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Focus and Scope

The Journal of ASEAN Studies (JAS) is an open-access international peer-reviewed bi-annual journal that enriches understanding of the past, current, and future issues relevant to Association of Southeast Asian Nations (ASEAN) as regional organisation, community, and Southeast Asia as a region. The article shall address multidisciplinary research on theoretical and/or empirical questions. The topics addressed within the journal include a wide range of spectrum across social sciences and humanities such as but not limited to international relations, diplomacy, economy and business.

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Journal of ASEAN Studies publishes the following types of manuscripts:

- **Original research articles:** The manuscripts should be approximately 6000-8000 words. The manuscripts must contain a review of the current state of knowledge on the research question(s) of interest, then share new information or new ideas that will impact the state of theory and/or practice in the area of ASEAN Studies and/or Southeast Asian Studies.
- **Review article:** The manuscripts should be approximately 1500-3500 words. The manuscripts must contain the current state of understanding on a particular topic about ASEAN and/or Southeast Asian Studies by analysing and discussing research previously published by others.
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- **Practice notes:** These are shorter manuscripts approximately 1500-3500 words that are of specific interest to practitioners. These manuscripts must present new development for the ASEAN.
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We also commit to build, connect and share research and others kinds of knowledge generating activities for the betterment of life of the people and earth. Our immediate constituency is International Relations Department, BINUS University and the larger constituency is the broader academic community of the BINUS University and other universities and institutions both national and international as well as policy community.

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Unlocking Investment Potential in Saudi Arabia's Hajj and Umrah Sector: A Focus on Indonesia and Malaysia

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Abstract

The Saudi Vision 2030 has catalyzed the transformation of Hajj and Umrah pilgrimages in the Kingdom of Saudi Arabia (KSA), presenting lucrative investment opportunities for foreign investors, particularly within the Islamic world. This research investigates potential Hajj and Umrah investment projects in Saudi Arabia with a particular emphasis on Indonesia and Malaysia due to their significant Muslim populations and potential strong economic ties with Saudi Arabia. Risk heat map analysis identifies food products and catering services as the sector with the most manageable risks for Indonesian investors. Utilizing the Trade Gravity Model, the study reveals macroeconomic indicators and trade competitiveness as key determinants of investment success. Furthermore, the research demonstrates that product complementarity is crucial in Saudi Arabia's market competition. This research primarily focuses on Indonesia and Malaysia, providing a foundation for future research to explore investment opportunities for the other ASEAN-4 countries. Findings suggest Indonesia has the potential to emerge as a leading player in the Hajj and Umrah sectors, particularly within the food and catering services domain. Beyond its economic implications, this research contributes to advancing Islamic economic studies.

Keywords: Indonesia, Hajj and Umrah Sector, Investment, Trade Competitiveness

Introduction

All Muslims dream of making a pilgrimage to Saudi Arabia to fulfill the fifth pillar of Islam. However, due to long waiting lists and strict country-based pilgrim quotas for Hajj, many Muslims instead perform Umrah—a separate, non-mandatory pilgrimage that can be done at any time of the year. Hajj and Umrah contribute to 7% of Saudi Arabia's Gross Domestic Product (GDP) (Idris, 2020; Omar, 2020). Religious tourism related to the Hajj and Umrah is considered the most critical sector in the Kingdom of Saudi Arabia. The increasing global Muslim population, technological advances in transportation, and general economic growth in Islamic countries have increased the demand for Hajj and Umrah.

Saudi Arabia is opening opportunities for foreign funds to invest in Hajj and Umrah infrastructure through the 2030 vision (Abimanyu, 2023). Saudi Vision 2030 is an ambitious vision from the KSA Government for socio-economic development, including not only Hajj and Umrah but also industrialization, infrastructure, and Islamic tourism throughout the kingdom. By 2030, Saudi Arabia aims to host 30 million Hajj, Umrah, and tourism visits and generate income of more than US\$ 52 billion (Idris, 2020).

Saudi Arabia's Vision 2030 Hajj and Umrah service improvement program presents significant opportunities for foreign investors, especially from ASEAN countries, across various sectors. These include infrastructure development (hotels, accommodation, transportation), enhanced hospitality services (lodging, catering, customer service), halal-certified food and catering, digital solutions for pilgrimage management, and expanded healthcare services (medical facilities and emergency response). ASEAN member states with significant Muslim populations—particularly Indonesia and Malaysia—are critical contributors to global Hajj participation. Their growing outbound pilgrimage flows position them as key stakeholders in the evolving Hajj and Umrah ecosystem. Furthermore, ASEAN's advancing economic integration, coupled with its cultural and religious affinities with Saudi Arabia, provides a strategic platform for enhanced bilateral cooperation in pilgrimage services, infrastructure development, and religious tourism (Alalmai et al., 2020; Kouchi et al., 2018; Saripudin & Juned, 2024).

This research examines Indonesia's economic opportunities from the Hajj and Umrah service improvement programs. Investments available to investors include the Arafah-Mina upgrading Facility, hotel construction in Mecca and Madinah, food and catering services, air transportation, electric busses, Islamic tourism services, hospitality, and payment services. Risk heat map analysis is utilized to determine the priority of investment projects within the mitigated risks (Monat & Doremus, 2020). Regarding the prospects of Indonesian food products in Saudi Arabia, this study estimates factors determining food export to the Middle East and the world. The research of the Indonesian food export uses the trade gravity model (Anderson & Van Wincoop, 2003; Baier & Standaert, 2020; Bergstrand, 1989).

Indonesian Muslims Population, Pilgrims, and Hajj Fund

The largest national contingents of Hajj pilgrims typically come from Indonesia, Pakistan, India, Turkey, Egypt, Bangladesh, and Nigeria, reflecting both demographic size and quota allocations set by Saudi Arabia. Meanwhile, Indonesia, Pakistan, Egypt, and India are the countries with the largest number of Umrah pilgrims (GASTAT, 2024). Among ASEAN member countries, apart from Indonesia, there are also Hajj and Umrah pilgrims from Malaysia, Brunei, Singapore, Thailand, Vietnam, and the Philippines. Recent data indicates that around 2.5 million Muslims perform Hajj annually, while more than 19 million undertake Umrah—a figure that continues to grow in line with Saudi Arabia's Vision 2030 initiatives.

Table 1 shows that Indonesia and ASEAN-3 contribute around 250 thousand Hajj pilgrims and 2 million Umrah pilgrims to Saudi Arabia annually. Indonesia currently ranks first in the number of Hajj pilgrims and second in the number of Umrah pilgrims worldwide, excluding Saudi Arabia's population (GASTAT, 2024).

Table 1 ASEAN-4 Muslim Population, Hajj, and Umrah Pilgrims in 2023

	Country	Population	Muslim Population (percentage)	Hajj	Umrah (000)
1	Indonesia	277,43 million	266,50 million (87.2%)	221,000	1,500
2	Malaysia	33,60 million	21,17 million (63.5%)	31,600	300
3	Singapore	5,92 million	0,92 million (15.6%)	900	24,5
4	Brunei	0,44 million	0,38 million (81.7%)	1,000	60,0

Source: GASTAT (2024) and Statista (2023)

Indonesia has strong potential to mobilize substantial Hajj funds through its public financial institution, the Hajj Financial Management Agency or Badan Pengelola Keuangan Haji (BPKH). While Malaysia, Singapore, and Brunei do not send as many Hajj and Umrah pilgrims as Indonesia, they maintain well-established Hajj savings schemes or sovereign wealth funds that support pilgrimage financing and broader Islamic financial initiatives. BPKH follows in the footsteps of Tabung Haji, the Malaysian Hajj Fund, which collects initial funds from Hajj pilgrims through a waiting list registration system (BPKH, 2023). Meanwhile, GIC-Singapore is a sovereign wealth fund that invests its funds using conventional and sharia principles (GIC, 2024). Tabung Amanah Islam Brunei (TAIB) is an Sovereign Wealth Fund (SWF) managed according to Sharia principles (TAIB, 2022). Table 2 shows ASEAN-4 Hajj Fund and SWF in 2022-2023.

Table 2 ASEAN-4 Hajj Fund and SWF 2022/2023

	Country	GDP (US\$)	SWF/Hajj Fund	Investment Size	Portfolio(s)
1	Indonesia	1.2 trillion	BPKH	IDR 165 trillion (US\$ 10 Bio)	Time Deposits, Sukuk, Direct Investment
2	Malaysia	410 billion	<i>Tabung Haji</i> (TH)	MYR 92 million (US\$20.7 Bio)	Equity, Sukuk, Property, Money Market
3	Singapore	466 billion	GIC	US\$ 769 Billion	Equity, Sukuk, Corporate Sukuk, Global Investment, Property, Infrastructure
4	Brunei	16.6 billion	TAIB	BND 1.89 Billion (US\$ 1.4 Bio)	Equity, Sukuk, Property

Source: BPKH (2023), GIC (2024), LTH (2022) and TAIB (2022)

The four financial institutions are state institutions but independent and managed corporately. They have the advantage of having long-term funds that align with the long-term funding needs of public infrastructure projects (Abimanyu, 2023). However, they have limitations in selecting investment portfolios and generally have a low to moderate risk appetite. For instance, BPKH's level of risk appetite in the low to medium category is determined in the 2017-2022 and 2022-2027 Strategic Plans, which are the institution's internal documents.

Malaysian Hajj Savings Institution or *Lembaga Tabung Haji* (LTH) and Indonesian Hajj Financial Management Agency (BPKH) differ significantly in several aspects. LTH, established in the 1960s, began engaging in direct investments like plantations and industries in the 1980s, supported by the government to spur economic growth. In contrast, BPKH, founded in 2017, has yet to explore such investments, highlighting Indonesia's need for further development in this area. Additionally, LTH operates more like a bank, managing funds from a broader pool of 9 million depositors, including children, who can save for their future Hajj trips, unlike BPKH, which only accepts deposits from individuals intending to perform the Hajj. Furthermore, LTH provides subsidies for the first-time pilgrimage only, with no subsidies for subsequent Hajj trips, whereas Indonesia continues to offer subsidies for repeat pilgrims. Lastly, Malaysia's subsidy system targets economically disadvantaged individuals, ensuring that only those who cannot afford the pilgrimage receive financial support, contrasting with Indonesia's broader approach to subsidy distribution (Alfarizi, 2023).

How can Indonesia and Malaysia leverage their economic strengths and existing relationships with Saudi Arabia to capitalize on the investment opportunities presented by the Saudi Vision 2030's transformation of the Hajj and Umrah pilgrimages? The research aims to identify specific sectors (like food and catering) where these countries can gain a competitive advantage and contribute to their economic growth while also contributing to the development of Islamic economic studies.

This research is crucial as it fills a notable gap in the academic literature by examining how macroeconomic indicators, trade competitiveness, and product complementarity shape investment outcomes in the Hajj and Umrah sectors. By exploring investment opportunities, the study enriches the field of Islamic economics and provides valuable insights for policymakers and investors, particularly in ASEAN countries like Indonesia and Malaysia. These insights enable stakeholders to tap into lucrative opportunities within the Hajj and Umrah ecosystem, fostering economic growth and strengthening bilateral relations between Saudi Arabia and Muslim-majority nations. Additionally, the research highlights the strategic importance of these sectors in promoting regional cooperation and sustainable development, offering actionable strategies for enhancing economic growth through Hajj-related investments and the expansion of halal product trade. This dual focus on academic contribution and practical policymaking makes the study a vital resource for both scholars and practitioners in the field.

Literature Review

Religious tourism destinations have different goals from tourism in general (Tală & Pădurean, 2008; Musthofa et al., 2023). Pilgrimage and religious tourism have deep historical roots, spanning from ancient times and the Middle Ages to the present day. Unlike other forms of tourism, religious tourism is not oriented toward leisure or entertainment but is instead motivated by the pursuit of spiritual fulfillment and religious devotion. Religious tourism trips are usually carried out in groups for pilgrimage or worship (Kocyigit, 2016).

According to Al-ghalayini (2019), Hajj services in Saudi Arabia are essential in improving the quality of a pilgrim's Hajj experience. KSA (the Kingdom of Saudi Arabia) has modernized its airport capacity and initiated plans to expand its third holy mosque. The transportation system network has been strengthened to facilitate access and enable pilgrims to fulfill their religious obligations comfortably. Studies by Abimanyu (2023), Ladki et al. (2020), and Ladki & Mazeh (2017) show that Islamic tourism to Saudi Arabia impacts worship services, investment, business, trade, foreign exchange, and Muslim tourism in countries that have Hajj funds, such as Indonesia and Malaysia.

