking integration.

The question, then, is why have regulators not developed clear requirements? The issue arguably stems from the political nature of the ABIF itself. Since the beginning, QAB status was devised as a standard to appeal to nationalist elites as well as local banks that prefer to further penetrate the Indonesian market rather than expand abroad. This is because Indonesian banking industry is very attractive for foreign investors. Indonesia's banking net interest margin is also high, reaching 5.9% in 2019 compared to roughly 1.8%–3.6% in Singapore, Malaysia, the Philippines, and Thailand (Lokadata, 2020).

Due to the lack of clear regional requirements for QABs, the status of banks can thus only be determined by national assessment. Indeed, several ASEAN member states have their own domestic regulations that determine QAB criteria. Consequently, Indonesian banks sit at the same level as bigger overseas banks. For instance, in terms of total assets, it is primarily Singaporean and Malaysian banks that have the largest assets. In comparison, the top four major Indonesian banks (Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI), and Bank Central Asia (BCA)) lag behind. Even if the Indonesian Government was to combine those four banks in Indonesia, the total assets are still smaller than those of the DBS Bank, the biggest bank in Singapore. Making the criteria as vague as possible provides room for compromise when QABs are negotiated between two countries, providing an incentive for Indonesian banks to take part in ASEAN banking integration, as they can still compete despite their comparatively small size.

In Indonesia, commercial banks qualified to become QABs are banks that fit into the national category of *Bank Umum Kelompok Usaha* (BUKU) IV. According to OJK Regulation No. 6/POJK.03/2016, BUKU IV banks are banks with capital of more than IDR 30 trillion (USD 2.134 billion). There are four domestic-owned commercial banks in Indonesia that fit into this category: BRI, BNI, Bank Mandiri, and BCA. Thus, by the Indonesian definition, only these banks are qualified for QAB status and allowed to participate in regional banking integration. So far, only Bank Mandiri has actually received QAB status and has started to trade overseas.

Instead of becoming an instrument for standardisation at the regional level, QAB status is primarily a way of reducing banking disparities between countries. For example, negotiations between Indonesia and Malaysia resulted in a pragmatic trade-off in which each country must grant access to three of the other country's banks. With two Malaysian banks operating in Indonesia, Malaysia must wait for two Indonesian banks to begin operating in Malaysia before the third Malaysian bank can open in Indonesia. This is the primary reason why Singapore has little interest in being part of ABIF – their banking superiority may be challenge as a result.

The discussion above shows that the development of QAB status was not only driven by technical debates, but also political ones. Standardisation governance in the context of ASEAN banking integration is strongly influenced by states' desires to cater to their domestic socio-political interests. For example, the success of Indonesia and Malaysia in completing regional banking standardisation negotiations can be linked to the accommodation of Indonesia's domestic interests.

The constraints on the internationalisation of capital in Indonesia

The previous discussion has shown how the outcomes of regulatory governance on policy coordination and standardisation reflect Indonesia's domestic interests regarding banking integration in ASEAN. This section further examines how domestic political struggles limit the implementation of banking integration in Indonesia.

From the beginning of ASEAN banking integration activities, Indonesia efforts have been carried out by the technocratic elite in BI and OJK. These institutions supposedly have more technocratic decision-making processes with less political motives than other government agencies involved in financial regionalism. However, because the central impetus for banking integration in Indonesia is not only to support the

regional expansion of Indonesian banks, but also to appease the nationalistic agenda to internationalise Indonesian banking, the technocratic elites rely heavily on state-owned banks such as Bank Mandiri, BRI, and BNI. At commercial banks, major decisions are usually made by shareholders at general meetings, including decisions on starting new operations, which should be based on the bank's readiness on going into the regional market. Given that the Indonesian government has shares in the state-owned banks, this means that political consideration becomes an integral part in the decision-making process, including on if and how the banks should expand into broader Southeast Asia.

When the DPR finally ratified the AFAS sixth protocol in 2018, making Indonesia the last ASEAN country to do so, the government-led narrative for the ratification was that Indonesian banks could finally expand to other countries such as Malaysia. Immediately after the ratification, Bank Mandiri announced its expansion plan into the ASEAN market.

While state-owned banks may benefit from favourable regulations and even put up barriers against the entry of new competitors, especially foreign competitors (Grittersová, 2019), their internationalisation has encountered obstacles. Indonesian state-owned banks are bound by multiple laws that regulate how decisions are made. For example, expansion decisions are not based solely on market-oriented strategies. This may hinder the process of regional banking integration. In addition, state-owned companies are governed by seven laws, including laws on state-owned companies, limited companies, capital markets, state treasury, sectors, corruption, and state management and responsibility. In comparison, private companies are bound to just three laws: limited companies, capital markets, and sectors. For example, the-then President Director of PT Bank Mandiri Tbk, Zulkifli Zaini, said in 2011 that the numerous regulations make it hard for state-owned banks to expand (Detikfinance, 2011). The same year, then-Indonesian Coordinating Minister for Economic Affairs, Hatta Rajasa, said that regulations for state-owned companies are what makes them unable to move forward or expand overseas (Detikfinance, 2011). Nothing has significantly changed since then.