Research by Dávid et al. (2024), Ivchenko et al. (2021), and Niyazbekova et al. (2020) aimed to identify and estimate the variables that have the most significant impact on inbound and outbound tourist visits to a country. In these studies, hypotheses have been tested regarding the sensitivity of visits to changes in certain macroeconomic variables and the impact of regional trade on inbound tourism. Using time series regression correlation analysis, the researchers estimated the influence of significant macroeconomic variables on tourism in several countries and the magnitude of the most influencing variables. The dynamics of the inflow and outflow of services and finance are analyzed regarding certain economic activities that are negative or positive.

Saudi Arabia's wealth comes from oil and gas, the country's primary sources of income. The increase in Hajj and Umrah activities also has a multiplier effect on the Saudi Arabian

economy. However, diversification of the economic base and sources of income from Hajj and Umrah in Saudi Arabia has not impacted the global economy, especially in Islamic countries (Abimanyu, 2023b; Ladki & Mazeh, 2017). Several studies show that religious tourism's economic and foreign exchange impacts are quite significant and are enjoyed by the Kingdom of Saudi Arabia (Alalmai et al., 2020; Bokhari, 2021).

The tourism industry worldwide is a risky activity and business. However, the religious motives of Hajj and Umrah pilgrims are never vulnerable to any circumstances (Bokhari, 2021). While Saudi Arabia, as a destination, receives a lot of capital inflows, large Islamic countries, such as Indonesia, Pakistan, Bangladesh, and Egypt, experience financial outflows. Islamic countries with Hajj funds or SWF and active trade relations with Saudi Arabia can benefit from Hajj and Umrah services. These benefits can be received through investment and trade opportunities. Increasing investment and trade from Islamic countries to Saudi Arabia will also reduce capital outflows (Abimanyu, 2023).

Few studies have been conducted regarding the potential returns and risk management of public infrastructure projects such as the Hajj and Umrah. However, Monat & Doremus (2020) have widely used the risk heat map methodology to analyze project risks at the corporate level. A risk heat map is a visual tool used to identify, assess, and prioritize risks within a project. This method helps visualize risk levels and decide where to focus resources and attention.

Comparative advantage measures the competitiveness of industries in a country. The quantitative tool for measuring industrial competitiveness in a country is Revealed Competitive Advantage (RCA). RCA can measure a country's comparative advantage in producing certain commodities and services compared to other countries (Stellian & Danna-Buitrago, 2022). Intra-Industrial Trade (IIT) occurs when a country simultaneously carries out export and import activities of goods produced by the same industry (Balassa, 1986; Bokhari, 2021).

Many researchers use the gravity model to estimate trade competitiveness. The gravity model has become one of the most successful and widely used models in international economic studies to analyze trade patterns between countries. Leibenstein (1966) demonstrate that this model was adapted from Newton's law of gravity in physics. Newton's law explains that the gravitational force between two objects is directly proportional to the mass of each object and inversely proportional to the square of the distance between them. This analogy is applied in the context of trade by replacing mass with a country's economic size and distance with the physical distance between two countries. According to Tinbergen, a country's economy's size is observed from the GDP value. A larger GDP tends to have a greater capacity to produce goods and services as well as to consume goods and services from other countries. Meanwhile, the physical distance between two countries is considered an obstacle to trade, similar to how distance reduces the force of gravity in physics. The farther the distance, the smaller the trading volume.

The simple analogy of Newton's law of gravity is strengthened through the concept of the "theoretical gravity model" introduced by Anderson (1979). Anderson's approach

involves a general equilibrium model from international trade theory, which provides a stronger theoretical basis than just a physics analogy. More specifically, Anderson includes variables such as consumer preferences, market size, and trading costs to determine trading patterns. Bergstrand (1989), through “The Generalized Gravity Equation, Monopolistic Competition, and the Factor-Proportions Theory in International Trade”, formulated the gravity equation by combining elements of monopolistic competition and factor proportion theory. The gravity equation formulated in this study includes variables such as population and income from both parties, namely exporters and importers.

The theoretical development of the gravity model in international trade was continued by Anderson (1979) and Anderson and Van Wincoop (2003) through the “multilateral resistance terms” model. This model is built based on microeconomic theory and the concept of general balance. This means that the model considers interactions between various markets, and if there is a change in one market, it will affect other markets. This model explains that the trade volume between two countries is influenced by bilateral trade costs and the global trade resistance each country faces.

Methodology and Data

This research uses three research methodologies: risk-based project prioritization, trade competitiveness measurement, and third, the trade-gravity model. First is risk heat map analysis to determine project priorities (Monat & Doremus, 2020). This method aims to draw a risk map that provides a brief overview of project risks and the severity of their consequences (impact). This map can list identified risks, rated from low, low to moderate, moderate, moderate to high, and high, and determine risk control measures depending on their severity: strong, satisfactory, fair, marginal, and unsatisfactory (see Table 3). This method will be used to analyze the inherent risks and risk control of Hajj and Umrah projects in Saudi Arabia.

Table 3 Risk Heat Map

Inherent Risk	Risk Control				
	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Low	1	1	2	3	3
Low to Moderate	1	2	2	3	4
Moderate	2	2	3	4	4
Moderate to High	2	3	4	4	5
High	3	3	4	5	5

Source: Sienkiewicz, 2022

Hajj and Umrah strategic project risk map analysis is assessed based on the probability and severity of the inherent risks. Apart from that, risk control aspects that the institutions can carry out are also implemented. From the meeting between inherent risk and risk control,

the risk profile will be known based on the risk heat map matrix. Second, if the first method is about investment priorities in Saudi Arabia, then the second method is about trade opportunities for Indonesian products in Saudi Arabia. The second method estimates the competitiveness of Indonesian halal food products exported to the Saudi Arabian market.

Intra-industry trade index (IIT) also known as the Grubel-Lloyd index (Scott, 1975). The IIT Index measures the intensity of intra-industry trade in a country. The formula for the intra-industry trade index is shown in Equation 1:

$$\text{Intra - Industry Trade Index} = 1 - \frac{X_i - M_i}{X_i + M_i} \quad (1)$$

Notes:

X represents the country's exports.

M represents the country's imports.

i is a certain type of food or product.

Revealed Comparative Advantage (RCA) was introduced by Balassa (1965). Balassa, a Hungarian-American economist, developed the RCA index to measure a country's relative export performance in specific product categories compared to the global average. The RCA index is widely used in international trade analysis to identify sectors where a country has a competitive edge (Bacsi et al., 2024; Lugo-Arias et al., 2024; Ma et al., 2024). The RCA formula (see Equation 2) is calculated from the proportion of goods and services exported in a country to the global aggregate proportion of goods and services exported by similar products (Muryani & Pratiwi, 2018).

$$RCA_{ij}^1 = \frac{X_{ij}}{X_t} / \frac{X_{wj}}{X_{wt}} \quad (2)$$

Notes:

RCA_{ij}^1 = Revealed Comparative Advantage for country i in product j

X_{ij} = The value of Indonesian commodity i net-exports to country j

X_t = Total value of commodity net-exports from all exporting countries to country j

X_{wj} = Total net-export value of all Indonesian commodities to country j

X_{wt} = Total net-export value of all commodities exported by all countries to country j

Third, the estimation of Indonesian food export products to Saudi Arabia and the world market.

The Gravity Model, introduced by Leibenstein (1966), is a foundational framework in international trade that predicts bilateral trade flows based on the economic size of countries (e.g., GDP) and the distance between them. Based on several reference sources regarding the application of the Gravity Model (Anderson & Van Wincoop, 2003; Baier & Standaert, 2020; Bergstrand, 1989), the fundamental equation of the international trade gravity model can be stated in Equation 3:

$$T_{ij} = \frac{G \cdot M_i \cdot M_j}{D_{ij}^2} \quad (3)$$

Notes:

T_{ij} = Trade in goods between country i and j

G = Empirically determined gravitational constant

M_i and M_j = Macroeconomic indicators of countries i and j

D_{ij} = Distance between country i and j

When these equations are formed into a mathematical model, usually the equations are converted into logarithmic form with the aim of making parameter estimation easier. The model is as in Equation 4.

$$\ln(T_{ij}) = \ln(G) + \alpha \ln(M_i) + \beta \ln(M_j) - \gamma \ln(D_{ij}) \quad (4)$$

The gravity model in international trade economics is a powerful and relevant analytical tool for explaining global trade patterns. With the continued development of estimation methodologies and techniques, this model remains the main choice in international trade analysis. Empirical and theoretical studies conducted by various researchers have strengthened the validity and application of this model in different economic contexts (Anderson & Van Wincoop, 2003; Bergstrand, 1989).

This research draws upon a combination of primary and secondary data sources. Primary data was collected through surveys (see Appendix 1) and interviews with 15 top executives of leading Indonesian Hajj and Umrah travel agencies. These experienced industry leaders were presented with various investment options, allowing them to prioritize their preferred choices and assess associated risks.

Secondary data encompasses diverse sources, including the annual reports of the Hajj Fund (TH) and the Indonesian Hajj and Umrah Financial Management Agency (BPKH), which provide valuable insights into their financial performance and investment strategies. Additionally, the study leverages ASEAN macroeconomic data, pilgrimage trends, and Indonesian halal product export data to 31 key trading partners from 2017 to 2023. This data, particularly concerning cooking spices and ready-to-eat food products, required careful data conversion and transformation to ensure accuracy within the Harmonized System (HS) classification. To obtain data for these specific products, the conversion and transformation of existing HS data into HS that meets that category is required. Data conversion is carried out as stated in the following Table 4 and Table 5.

The research applies a combination of qualitative and quantitative methods. Risk assessment utilize a qualitative risk matrix to categorize risks based on their probability and impact. For trade competitiveness analysis, the Grubel-Lloyd Index measured intra-industry trade in halal food products, and the Trade Gravity Model, detailed in the full paper, analyzed the determinants of Indonesian halal food exports to Saudi Arabia. Statistical software, Stata, was employed for data analysis, regression analysis, and statistical testing.

Table 4 Commodity Conversion by HS-4

No	Commodity	Commodity Conversion
1	Cooking Spices	010
2	Herbal	
	a. Non-Spice Herbs	021
	b. Seasoning Herbs	022
3	Instant Noodles	030
4	Fast Food	040
5	Cooking Oil	050
6	Processed Fish	060
7	Processed Meat	070
8	Canned Food	080
9	Raw Vegetables	090
10	Raw Meat	100
11	Raw Fish	110

Source: BPS (2023)

Table 5 Cooking Spices and Ready Meals HS Conversion

Code Conversion	HS-4 Digit	Code Conversion	HS-4 Digit
010	0904	040	0407
Cooking Spices	0905	Ready Meals	0408
	0907		2106
	0908		1704
	0909		1803
	0910		1806
	1302		1901
	1603		1904
	1702		1905
	2102		2004
	2013		2005
	2106		2006
	2209		2007
	2501		2102
			2103
			2104
			2106
			3502

Source: BPS (2023)

Results and Analysis

Investment's Asset Allocation

In this research, the hajj fund asset allocation owned by Tabung Haji (TH) and BPKH is observed. These financial institutions carry out asset allocation based on company portfolio policies, asset class criteria, risk appetite and project return expectations. In general, asset allocation can be seen Table 6.

Table 6 Asset Allocation of Hajj Fund TH and BPKH

No	Hajj Fund	Type of Asset (s)
1	TH	Fixed Income, Financing, Properties, Foreign equity
2	BPKH	Bank's deposit, government sukuk, corporate sukuk, direct investment

Source: BPKH (2023) and LTH (2022)

The majority of Tabung Haji's asset allocation consists of Fixed Income (58%), domestic financing (18%) and Property (11%)—see Figure 1. The risk tolerance of Tabung Haji is moderate, investment approach in fixed income is the right measure. Returns from Tabung Haji are given to departing Hajj pilgrims and those on the waiting list.

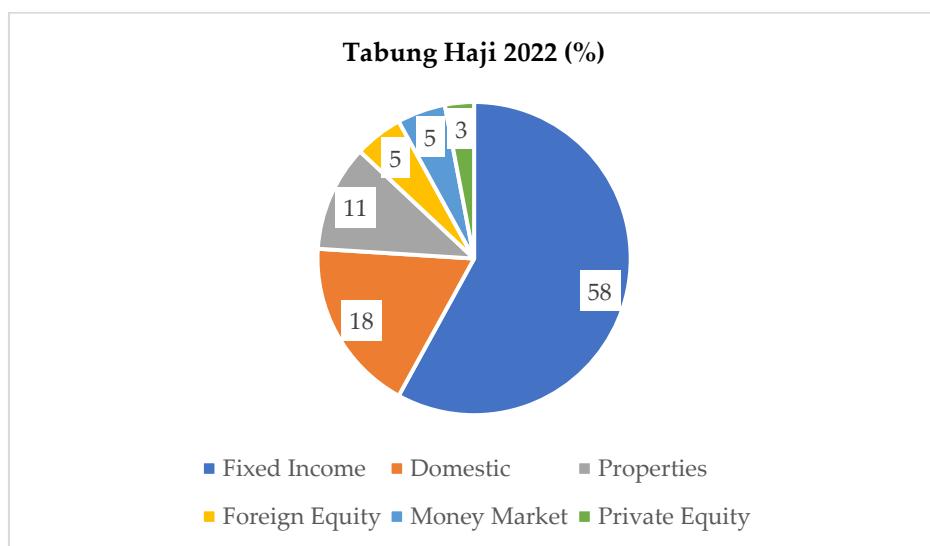


Figure 1 Tabung Haji Asset Allocation

Source: LTH (2022)

BPKH was formed in 2017 through the Indonesian Hajj Financial Management Law. Currently, with total assets of around 10 billion US dollars, it allocates 30% of its assets to deposits in Islamic banks. BPKH's risk appetite is low to moderate (BPKH, 2023). Thus, apart from deposits, BPKH invests Hajj funds in government sukuk (50%). Other allocations are corporate sukuk (6%) and investment in Bank Muamalat Indonesia (5%)—see Figure 2. Thus, BPKH's asset allocation is around 80% in safe, government guaranteed and low-risk assets.

The BPKH benefit value is used for subsidies for departing Hajj pilgrims and the Hajj waiting list.

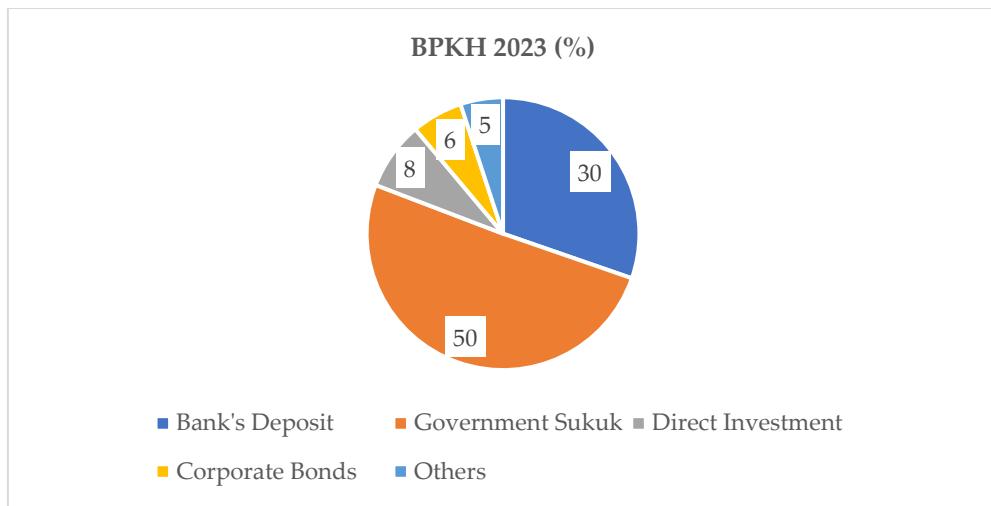


Figure 2 BPKH Asset Allocation

Source: BPKH (2023)

Saudi Arabia's Vision 2030 has set an ambitious target of accommodating 30 million pilgrims annually by 2030, a significant increase from the current numbers. This transformation presents a wide range of lucrative investment opportunities across various sectors, as highlighted during the World Hajj and Umrah Forum held in Jeddah in January 2023. One of the most critical areas of investment is the modernization of the Arafat-Mina area (see Figure 3), which includes the construction of multi-story buildings, permanent tent facilities, and the development of shuttle services using electric buses to enhance mobility (see Figure 4). These upgrades are essential to support the current 3 million Hajj pilgrims and the projected increase to 10 million by 2030, ensuring improved safety, comfort, and efficiency for pilgrims.



Figure 3 Mina, City of Tent (Jakarta Islamic Centre, 2017)



Figure 4 Saudi Arabia Electric Bus (Alshammari, 2024)

Another key area of investment is the hospitality sector, particularly in Makkah and Madinah. The Jabal Omar Development Project (see Figure 5 and Figure 6), for instance, is a mega-project featuring hotels, apartments, and condominiums located within 100 meters to 2 km of the Haram Mosque. This project, along with the rehabilitation of existing hotels and the construction of new facilities, aims to meet the growing demand for high-quality accommodation. The hospitality sector is further bolstered by the increasing number of pilgrims seeking luxury and mid-range lodging options, making it a highly attractive area for investors.

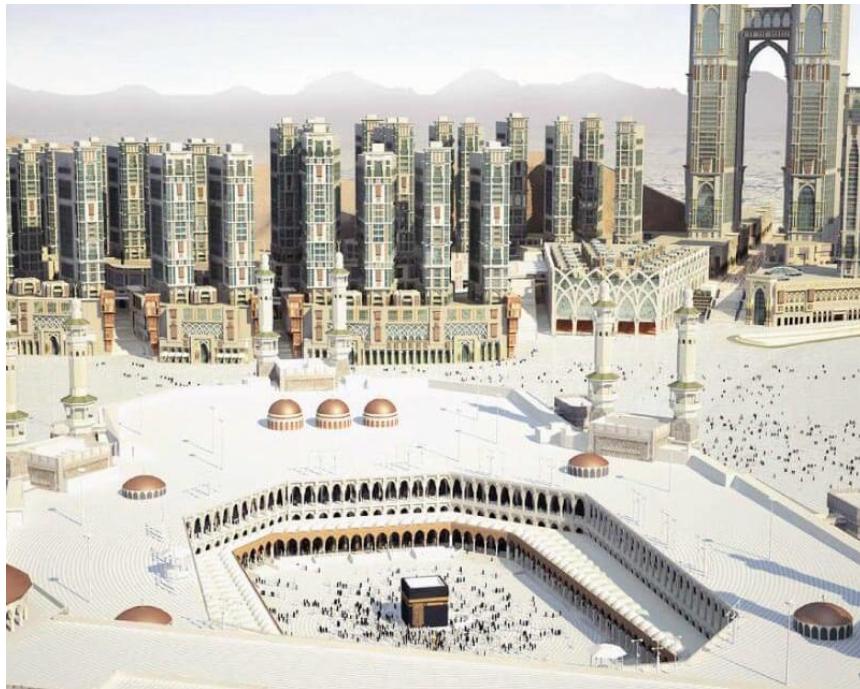


Figure 5 The Jabal Omar Development Project (Property Finder, 2022)



Figure 6 Rua Al Madinah Project (Arab News, 2022)

The catering and food services sector also offers significant investment potential. With millions of pilgrims requiring halal-certified, ready-to-eat meals, there is a growing need for catering factories that can produce pre-cooked, non-perishable meals tailored to the dietary needs of pilgrims. Additionally, the export of cooking spices and ingredients to ensure meals meet the cultural preferences of pilgrims from diverse regions presents another lucrative opportunity. This sector is particularly appealing due to the high demand for healthy, convenient, and culturally appropriate food options during the pilgrimage.

The financial and digital services sector is another area ripe for investment. The growing number of pilgrims has created a demand for digital financial services, including non-cash payment systems, travel and health insurance, and currency exchange services. With 1.5 million Indonesian pilgrims and 500,000 from other ASEAN countries visiting Saudi Arabia annually, this sector offers significant growth potential. Digital platforms that facilitate seamless financial transactions and provide tailored insurance products are particularly attractive to investors.

Urban development projects in Jeddah and Dammam also present compelling investment opportunities. Jeddah is being transformed into a modern Muslim tourist destination to rival Dubai, while Riyadh is being developed as a global financial hub. Key projects include property development in Jeddah, such as commercial and residential complexes, and the modernization of Dammam Airport to serve as a new gateway for pilgrims traveling to Jeddah and Madinah. These initiatives aim to enhance the overall infrastructure and appeal of Saudi Arabia as a destination for religious tourism and business.

Finally, the travel and tourism sector is undergoing significant transformation, with global travel agencies such as Agoda and Airbnb partnering with Saudi Arabia to dominate the online booking market for Hajj and Umrah packages. Investment opportunities in this sector include integration with Saudi Arabia's Global Distribution System (GDS), a centralized platform for travel bookings, and the development of inbound and outbound

travel services to streamline the pilgrimage experience. These partnerships highlight the growing importance of digital platforms in the Hajj and Umrah ecosystem.

Investment Selection

Based on the findings from surveys and interviews conducted with executives of Hajj and Umrah travel agencies, Table 7 presents a compilation of nine potential investment opportunities, ranging from partial to complete involvement. Among these projects, some are currently open for investment, while others have restrictions related to land or property ownership, particularly in the regions of Mecca and Medina.

Table 7 Project Identification by Investors

No	Sector(s)/Project	Project Identification(s)
1	Arafah-Mina	Three story of Mina, building of Arafah and Mudzalifah areas, improve Mina Toilet, Modern Tents and provide shuttle electric busses
2	Hotel Makkah	Investment in Hotels, Electric Busses, Meal services, City-tour, and Hospitality
3	Hotel Madinah	Long-lease renting Hotels, Electric Busses, Meal Services, City-Tour, and Hospitality
4	Catering Services	Kitchen, Ready Meals, Catering Services, Coffee Services, Cooking-Spices exports to KSA
5	Financial Services	Local Currency, Inbound-Outbound Tourism online, Hospitality, Travel Agency, Hospital Services and Health Insurance Services
6	Flight Services	Invest in Hajj or Umrah Flight to KSA and Flight Charter from to KSA
7	Property Jeddah	Buy or Rent Property or apartment in the central city of Jeddah
8	Land Transportation	Electric Busses, Private Cars, <i>Ziarah</i> , Inter-city, and City Tours
9	Islamic Tourism	Joint-investment in Islamic tourist destination in Saudi Arabia and an Integrated Islamic tourism in the Middle east

Source: Primary Survey to 15 Executives, author analysis

Investor priority selection is also based on worship categories; the five most important are Arafah Mina (22%), Mecca Hotel (18%), Catering Services (15%), Medina Hotel (12%) and Financial Services (13%) – see Figure 3. Meanwhile, from the financial side, the 5 (five) choices of investors are catering services (17%), Makkah Hotels (17%), Finance (13%), Aviation Services and Madinah Hotels, 12% each (see Figure 7 and Figure 8).

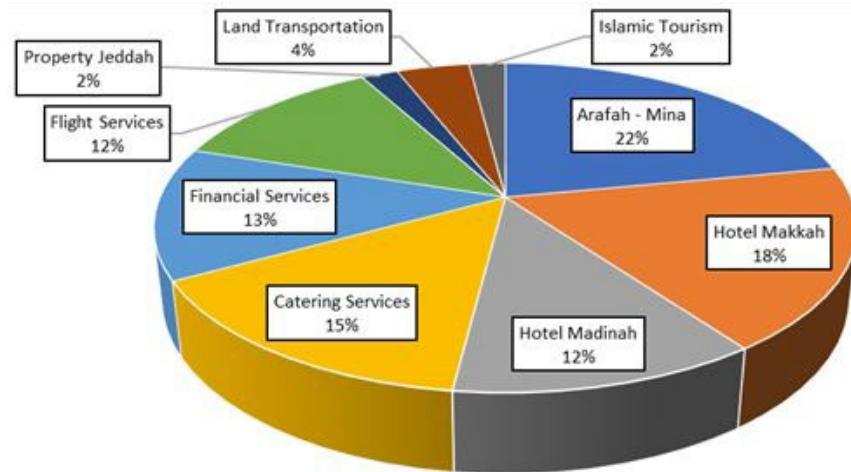


Figure 7 Worship/Service Priority

Source: Primary Survey to 15 Executives, author analysis

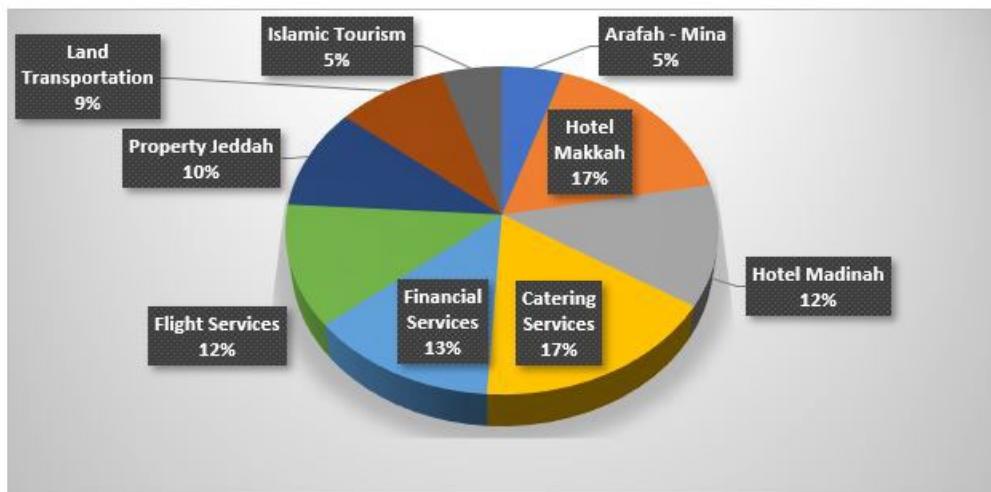


Figure 8 Financial Perspectives

Source: Primary Survey to 15 Executives, author analysis

Travel companies' executives are asked what projects were most important for Hajj and Umrah pilgrims and which investments had the highest benefit value for the company's investment.