Although QAB requirements do not define minimum capital, capital still determines a bank's ability to operate across borders. As mentioned, the banks permitted to obtain QAB status in Indonesia are banks categorised in BUKU IV with capital of more than IDR 30 trillion (USD 2,134 billion). In 2015, the state-owned Bank Mandiri requested a state capital contribution of IDR 5.6 trillion (USD 398 million). Then-Minister of state-owned companies Rini Soemarno said that the additional capital was needed for Bank Mandiri to increase their CAR and to improve the rating of Bank Mandiri in ASEAN (Pratomo, 2015). The Indonesian parliament rejected the request, stating that the additional capital was not necessary at the time and the usage plan was not clear (Fitra, 2015). This example illustrates how tightly bonded state-owned banks are to regulations and policymakers in Indonesia, ultimately meaning that the expansion activities of state-owned banks must align with the politicians' interests.

The situation is similar for the largest national private bank in Indonesia, BCA. The bank does not intend to expand overseas. Despite the opportunity to expand under ABIF, and even being invited by OJK to become a QAB, BCA decided to develop alliances with foreign banks in other countries instead (Rahman, 2018). While BCA generally supports banking integration, its rhetoric focusses on its eagerness to be a domestic player. BCA Director Jahja Setiaatmadja firmly expressed in 2018 that BCA 'will continue to concentrate on being the host in our own country, especially in the banking sector' (Kontan.co.id,

2018). BCA does not want to compete with state-owned banks, such as Bank Mandiri and BNI in the ASEAN market, especially because expanding operations is not economically alluring given the huge domestic market opportunity. From this, we can conclude that BCA views banking integration as the state's responsibility to implement through state-owned banks.

The above discussion shows that ASEAN banking integration requires domestic players to be an active part of such endeavours. However, some domestic banks do not see regional integration as part of their internationalisation strategy, given the vast opportunities in banking development in Indonesia. Indeed, the state's interest in internationalising Indonesia's capital can be achieved through state-owned banks, but the politicisation of state-owned banks makes international expansion difficult. As a result, the vision of technocratic elites to utilise banking integration as an instrument to provide access to regional markets has so far been limited, ultimately contributing to the slow progress of ASEAN banking integration. Bank Mandiri's expansion efforts, for instance, remain very limited, so far, opening only several small branches in Malaysia and focussing on serving remittances from Indonesian migrant workers in Malaysia.

Conclusion

The article has shown how regulatory regionalism can explain the limited achievements of banking integration in ASEAN, drawing from the Indonesian experience. First, regional arrangements in financial regionalism require states to undertake cross-border coordination. In ASEAN, policy coordination has been limited to formal ASEAN Finance Ministers' and Central Bank Governors meetings. First, we argue that ASEAN member states are reluctant to ratify or adopt the regional framework into their domestic regulatory framework due to differences in regulations between ASEAN members. In Indonesia, meanwhile, bilateral agreements as a basis for policy coordination have become politically driven instruments as a way for Indonesian banks to expand in the region. Bilateral agreements have thus become a highly politicised mode of coordination where the regulatory mode will be determined based on how domestic banks can internationalise their capital.

Second, standardisation is an essential requirement for banks to begin international operations as QABs within the framework of ABIF. However, regional requirements for QAB status are neither binding nor clearly defined. Thus far, each member state has their own QAB requirements approved by both host and home countries through bilateral arrangements. This creates the potential for highly politicised and different operating requirements for the same banks in different countries.

Third, banking integration in Indonesia continues to encounter the lack of engagement of local banks to see the project as a strategy to internationalise their capital. This is due to the politicisation of state-owned banks, which means that decisions on whether the banks will expand regionally are decided based on political factors instead of the market situation; as well as the fragmentation of the domestic banking sector. Moreover, due to the huge opportunities provided by the domestic market, Indonesia's large local banks do not prioritise regional expansion.

Our findings reiterate arguments put forward by many scholars of the international political economy of Southeast Asia, who argue that regulatory regionalism emerged from the transformation of statehood in which the state aims to support regionalism that enables the capitalist class to be internationalised (Al-Fadhat, 2020; Jones and Hameiri,

2020). Unfortunately, the lack of influential social support for Indonesian technocratic elites' vision of regional banking integration has resulted in limited implementation.

The case of banking integration also expands the theoretical debate regarding states' ability to pursue regional integration without needing to establish supranational organisations that reduce state sovereignty. This can be seen in how policy coordination and standardisation have become the biggest challenges in achieving banking integration in the ASEAN region. A regional financial supervisory authority that ensures that financial integration is on track would likely be unsuccessful, because member states would not want to give their domestic financial authority to the regional body, nor can ASEAN itself force member states to do so due to the Association's soft law approach to regionalism. The current modes of policy coordination and standardisation implemented by ASEAN countries illustrates this delicate balancing act: states retain full control of domestic banking regulation but regulations can be adjusted based on negotiations and informal arrangements, such as the bilateral agreements and vague standardisation methods so far adopted by ASEAN members.

Although the article aims to provide insights on the limitation of the ASEAN banking integration project, our case focusses on the Indonesia's efforts and progress so far. Future research could assess how these findings resonate with the experiences of other ASEAN member states. Moreover, our use of regulatory regionalism as a theoretical lens might be limited, given its primary focus on the domestic aspects of regional integration, so there is a need to further discuss the lack of banking integration progress by allying regulatory regionalism with another theoretical instrument such as multi-level governance. This would allow us to build a sharper lens to directly examine what has happened not only at the state level, but also in regional developments.

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Notes

1. We thank reviewer 2 for this suggestion.
2. In 2019, AFAS has been transformed into ASEAN Trade in Services Agreement to further broaden and deepen services integration.

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