A summary of the answers from respondents is as follows (see Table 8);

1. The project to improve the Arafah and Mina worship areas is the highest priority because it is the Hajj's top mandatory and main religious activity. Currently, the Arafah and Mina areas are woefully inadequate and uncomfortable for accommodating over 3 million people at once. From an investment perspective, there are already attractive investment policies in place. The rental costs for these areas have been determined to be quite competitive for investors. However, the problem is that there has been no clarity regarding regulations on land and building ownership if construction is to take place.

2. The strategic importance of hotel investment or long-term rental in Mecca cannot be overstated. Given the extended stays of pilgrims (20 days for regular Hajj, 10 days for VIP Hajj, and five days for Umrah), hotels in close proximity that offer exceptional services are highly sought after. The increasing demand for hotel accommodations, coupled with the anticipated rise in Hajj quotas and Umrah pilgrims, underscores the promising investment potential in this sector. While property ownership in holy cities like Mecca and Medina was previously restricted, recent reforms have introduced usufructuary rights for a 99-year period. Although certain conditions apply, these rights present a unique opportunity for both spiritual fulfillment and financial gain.
3. Ready-to-eat food catering for Hajj and Umrah pilgrims presents a unique opportunity. Catering services must accommodate the diverse tastes of pilgrims from various countries while also considering the physically demanding nature of these pilgrimages. The wide range of ages and backgrounds among pilgrims necessitates offering delicious, appropriate, and healthy food options. This project's appeal lies in its broad market, encompassing Hajj, Umrah, schools, industries, and general consumers. Moreover, the specific catering requirements in the Arafah and Mina areas, such as the need for ready-to-eat food with a long shelf life, make this venture particularly promising. Additionally, the factory's location outside the sacred or forbidden areas eliminates stringent restrictions.
4. Financial and Fintech services for booking Hajj and Umrah packages, obtaining visas, and other services through digitalization are a fundamental need to facilitate and speed up services for Hajj and Umrah pilgrims. With GDS systems and travel giants like Agoda and Airbnb, travel investments can join their networks. This project is relatively simple, does not require complicated technology, and does not have to be in a specific location; the risks are classified as moderate. However, projects in this field are capital-intensive, with thin profit margins and heavy regulations.

Table 8 Priority Projects Based on Market Demand and Expected Return

No	Project	Area (s)	Investment	Market	Priority	Return
1	Armina	Three Floor Mina, Shuttle Busses, Transit Hotel, Modern Tents	Very High	Hajj Mission, Private Hajj	High	Low/Uncertain
2	Jabal Omar	Hotels, Electric Shuttle Busses, Meals, Hospitality	High	Hajj Mission, Private Hajj, Umrah	Medium	Moderate to High
3	Ready Meals	Kitchen factory, Ready Meals, Catering Services, Coffee Services, Cooking Spices	High	Hajj Mission, Private Hajj, Umrah, General Consumers	Medium	High
4	FintechS	Local Currency, Inbound-Outbound Tourism Application, VIP Hospitality, Travel Agency, Hospital Services and Health Insurance Services	Medium	Limited Hajj Mission, Private Hajj, Umrah, Inbound Tourism	Low	Low to Moderate

Source: Primary Survey to 15 Executives, author analysis

Estimating Risk Heat Map

A risk heat map is a visual tool used in risk management to represent the severity and likelihood of various risks. It helps investors identify and prioritize risks by plotting them on a matrix with two dimensions: the likelihood of occurrence and the impact on the project if the risk materializes (Monat & Doremus, 2020).

The risk heat map is used to identify and prioritize Hajj and Umrah projects based on investors' perspectives. The expansion of the risk heat map includes inherent risk, which refers to the level of risk that exists in the absence of any controls or mitigating actions. Second, risk control involves implementing measures to reduce the likelihood and impact of risks that can affect an organization. It is a vital part of risk management and helps to protect assets, ensure operational continuity, and achieve business objectives. Third, a risk profile comprehensively evaluates a firm or system's risk exposure. It includes identifying, assessing, and prioritizing risks, along with the strategies to manage or mitigate them. A risk profile helps in understanding the risk appetite and tolerance levels and aids in making informed decisions.

Sequencing Risk Heat Map Analysis

The risk heat map analysis begins by determining the inherent risk, which involves assessing the likelihood and potential impact of various risks, including credit, market, liquidity, operational, legal, strategic, and reputation risks. These risks are rated on a scale such as low (1), low-to-moderate (2), moderate (3), moderate-to-high (4), and high (5). Next, existing and planned risk control actions—such as policies, procedures, human resources, information technology, and innovation—are evaluated. The effectiveness of these controls is rated on a scale: strong (1), satisfactory (2), fair (3), marginal (4), and unsatisfactory (5). A Risk Profile Matrix is then created by plotting inherent risks based on their impact, likelihood, and the effectiveness of risk controls. This visual tool helps identify which risks require greater attention.

Based on surveys and interviews with respondents, a risk profile is derived using the risk heat map and compared to the organization's risk appetite, which reflects its willingness to accept risk. This comparison forms the basis for recommendations. Using this methodology, the project analysis concludes that the Armina project is not recommended, while the Jabal Omar project is recommended with stronger risk controls. The Ready Meals Catering project and the Financial/Digital Services project are recommended with stronger risk controls (see Table 9).

Table 9 Risk Analysis of Priority Projects

No	Project	Inherent Risk	Risk Control	Risk Profile	Risk Appetite	Conclusion
1	Armina	High (5)	Marginal (4)	High (5)	Moderate (3)	Not-Recommended
2	Jabal Omar	High (5)	Satisfactory (2)	Moderate (3)	Moderate (3)	Recommended with Stronger Risk Control
3	Ready Meals	Moderate to High (4)	Strong (1)	Low to Moderate (2)	Moderate (3)	Recommended
4	FintechS	Moderate (4)	Fair (3)	Moderate (3)	Moderate (3)	Recommended with Stronger Risk Control

Source: Primary Survey to 15 Executives, author analysis

The risk analysis evaluates four key projects: Armina, Jabal Omar, Ready Meals, and FintechS. The Armina project is deemed not recommended due to its high inherent risk, marginal risk controls, and high-risk profile, which exceed the organization's moderate risk appetite. In contrast, the Jabal Omar project is recommended, as its high inherent risk is partially mitigated by satisfactory risk controls, resulting in a moderate risk profile. The Ready Meals project is recommended, with strong risk controls effectively reducing its moderate-to-high inherent risk to a low-to-moderate risk profile, aligning well with the organization's risk appetite. Similarly, the FintechS project is recommended but requires enhanced risk controls to address its moderate inherent risk and risk profile.

Investors have also provided feedback regarding the ranking of investment returns for Hajj and Umrah projects. The risk profile and investment return analysis revealed that the Armina project was perceived as having low and uncertain returns, coupled with high to very high risk. On the other hand, financial service projects, such as fintech, are characterized by low risk and low-to-moderate returns. Projects considered to have moderate-to-high returns and measurable risks include ready-meals catering projects (low to moderate risk) and the Jabal Omar project or hotels in Mecca (moderate to high risk), both of which require stronger risk controls (see Table 10)

Table 10 Risk Profile and Investment Return of Project

Investment Return	Risk Profile				
	Low	Low to Moderate	Moderate	Moderate to High	High
Low (1)					Armina
Low to Moderate (2)	FintechS				
Moderate (3)					
Moderate to High (4)		Catering			Jabal Omar
High (5)					

Source: Primary Survey to 15 Executives, author analysis

Trade Competitiveness Estimation

The analysis of Indonesian food trade to Saudi Arabia consists of two estimates: a description of the trade flow and product competitiveness. The first outcome of the trade flow analysis is an assessment of the competitiveness of Indonesian food products in Saudi Arabia. The growth of Indonesia's halal food exports to the world had been increasing until the onset of COVID-19, but subsequently declined and is now experiencing a slow recovery. Meanwhile, food exports to Saudi Arabia were corrected in 2022, but overall, they have shown consistent positive growth, averaging 20% over the past five years (see Figure 9).

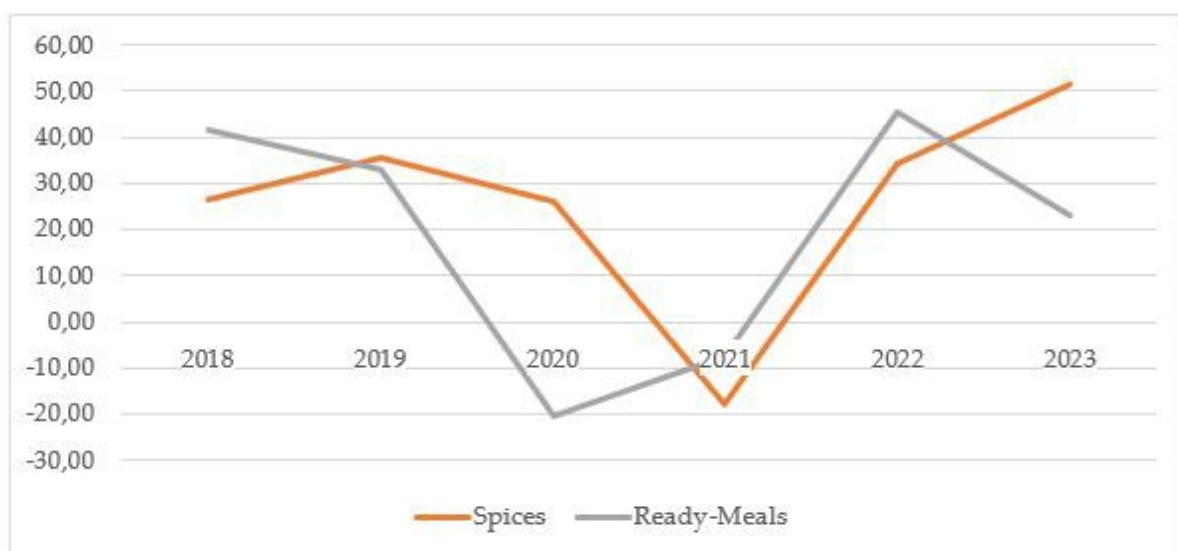


Figure 9 Export Growth of Halal Food Products Indonesia

Source: BPS (2023) and IMF (2023), calculated by author

Indonesia's share of halal food exports has followed a similar trend. Exports to the Middle East have generally increased since 2017, despite a temporary decline during the COVID-19 pandemic in 2021 and 2022, but it indicates an overall upward trend in the medium term. In contrast, Indonesia's global halal food export share has fluctuated, starting at a high ratio in 2017, declining in 2018, rising until 2021, falling during the COVID-19 pandemic, and recovering in 2023 (see Figure 10).

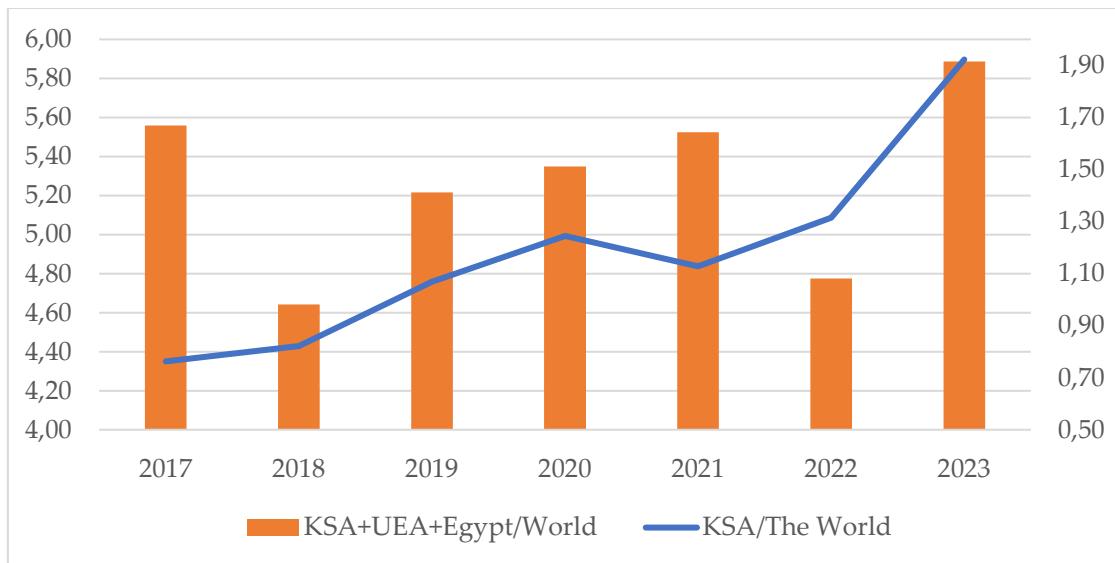


Figure 10 Share of Halal Food Export to the Middle East

Source: BPS (2023); IMF (2023), calculated by author

Meanwhile, export growth for ready-meal foods and cooking spices fluctuated during the COVID-19, declining initially but rebounding in 2021. The recovery for was more robust cooking spices, while ready meals slowed again in 2023 (see Figure 11).

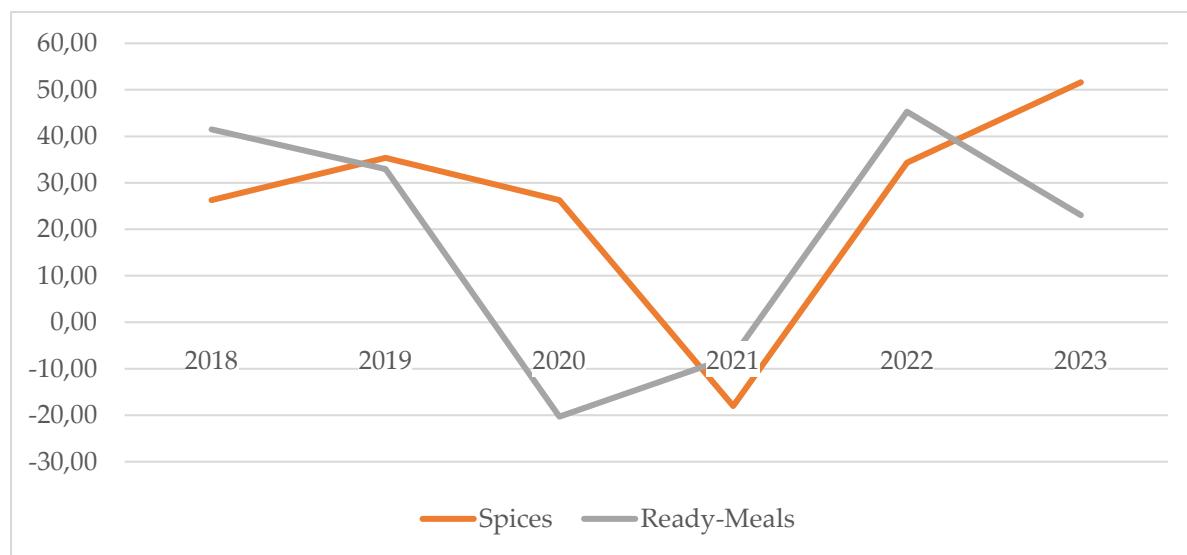


Figure 11 Export Growth of Ready Meals and Cooking Spices to Saudi Arabia

Source: BPS (2023) and IMF (2023), calculated by author

The RCA calculation for cooking spices among food products is illustrated in Figure 8, both with and without cooking oil included. Cooking oil is Indonesia's most significant export of food or ingredients to Saudi Arabia and is Indonesia's most competitive commodity. When cooking spices are analyzed within the context of Indonesian food product exports to Saudi Arabia, their RCA is relatively low, falling below 1. However, when cooking oil is excluded

from the calculation, the RCA of cooking spices rises above 1. The similarity in the calculation methods indicates fluctuations in competitiveness during the COVID-19 pandemic, with notable increases in early 2022 and 2023 (see Figure 12).

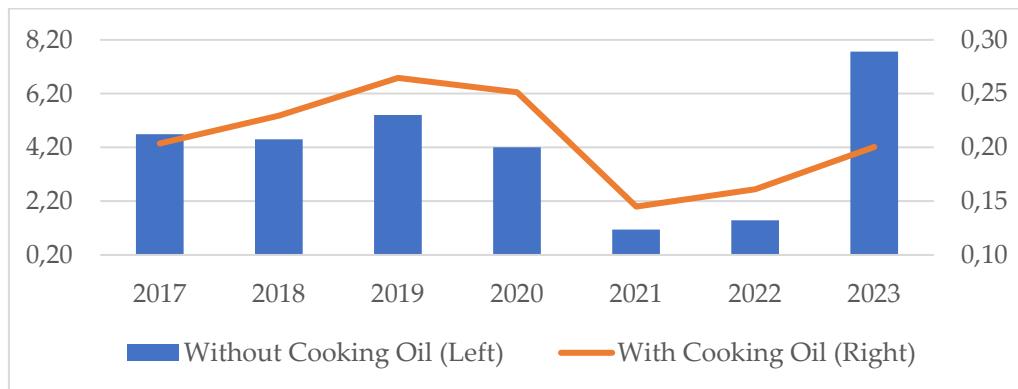


Figure 12 RCA Cooking Spices, 2017-2023

Source: BPS (2023) and IMF (2023), calculated by author

Meanwhile, the competitiveness of cooking spices, as seen from IIT calculations, increased until 2019, then decreased during the COVID-19 period, and increased again after 2020 to 2023. A similar trend occurred in IIT Cooking Spices from Indonesia to Saudi Arabia or Indonesia to the world (see Figure 13).

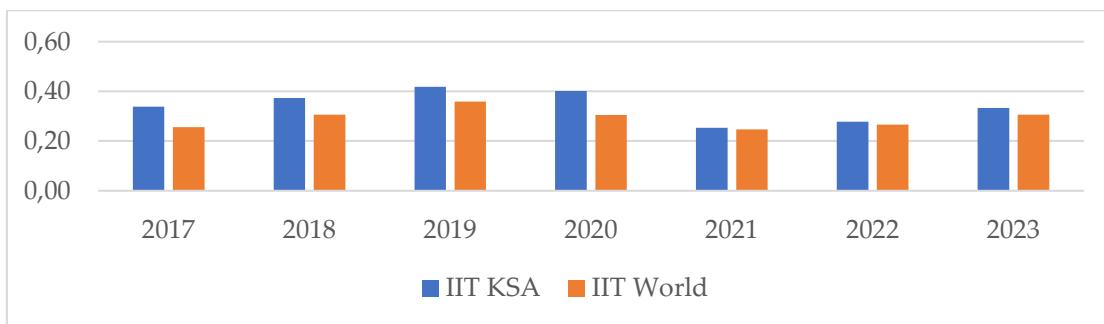


Figure 13 Trade Competitiveness; IIT KSA-World

Source: BPS, (2023) and IMF (2023), calculated by author

Competitiveness Estimation Analysis with Trade Gravity Model

This section discusses estimating the competitiveness of Indonesian food exports using the trade gravity model and using multiple regression equations. The regression equation model for cooking spice exports using the Indonesian Gravity Trade Model is shown in Equation 5.

$$\log(Export - 010) = \beta_0 + \beta_1 \log(Export - 040) + \beta_2 Distance + \beta_3 \log(GDP) + \beta_4 Inflation + \beta_5 RCA - 010 + \beta_6 Dummy + \epsilon \quad (5)$$

Notes:

- a. Dependent Variable: Export-010 = Export of cooking spices from Indonesia to 31 destination countries.
- b. The Independent Variables are:
 1. Export-040 = Export of Indonesian Ready-Meal Food Products to 31 destination countries
 2. Distance = geographical distance from Jakarta to the capital cities of 31 destination countries
 3. GDP = nominal GDP of 31 destination countries
 4. Inflation = Inflation Rate of 31 destination countries
 5. Dummy = dummy for Islamic export destination countries (=1)
- c. The cross-country economic data is 2023.

Table 11 Correlation Coefficient(s)

		Log_EXPORT_010	Log_EXPORT_040	Distance	Log_GDP	INFLATION	DUMMY	RCA010
Log_EXPORT_010	Pearson Correlation	1	0.597**	0.109	0.622**	-0.196	0.025	0.209
	Sig. (2-tailed)		0.000	0.559	0.000	0.290	0.893	0.260
	N	31	31	31	31	31	31	31

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 11 shows the Correlation Coefficient results. The correlation analysis results between the dependent variable, cooking spice exports, and the independent variables reveal a strong and statistically significant correlation between ready-meal food exports and GDP. However, there is a weak positive correlation between cooking spice exports and both distance factors and competitiveness (as measured by RCA). These latter correlations are not statistically significant.

Calculations Regression uses the OLS method, more specifically, Multiple Linear Regression. Table 12 shows the following results.

Table 12 Regression Analysis of Indonesian Cooking Spices Exports to the trading Countries in the World

No	Independent Variables	Coeficient	t-Value	p-Value (Significant 95%)
1	Constant	-1.880	-1.253	0.222
2	Export of Ready Meals (40)	0.781	3.552	0.002*
3	Geographic Distance	0.002	0.054	0.957
4	Log GDP	0.845	3.371	0.003*
5	Inflation	-0.001	-0.080	0.937
6	Dummy-Islamic Countries	0.673	2.414	0.024*
7	RCA Cooking Spices (10)	0.135	2.318	0.029*

The regression analysis shows several factors significantly impact the export of Indonesian cooking spices. The export of ready meals (coefficient: 0.781, p-value: 0.002), log GDP (coefficient: 0.845, p-value: 0.003), being an Islamic country (coefficient: 0.673, p-value: 0.024), and the RCA of cooking spices (coefficient: 0.135, p-value: 0.029) are all positively associated with higher exports. Specifically, a unit increase in the export of ready meals leads to an increase of 0.781 in cooking spice exports, and higher GDP correlates with an increase of 0.845 in exports. Islamic countries and a higher RCA for cooking spices contribute to better export performance. However, geographic distance (coefficient: 0.002, p-value: 0.957) and inflation (coefficient: -0.001, p-value: 0.937) do not have a significant effect, indicating that these factors are not influential in Indonesian spice exports. The results align with Anggrasari and Mulyo (2019) and Sukarniati and Rahmi (2024).

Overall, the findings suggest that economic strength (GDP), cultural factors (Islamic countries), and related product performance (ready meals) are crucial determinants of Indonesia's cooking spice export success, whereas geographic factors and inflation are not significant. This information can help policymakers and exporters focus on the most impactful areas to boost exports.

Conclusions

This research examines which investments are prioritized in the Hajj and Umrah sector. Indonesia has the largest Muslim population, thus making it a great investment opportunity. Saudi Arabia's Vision 2030 allows for potential cooperation and investment in Arafah, Mina, Mecca, Medina, and more, covering key sectors from infrastructure to financial services. The research identifies two main types of investment. First, infrastructure investment includes the worship facility, transportation, and accommodation. Second, service investment includes travel agents, health insurance, and related packages. Moreover, this research applies mixed methods, including risk heat map analysis, trade competitiveness analysis, and trade gravity model. The research reveals that Indonesia and ASEAN-4 countries can be strategic investors in Saudi Arabia thanks to their monetary capability, equivalent investment objective,

and strong economic relationship. Indonesia is expected to gain significantly due to its large number of pilgrims, lower currency outflow, and longer stay duration in Saudi Arabia.

The risk heat map analysis provides a low-risk factory-ready meals project investment with great demand for healthy food and flexibility of factory locations. This perfectly fits Indonesia's strength in supplying spices, cooking oils, and food ingredients. Even though food product competitiveness dropped during the COVID-19 pandemic, Indonesian exports to Saudi Arabia are experiencing a robust rebound as the Hajj and Umrah pilgrimages reopened fully in 2022. The gravity model further underscores the importance of economic factors, product complementarity, and halal-based exports in driving Indonesia's food trade with Islamic countries, with distance playing a lesser role.

This research contributes to the growing of Islamic economic studies by combining micro-level project risk analysis with macro-level trade flow assessments, offering a novel methodological approach. The findings provide actionable recommendations for Indonesian investment and trade policies in Saudi Arabia, positioning Hajj and Umrah services as a potential driver of economic growth for Indonesia and the broader ASEAN region. Future studies could expand this framework to explore investment opportunities for other ASEAN-4 countries, further enriching the discourse on Islamic economics and cross-border collaboration.

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Appendix 1

List of the questions used in the interview

1. Who are your main customers or potential Travel Pilgrims? (Select up to 3)

- Individual
- Family/Colleagues
- Ministries/Institutions/Companies/Local Governments/Similar
- Islamic Education Council/Recitation Group
- References from the Association
- Other: _____

2. What are your main travel activities? (Choose up to 3)

- Hajj
- Umrah
- Tour
- Trade
- Ticketing
- Other: _____

3. What are your most important travel paths, facilities, or media channels? (Choose up to 3)

- Network/Contacts
- Social Media
- Promotion
- Package Diversity
- Mentor/Companion Reputation
- Other: _____

4. What are your primary travel purposes? (Choose up to 3)

- Profit
- Expanding Cooperation
- Social/Religious Goals
- Adding Customers/Prospective Pilgrims
- Entering the Saudi Market

- Other: _____

5. What are the main reasons customers/pilgrims choose your services? (Choose up to 3)

- On-demand services/packages
- History/Emotional Bonding
- Gain Mutual Benefits
- Recommendations from Muslim Scholars/Community Leaders
- Price/Cost is Relatively Cheap
- Other: _____

6. Where do you interact with the most prospective pilgrims? (Select up to 3)

- Social Media
- Exhibition
- Studies/Religious Leaders
- CSOs/Associations
- Personal
- Other: _____

7. What is the age range of most of your pilgrims? (Select up to 3)

- Under 30 years
- 31-40 years old
- 41-50 years old
- 51-60 years old
- Over 61 years

8. What are the biggest costs associated with your Hajj/Umrah travel services? (Select up to 3)

- Promotion
- Booking/Tickets and Services Advance Payment in Saudi Arabia
- Officer/Companion
- Operational
- Other Services

- Other: _____

9. What are the main sources of income for your travel agency? (Select up to 3)

- Ticketing
- Hotel and/or Catering
- Service/Hospitality
- Interest/Profit Sharing from Travel Fund Banks
- Other Income
- Other: _____

10. What factors determine the progress of your travel business? (Choose up to 3)

- Regulatory Certainty from the Government of Indonesia
- Sufficient Availability of Capital/Funds for the Company/Travel Business
- Regulatory Certainty from the Government of Saudi Arabia
- Cooperation with the Ministry in Saudi Arabia
- The Purchasing Power of the Indonesian People
- Other: _____

11. How intense is the competition from new travel agents? (Choose one)

- High
- Enough
- Medium
- Low

12. How intense is the competition from existing travel agents? (Choose one)

- High
- Enough
- Medium
- Low

13. How intense is the competition from online travel agents? (Choose one)

- High

- Enough
- Medium
- Low

14. How difficult is it to acquire new customers? (Choose one)

- High
- Enough
- Medium
- Low

15. How difficult is it to secure flight tickets, hotels, and Hajj/Umrah catering services? (Choose one)

- High
- Enough
- Medium
- Low

16. Ranks your hajj project investment appetite, market, expected return and risk profile (1 to 5, 1 = lowest, 5 = highest)

No	Project	Area (s)	Investment Appetite	Market/Off Taker	Return	Risk
1	Armina	Three floors Mina, Shuttle Busses, Transit Hotel, Modern Tents				
2	Jabal Omar	Hotels, Electric Shuttle Busses, Meals, Hospitality				
3	Ready Meals	Kitchen factory, Ready Meals, Catering Services, Coffee Services, Cooking Spices				
4	FintechS	Local Currency, Inbound-Outbound Tourism Application, VIP Hospitality, Travel Agency, Hospital Services and Health Insurance Services				

Revisiting Sustainable Tourism Practices in ASEAN Member State: A Study on the Saba Baduy in Indonesia

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Abstract

Being brought in as a tool to empower socio-cultural integration between Southeast Asian countries, the ASEAN Tourism Strategy Plan (ATSP) has become a standard norm among Southeast Asian countries to achieve sustainable tourism practices. Discussing local tourism policy prospects for regional integration is central to understanding whether compliance with ATSP standards, which is notably regarded as a non-sensitive issue in the ASEAN socio-cultural pillar, is applicable at the regional level, and beneficial for the local authorities. Despite that ASEAN countries have strongly relied on the tourism economy, scholars have yet to understand whether member states are ready to comply with ATSP. This research aimed to thoroughly evaluate sustainable tourism development in one destination site in Indonesia, using the case study of Saba Budaya Baduy of Banten Province. By reviewing policy measures, aspirations and interests of diverse actors in Banten, the research argued that adherence to ATSP is constrained by the dilemma between promoting economic development and preserving the cultural heritage of the Baduy Indigenous people. The research applied a qualitative method with a case study approach, which involves in-depth interviews, field observations, and analysis of policy documents. It also suggests that to ensure the readiness to comply with ATSP, the Indonesian authority needs more participatory policies.

Keywords: sustainable tourism, public policy, local culture, indigenous peoples, Baduy

Introduction

Tourism in Southeast Asia has experienced substantial growth, with international arrivals rising from 21.2 million in 1990 to 96.7 million in 2014, highlighting the region's increasing global appeal (Dolezal & Trupp, 2015; Putri & Purnawarman, 2021). This boom in tourism has not only bolstered the economies of Southeast Asian nations but has also facilitated job creation and community development, making it a vital sector for regional prosperity (Putri & Purnawarman, 2021). The region's rich cultural heritage, diverse landscapes, and vibrant cities have attracted millions of tourists annually, solidifying its status as a premier global travel destination. This steady influx of tourists not only showcases Southeast Asia's appeal but also highlights the importance of tourism as a cornerstone of economic development and regional integration (Dolezal & Trupp, 2015; Putri & Purnawarman, 2021).

Tourism in Indonesia has undergone significant evolution over the past few decades, significantly contributing to the nation's economic growth and development. Historically, the tourism sector gained importance as Indonesia recognized its potential as one of the world's largest archipelagos, rich in cultural heritage and natural resources (Aida et al., 2024). By the mid-2010s, the sector became one of the country's key contributors to foreign exchange earnings, with international tourism receipts reaching \$1.84 billion in 2019 (Rahmayani et al., 2022). Despite this growth, challenges persist. Inadequate infrastructure and inconsistent regulatory frameworks have hindered further expansion. Issues such as complex licensing processes and limited transportation networks make it difficult for tourists to access remote areas (Fafurida et al., 2020).

In addition to the economic challenges, tourism has had a negative impact on the quality of life of people and the environment in tourist destination areas (Nopiyani & Wirawan, 2021; Rahmi & Setiawan, 2020; Saqib et al., 2019). The rapid commercialization of tourist areas has led to the degradation of cultural values and traditions, as local communities often adapt their practices to cater to tourists, which risks diluting Indonesia's rich cultural heritage (Khamdevi & Bott, 2018). Furthermore, many tourism jobs are low-wage and seasonal, leading to income disparities and limited economic stability for workers (Firman et al., 2023). Thus, addressing these issues is crucial to ensuring that tourism remains a sustainable and inclusive driver of economic progress, particularly as the sector increasingly competes on a global scale.

As a member of ASEAN countries, the Indonesian government also aspires to achieve sustainable tourism development following the strategic plan outlined in the ATSP. While appearing as one of top major tourism destinations in Southeast Asia, studies have yet to discuss the integration of tourism policy in regional level, and focused too much on glorifying the economic discourse over tourism (Tung & Cuong, 2023). Research on tourism development in developing countries has also discovered that tourism has brought various negative impacts, including creating income inequality (Fang et al., 2021), benefiting non-

native residents (Hamzah et al., 2018; Kolopaking, 2015), degrading livelihood in the destination sites (Nopiyani & Wirawan, 2021; Rahmi & Setiawan, 2020; us Saqib et al., 2019), as well as inducing identity crisis among native residents in tourism sites (Khamdevi & Bott, 2018).

Instead of focusing on the development and economic nexus of tourism, the research attempts to examine the local tourism policy prospects for regional integration. Discussing local tourism policy prospects for regional integration is central to understanding whether compliance with ATSP standards, which is notably regarded as a non-sensitive issue in the ASEAN socio-cultural pillar, is applicable at the regional level, and beneficial for the local authorities. The research thoroughly evaluates sustainable tourism development in a single destination site in Indonesia, using the case study of Saba Budaya Baduy in Banten Province. By reviewing the policy measures, aspirations, and interests of diverse actors in Banten, the research argues that adherence to ATSP has become problematic because tourism development is constrained by the dilemma between promoting economic development and preserving the cultural heritage of the Baduy indigenous people. The research applies a qualitative method with a case study approach, which involves in-depth interviews, field observations, and analysis of policy documents. It also suggests that to ensure the readiness to comply with ATSP, the Indonesian authority needs more participatory policies.

Literature Review

Tourism development has been a priority focus of state policymaking in the postwar era. This sustainable tourism development aligns with the principle of sustainability on three main pillars, namely environmental, economic, and socio-cultural (UNEP & WTO, 2005). While boosting economic performance, international organizations have maintained the importance of preventing environmental damage in tourist destination areas. The aspect of preserving cultural values is expected to be maintained with sustainable tourism. Furthermore, in the economic context, sustainable tourism is also expected to bring prosperity to people in tourist destination areas.

At regional level, ASEAN recognizes the strategic role of tourism in driving regional economic growth and fostering integration among its member states. The ASEAN approach to tourism development emphasizes the integration and competitiveness of the region as a single tourism destination while prioritizing sustainability and inclusivity. Moenir et al. (2021) suggest that those approaches can be seen through the establishment of the ASEAN Tourism Forum (ATF) and the ATSP blueprint. The ATSP 2016–2025 builds upon the success of its predecessor (2011–2015), aiming to position ASEAN as a competitive, sustainable, and inclusive tourism destination (ASEAN, 2015). The ATSP emphasizes two key objectives: enhancing competitiveness by promoting ASEAN as a single tourism destination and ensuring sustainability and inclusivity in tourism development (ASEAN, 2015). To achieve these goals, the plan outlines ten strategic action programs focusing on areas such as destination marketing, human resource development, connectivity enhancement, environmental protection, and cultural heritage conservation (ASEAN, 2024). A core aspect

of the ATSP is its commitment to responsible tourism, which balances economic benefits with social and environmental sustainability.

The ATSP envisions ASEAN as a quality tourism destination offering diverse experiences by 2025. It incorporates strategies to engage local communities, integrate subregional tourism initiatives, and promote climate resilience and heritage conservation (ASEAN, 2015). The plan also emphasizes the need for seamless connectivity across ASEAN member states, facilitated through infrastructure development and simplified travel procedures (Antariksa et al., 2024). Moreover, it prioritizes the adoption of ASEAN tourism standards to ensure service excellence and visitor satisfaction (ASEAN, 2024). By addressing challenges such as unequal benefit distribution, environmental pressures, and policy constraints, the ATSP seeks to create a more integrated and inclusive regional tourism economy, benefiting both the communities and the broader ASEAN region (ASEAN, 2015).

Previous research on ATSP by Putri and Purnawarman (2021) has demonstrated that the ATSP has played a significant role in enhancing tourism in Southeast Asia through the implementation of ATSP II, which focuses on sustainable and inclusive tourism as well as improving competitiveness. Post-pandemic, tourist arrivals have gradually increased, supported by infrastructure investments such as Kertajati International Airport and the Indonesia-China High-Speed Rail, along with a rise in Foreign Direct Investment (FDI), which reached US\$154 billion in 2019 before experiencing a temporary decline in 2020. Sustainable tourism initiatives, such as the ASEAN Catalytic Green Finance Facility (ACGF) with funding exceeding US\$1 billion, further underscore ASEAN's commitment to establishing itself as a leading global tourism destination.

As a country that recognizes tourism as a key driver for economic growth, cultural promotion, and regional integration, Indonesia's tourism policies align closely with the ATSP (Damiasih, 2023). Moreover, as a major player in ASEAN, Indonesia was actively involved in drafting the ATSP, ensuring that its objectives and strategies resonated with national priorities. Indonesia's active participation in the drafting process of the ATSP is evident through its engagement in ASEAN forums related to tourism, particularly during the 2024 sessions held in Laos (Hendriyani, 2024). Furthermore, Lasally et al. (2023) shows that Indonesia's focus on sustainable tourism development aligns seamlessly with the ATSP's goals of creating an inclusive, competitive, and environmentally responsible tourism sector. This synergy is reflected in Indonesia's prioritization of connectivity improvements, environmental conservation, and the promotion of cultural heritage as outlined in the ATSP (Damiasih, 2023).

The Indonesian government has demonstrated a strong commitment to the ATSP by incorporating its principles into national policies and programs. For instance, the "Ten New Balis" initiative focuses on creating diverse tourism hubs that highlight Indonesia's unique cultural and natural attractions while adhering to sustainability principles emphasized in the ATSP (Rahayu & Sulistyawati, 2021). Additionally, Indonesia has hosted key ASEAN tourism events, showcasing its leadership and dedication to regional collaboration in the sector (Damiasih, 2023). The government's emphasis on infrastructure development, enhanced air

and sea connectivity, and simplified visa policies mirrors the ATSP's strategic actions aimed at making ASEAN a seamless and attractive single tourism destination (Antariksa et al., 2024). The alignment not only underscores Indonesia's commitment to regional tourism development but also highlights its strategic interest in leveraging ASEAN's collective strength to enhance its own tourism growth and global appeal.

While Indonesia has attempted to adhere to the ATSP nationally, research has yet to reveal its implementation and compliance at lower levels of governance, such as the regency and provincial levels. In the context of tourism policymaking, stakeholders in tourism governance have been less interested in preserving cultural assets compared to their economic value. Policymaking has focused mainly on aspects ranging from evaluating cultural tourism management practices (Luekveerawattana, 2020; Środa-Murawska et al., 2021) to how to develop a strategy so that cultural tourism can meet the sustainability aspect (Caciora et al., 2021; Mohale et al., 2020; Soebiyan et al., 2020; Soufiane et al., 2021). However, research positions culture and its derivatives, such as ethnicity, religion, and authenticity, as a potential that needs to be developed into a tourism product. Tourism generates a big economic market, which leads the government to focus only on the economic aspect (Bianchi, 2017).

Some research has focused on the role of local communities and tourists in developing sustainable cultural tourism. More specifically, research on tourism in Baduy has generally highlighted the impact of tourism on the local community (Prasetyo et al., 2021) and the potential for developing Baduy attractions for tourism purposes (Priyombodo et al., 2022; Suhud et al., 2019).

Literature on tourism has rarely addressed policy analysis in the context of developing sustainable cultural tourism, particularly regarding compliance with normative standards set by higher levels of administration, such as those established by ASEAN. This gap in the literature is significant because compliance with such standards is often viewed as an essential mechanism in international relations to counteract the negative consequences of overdevelopment at the national level. Overdevelopment can lead to environmental degradation, loss of cultural heritage, and social inequality in tourist destinations. By adhering to international guidelines and frameworks, countries can better manage tourism growth, ensuring it aligns with sustainability principles.

In the context of ASEAN, compliance with normative standards can help member states balance economic growth between the preservation of cultural and environmental assets. Sustainable cultural tourism policies are not only essential for protecting local traditions and practices but also play a crucial role in fostering regional cooperation and integration. Despite the importance of such policies, existing research has largely focused on the economic aspects of tourism development, overlooking the need for more comprehensive policy frameworks that integrate socio-cultural and environmental dimensions. The lack of policy analysis in this area highlights the need for further investigation into how international standards, such as those promoted by ASEAN, can be effectively implemented at the national and local levels to promote sustainable cultural tourism.

Research Method

The research examines the sustainable tourism destination policy in Kanekes Village, Lebak Regency, Banten Province. The research applies qualitative methods, focusing on understanding phenomena in their natural context to interpret what people say (Merriam & Tisdell, 2009). Specifically, the research uses a case study approach to explore the complexity of social phenomena and real-life events (Creswell & Poth, 2018). The researcher conducts a policy analysis using the Basic Policy Analysis Process outlined by Patton et al. (2016), following six key stages: verifying, defining, and detailing the problem; establishing evaluation criteria; identifying alternative policies; evaluating alternative policies; displaying and distinguishing among alternative policies; and monitoring and evaluating the implemented policy. The aim is to assess whether the policy supports sustainable tourism in terms of economic, socio-cultural, and environmental sustainability.

Primary and secondary data are collected through observations, semi-structured interviews, and literature reviews, supplemented by field notes, archives, websites, and the researcher's interpretations. Then, informants are selected using the snowball sampling technique, which involves expanding the pool of participants based on recommendations from key informants (Creswell & Creswell, 2017). The research includes insights from twelve key informants and supporting informants, representing various stakeholders involved in tourism policy in the Baduy region. These stakeholders include members of the Baduy indigenous community, local government representatives, tourists, non-Baduy residents, and cultural activists or academics concerned with the socio-cultural aspects of the Baduy people. Data analysis follows the model proposed by Miles et al. (2014), which involves four main steps: data collection, data presentation, data condensation, and conclusion. The approach ensures a comprehensive and systematic examination of the policy and its impact on sustainable tourism practices in Kanekes Village.

Analysis

Baduy and Kanekes Village Community

The Baduy are an indigenous community residing in Kanekes Village, Leuwidamar District, Lebak Regency, Banten Province. They uphold the traditions and rituals of their ancestral heritage while maintaining a distinct local governance system that coexists with the modern administrative framework. Despite these overlapping structures, the Baduy people acknowledge and adhere to central government regulations (Wicaksono et al., 2022). Kanekes Village, located within Leuwidamar District, is approximately 21 km from the district capital and 42 km from Rangkasbitung, the capital of Lebak Regency (Badan Pusat Statistik Kabupaten Lebak, 2023).

The Kanekes Customary Village jurisdiction encompasses the territory of the Baduy Customary Law Community, which holds customary rights over land, water, and natural resources, as well as traditional heritage that reflects their ethnic historical identity within defined boundaries. The legal status of Baduy customary land is governed by Lebak Regency Regional Regulation No. 32 of 2001, Lebak Regent Decree No. 590/Kep.233/Huk/2002, and Lebak Regent Regulation No. 38 of 2023, which regulates the administration of the Kanekes Traditional Village Government.

The residents of Kanekes Village, known as the Kanekes people, are more commonly referred to as the Baduy by the wider public. The origins of the Baduy people are rooted in various historical accounts. One perspective, as highlighted in the local publication "Opening the Veil of Life of the Cultural Traditions of the Baduy and Cisungsang Communities and the Historical Relics of the Lebak Sibedug Site," traces their lineage to priests (wiku) who adhered to the Jatisunda tradition. This connection is supported by the ancient manuscript *Koropak 630 Sanghyang Siksakandang Karesian*. The remnants of Kabuyutan Jatisunda can still be found in Sasaka Domas, located in Baduy Dalam, which is considered the cultural and spiritual center of the Baduy community. Additionally, a traditional Baduy saying, "Far away from the praise that is taken, the rest of the people are not praised, here they are tired and they have to fight the war with the combination or the baraya who are still the same as the old people," suggests that the Baduy may be descendants of the Pajajaran Kingdom. It is believed they sought refuge in Mount Kendeng to escape the advancing influence of the Islamic kingdoms of Banten and Cirebon.

Previous research by Setiawan et al. (2023) emphasizes that the Baduy people are renowned for their rich cultural heritage and traditions, maintaining a lifestyle largely isolated from external influences. The Baduy community is divided into three distinct groups: Tangtu Tilu, Panamping, and Dangka (Moeis, 2010). The Tangtu Tilu, also known as Baduy Dalam, are the most traditional group, strictly following ancestral customs and residing in three villages within Kanekes: Cibeo, Cikartawana, and Cikeusik. The Panamping group includes individuals living in various villages across Kanekes, such as Cikadu, Kadukolot, and Cisagu. The Dangka group comprises Baduy people who have settled outside Kanekes, particularly in Padawara, serving as a buffer zone against external influences.

The primary distinction between the Baduy Dalam and Baduy Luar communities lies in their varying degrees of openness to modern influences. The Baduy Dalam strictly adhere to ancestral customs as mandated by the *Karuhun* and maintain a highly secluded way of life, rejecting external innovations, particularly technology. In contrast, the Baduy Luar exhibit greater flexibility in adapting to changes. Several prohibitions observed by the Baduy community include damaging or exploiting the sacred *leuweung* (forest), poisoning fish, bathing with soap and toothpaste, wearing footwear, women wearing gold jewelry, attending formal education, using vehicles as a transportation, operating electronic devices, engaging in trade or running stalls, possessing luxury household items, and practicing polygamy.

The cultural authenticity of the Baduy community has increasingly drawn the interest of tourists. Over the years, the number of visitors to Kanekes Village, Banten, has fluctuated

significantly (see Figure 1). In 2018, before the COVID-19 pandemic, the village welcomed 21,316 domestic tourists, and the following year, the number increased almost twofold to 42,174. However, the pandemic led to a sharp decline, with visits dropping to 20,319 in 2020 and reaching a low of 6,274 in 2021. Tourism began recovering in 2022, with visitor numbers rising to 20,817, and this upward trend continued in 2024, reaching 78,568—the highest in seven years. Notably, 2024 also marked the return of international tourists, with 40 foreign visitors recorded. However, this number is still lower compared to the 74 foreign visitors in 2018. This pattern reflects the resilience of Kaneke's Village as a cultural tourism destination and the growing appeal of the Baduy community to both domestic and international travelers.



Figure 1. Data of Tourists Visiting Kaneke's Village 2018-2024
Source: Dinas Kebudayaan dan Pariwisata Kabupaten Lebak, 2025

Although the government seeks to develop Baduy as a tourist village, the Baduy community perceives this designation as inconsistent with their cultural values. The situation creates a tension between the government's goal of promoting tourism and the Baduy people's commitment to preserving their traditions. Given this contradiction, it is essential to analyze the tourism policies applied to Baduy to determine whether they align with the broader objectives of tourism development in Lebak Regency. This aligns with Banten Province's Regional Regulation No. 1 of 2016 on the Regional Tourism Development Master Plan 2016-2031, which aims to foster economic growth, improve community welfare, conserve the natural environment, and advance cultural heritage.

The government's pragmatic economic approach undeniably brings benefits, particularly in stimulating regional economic growth and enhancing local livelihoods. However, preliminary observations in Kaneke's suggest that an excessive emphasis on economic expansion may lead to profound socio-cultural consequences. From a public administration perspective, prioritizing economic gains risks overshadowing the core identity and cultural heritage of the Baduy people, which serve as the village's main appeal and intrinsic value. Therefore, policy-making must strike a balance between economic advancement and cultural preservation. A more integrated and holistic strategy in managing Kaneke's as a tourist destination would be crucial for long-term sustainability, ensuring that

economic, social, and environmental aspects work in harmony to support sustainable regional development.

Challenges in the Development-Economic Nexus

Dynamics of tourist visits to Baduy, both domestic and international, have shown significant changes between 2018 and 2024. In 2018, the region welcomed 21,316 domestic tourists and 74 foreign tourists. This number increased to 42,174 domestic tourists, while the number of foreign tourists decreased to 54 in 2019. However, the onset of the COVID-19 pandemic in early 2020 caused a sharp decline, with domestic visits dropping to 20,319 and foreign visits plummeting to just 8. This drastic reduction was largely due to global travel restrictions and health concerns, which severely impacted tourism activities worldwide. The downward trend continued in 2021, with only 6,274 domestic tourists and no foreign tourist visits, marking one of the lowest points in Baduy's tourism activity. However, signs of recovery began to emerge in 2022, as domestic visits increased to 20,817, and foreign tourists were recorded at two visits, indicating a gradual revival in the domestic tourism sector alongside the easing of restrictions. By 2024, the recovery gained stronger momentum, with domestic tourist numbers surging to 78,568 and foreign tourists increasing to 40. Although foreign tourist numbers have not yet returned to pre-pandemic levels, this upward trend reflects growing optimism and a steady recovery in Baduy's tourism sector, highlighting its resilience and adaptability in the face of global challenges (see Figure 2).



Figure 2. Condition of Visitors to Kenekes Saba Baduy Village

Source: Authors, 2024

The influx of tourists, particularly those from abroad, has significantly impacted the cultural values and traditional norms preserved by the Baduy community for generations. A major concern is the introduction of modern technology, such as electronic devices and gadgets, which directly conflicts with their strict customary laws aimed at maintaining cultural purity. The Baduy people, especially those in the more isolated Baduy Dalam area, have clear prohibitions against the use of technology and photography. However, many visitors, including content creators and tourists, often ignore these rules, capturing images in restricted areas and sharing them on social media. The behavior not only violates their cultural

norms but also undermines the community's efforts to protect their traditions. The misuse of technology and the disregard for local customs highlight the challenges the Baduy face in preserving their way of life amidst increasing external influences.

While the village-level governments uphold Saba Baduy, the upper-level government seems indifferent to the lack of response. The concept has been in the spotlight by the Ministry, as well as discussions in several regions that are copied and pasted by several Indigenous Institutions. To this day, the Ministry has yet to reach a consensus on the use of the term Saba Budaya Baduy, which holds potential as a unique attraction in the tourism industry. It is crucial to honor the wishes of the Baduy community, who oppose the use of the term "tourism" to describe visits to their region. Despite this, several initiatives have been undertaken to frame visits to Baduy more respectfully, such as adopting the term Saba Budaya, which emphasizes cultural appreciation over conventional tourism.

While local governments continue to uphold the concept of Saba Baduy, higher-level authorities have shown little response, despite the concept receiving attention from the Ministry and various Indigenous Institutions. To date, no consensus has been reached on the term Saba Budaya Baduy, which could serve as a unique cultural attraction in tourism. The Baduy community, however, opposes the use of the term "tourism" to describe visits to their area, emphasizing the need to respect their traditions. In response, efforts have been made to frame these visits in a more culturally sensitive way, such as adopting the term Saba Budaya, which prioritizes cultural appreciation over commercialization. This approach aligns with the principles of sustainable tourism, particularly in terms of cultural and environmental preservation. By rejecting the commercialized notion of tourism and introducing Saba Budaya, the Baduy people aim to manage visits in a way that respects both their cultural values and their environment, ensuring the sustainability of their traditions.

Moreover, the socio-cultural divide between the Baduy Dalam and the Baduy Luar becomes evident in how each community interacts with external influences, particularly in relation to technology and modernization. While the Baduy Dalam maintains a strict commitment to preserving traditional values, they reject modern technology, such as gadgets and social media, to protect their cultural identity. These prohibitions are intended to shield their way of life from outside contamination. On the other hand, the Baduy Luar, which is more open to the outside world, has begun adopting technological advancements, such as using online platforms for trade, thereby expanding their market reach. This difference in openness creates a significant challenge for the development of both the economy and tourism in the Baduy region. The conservative nature of the Baduy Dalam limits their ability to participate in broader economic and tourism opportunities, hindering potential growth.

In addition, tourism in Baduy also presents significant environmental challenges, particularly due to the improper disposal of plastic waste by visitors. Plastic waste, which is difficult to decompose, accumulates around the village and poses a serious threat to the natural ecosystem. This issue is further compounded by the absence of customary regulations on the disposal of plastic waste, as such modern materials are seen as taboo by the Baduy people. The environmental problems arising from tourism in Baduy add another layer of

complexity to the region's efforts to develop its economy and tourism. The growing waste issue reflects the difficulty of balancing economic and tourism growth with the preservation of the environment and local customs, making it a major challenge for sustainable development in the area (see Figure 3).



Figure 3. Trash on Sites

Source: Authors, 2024

The development of tourism in Baduy presents a challenge as it tends to focus primarily on economic gains, often neglecting the ecological and socio-cultural dimensions that make the Baduy traditional village unique. These two aspects—environmental sustainability and cultural preservation—are key attractions for tourism in the area. To address this imbalance, an alternative approach should be adopted that integrates the physical environment, cultural heritage, and the role of tourists. Achieving this requires collaboration between local governments, the private sector, and the Baduy community. The approach highlights the challenge of balancing economic development with the need to preserve both the environment and the cultural values that define Baduy.

In terms of management, tourism in Baduy faces several significant challenges. First, there has been a sharp increase in tourist visits, especially domestic tourists, despite a notable decline during the 2020-2021 pandemic. Second, tourism has brought cultural and social impacts, particularly on the younger generation of Baduy Luar, who are becoming increasingly exposed to modernization. Third, the use of technology, such as social media and digital devices, is also influencing their lifestyle and traditional practices. Fourth, plastic waste discarded by tourists poses a serious threat to the natural ecosystem of Baduy, as waste management is not regulated by local customary norms.

To address these challenges, several mitigation strategies must be implemented. In response to the surge in tourist visits, strategic adjustments are necessary to attract more foreign tourists while maintaining a manageable overall visitor volume. The cultural impacts of tourism on the Baduy must be carefully managed to preserve their traditions, with special attention paid to minimizing negative effects on local customs and values. It is also crucial to

balance technological advancements with the preservation of social and cultural order, ensuring that traditional practices are not disrupted. To address the issue of plastic waste, stricter policies on waste management and visitor regulations should be implemented to protect Baduy's natural environment and cultural heritage.

Subnational Regime of Sustainable Tourism Practices

The Lebak Regency Government in Banten Province, Indonesia, has established Regent Regulation (Perbub) No. 97 of 2020 to evaluate sustainable tourism practices in Saba Budaya Baduy. The success indicators of these policies are assessed based on three key dimensions: economic, socio-cultural, and environmental. Economically, success is measured through increased local community income and the growth of small businesses. The socio-cultural dimension focuses on the preservation of traditions and active community participation in tourism management. Meanwhile, the environmental dimension emphasizes ecosystem protection and sustainable natural resource management. These indicators serve as a framework to ensure that tourism development in Baduy is balanced and sustainable.

The success of sustainable tourism in Saba Budaya Baduy, guided by Regent Regulation (Perbub) No. 97 of 2020, is assessed through economic, socio-cultural, and environmental dimensions. Economically, it focuses on increased local income from handicrafts, agricultural products, and new jobs in tourism-related roles, alongside fair benefit distribution and contributions to the Gross Regional Income (GRI). Socio-culturally, it emphasizes the preservation traditions, such as adherence to customary rules in Baduy Dalam, public acceptance of *Saba Budaya*, and community involvement in tourism management. Environmentally, success is measured by effective waste management, controlled tourist capacity, and sustainable resource use, ensuring balanced development that supports economic growth, cultural preservation, and environmental conservation.

The summarized results of the research on sustainable tourism practices in Saba Budaya Baduy highlight significant progress and challenges across economic, socio-cultural, and environmental dimensions. Economically, the income of the Baduy Luar community has increased, particularly from the sale of handicrafts and tourism services, while economic benefits for Baduy Dalam remain limited. New job opportunities, such as roles in tour guiding, transportation, and microenterprises, have been created, especially in buffer villages. However, economic disparities persist, with Baduy Dalam receiving fewer benefits compared to Baduy Luar and buffer villages. The tourism sector's contribution to the GRI of Lebak Regency has grown significantly, from IDR 8.59 million in 2018 to over IDR 20 billion in 2022, with Saba Budaya Baduy becoming a leading destination for domestic tourists, particularly post-pandemic.

Socioculturally, the preservation of traditional values remains strong in Baduy Dalam, where the prohibition of technology is strictly maintained. However, the younger generation in Baduy Luar is increasingly influenced by technology, such as social media. Moreover, the term "Saba Budaya" is well-received by indigenous communities as it emphasizes cultural preservation and rejects the commodification of tourism. Although proposed village regulations aim to support the recognition of customary rights, implementation at higher

administrative levels is still pending. While traditional rituals, such as Seba Baduy, continue to be practiced, modernization is gradually affecting the cultural practices of the Baduy Luar. Furthermore, community participation in tourism management is high in the Baduy Luar, whereas the Baduy Dalam limits involvement to preserve their customs.

On the other hand, challenges such as plastic waste from tourists are prominent in Baduy Luar, whereas Baduy Dalam remains clean due to strict customary rules. Despite this, the lack of visitor limits has led to surges in tourist numbers, reaching up to 1,000 per day during peak seasons, raising concerns about environmental sustainability. Additionally, pressure on water resources is increasing, particularly in buffer villages that cater to tourist needs. Therefore, these issues underscore the importance of implementing effective waste management systems and setting visitor capacity limits to ensure the long-term sustainability of tourism in Saba Budaya Baduy.

Feasibility and Compliance to Regional Norms

The sustainable tourism practices in Banten, particularly in the Baduy region, illustrate both opportunities and significant challenges in aligning with the ATSP. Economically, tourism has brought measurable benefits to the Baduy Luar community, providing income through the sale of traditional crafts, agricultural products, and tourism services such as guiding and hospitality. These activities align partially with the ATSP's Strategic Direction 1, which emphasizes the diversification of tourism products and the inclusion of local communities in the tourism value chain (ASEAN, 2015). However, the economic benefits remain concentrated within the Baduy Luar, while the Baduy Dalam, adhering strictly to cultural traditions, have largely opted out of tourism-related activities. The inequitable distribution of economic opportunities reveals a fundamental gap in achieving the ATSP's goal of inclusive and sustainable economic development. Policies aimed at fostering equitable participation that respects the Baduy Dalam's cultural boundaries are critically lacking, highlighting the region's unpreparedness to address the economic inclusivity envisioned by the ATSP.

Building on the economic disparity, the socio-cultural dimensions of Baduy tourism further highlight the challenges of aligning with ATSP objectives. The Baduy Dalam community serves as a strong example of cultural preservation, maintaining ancestral traditions which also align with the ATSP's Strategic Direction (ASEAN, 2015). However, the growing influence of tourism on the Baduy Luar community reveals significant vulnerabilities. The adoption of modern technologies, changes in social practices, and increased interactions with tourists have begun to alter the cultural fabric of the Baduy Luar. While efforts such as branding tourism as *Saba Budaya* reflect an intention to preserve cultural values and resist commodification, they are insufficient to address the broader socio-cultural transformations induced by tourism.

The socio-cultural imbalance then feeds directly into environmental challenges that further complicate the region's alignment with ATSP principles. The Baduy Dalam community's adherence to customary environmental laws has maintained a pristine natural

environment. Their sustainable agricultural practices, rejection of chemical products, and stewardship of sacred forests underscore a model of environmental sustainability on the one hand. On the other hand, in the Baduy Luar, where tourism activities are more concentrated, environmental challenges have become increasingly apparent. The unchecked accumulation of plastic waste, over-extraction of natural resources, and the absence of effective waste management systems highlight a stark misalignment with ATSP principles. Despite the ATSP's clear emphasis on addressing environmental carrying capacity and promoting resource efficiency, these issues remain unaddressed in Banten's policy framework. The lack of infrastructure and regulatory mechanisms to manage tourism's environmental impact highlights the challenges the region faces in fully supporting ATSP's environmental objectives.

As environmental degradation grows, it also reflects the gaps in community participation, a cornerstone of the ATSP Strategic Direction. While the Baduy Luar community actively plays in tourism-related activities, such as guiding and craft production, the Baduy Dalam community's deliberate non-participation highlights a significant divergence from ATSP's inclusivity goals. This divergence reflects the cultural complexities of the Baduy region, where the preservation of traditional lifestyles often conflicts with the economic integration demanded by tourism.

The lack of community-wide engagement is mirrored by weaknesses in visitor management, which remain a critical area of misalignment with ATSP Strategic Direction 2.3.2, which focuses on managing the environmental carrying capacity of destinations (ASEAN, 2015). The absence of a formal visitor management system has led to significant overcrowding during peak tourism seasons, placing immense pressure on local resources and disrupting the ecological balance. The lack of a structured framework for regulating tourist numbers contradicts the ATSP's emphasis on maintaining destination sustainability. Without measures such as visitor quotas, carrying capacity thresholds, and enhanced monitoring systems, the Baduy region risks exacerbating environmental degradation and diminishing the quality of the tourism experience. These interconnected challenges highlight the urgent need for comprehensive visitor management strategies that align with ATSP principles and ensure the long-term sustainability of tourism in the region.

The governance and policy frameworks exacerbate these interconnected challenges, reflecting a fragmented approach to sustainable tourism development. Regent Regulation No. 97 of 2020, while signalling an intention to integrate sustainability principles, lacks actionable mechanisms for implementation. Key dimensions such as equitable economic benefit distribution, cultural preservation, and environmental protection are addressed only superficially, leaving significant gaps in alignment with the ATSP's comprehensive approach to governance under Strategic Direction 2 (ASEAN, 2015). Additionally, the absence of accountability and monitoring systems limits the effectiveness of existing policies. This weak governance framework underscores the region's unpreparedness to address the complexities of sustainable tourism development as envisioned by the ATSP.

Finally, the governance challenges are further exacerbated by deficiencies in infrastructure development, a critical aspect under Strategic Direction 1.6 of the ATSP (ASEAN, 2015). From a public administration perspective, the absence of essential facilities such as waste management systems, visitor information centers, and eco-friendly transportation options reflects gaps in policy implementation and coordination among governing bodies. While proposals for infrastructure improvements exist, their limited execution highlights systemic weaknesses in administrative capacity and prioritization. These shortcomings not only constrain the government's ability to manage tourism sustainably but also signal broader challenges in aligning local governance practices with the ATSP's objective of connectivity and sustainability.

Moreover, one of the critical issues hindering the implementation of sustainable tourism practices is the absence of an ATSP-specific committee or dedicated implementation body directly operating in the field. Without such a mechanism, a clear disconnect exists between ASEAN-level strategic commitments and local-level practices. This lack of direct intervention, oversight, and adaptive support weakens efforts to translate ATSP principles into actionable, context-specific policies that could address the unique challenges faced by destinations like Baduy. Consequently, sustainable tourism practices are left to fragmented local governance, further compounding the inefficiencies and gaps in implementation.

Banten's current approach to sustainable tourism in the Baduy region is not adequately prepared to support the comprehensive and integrated objectives of the ATSP. Without immediate and transformative interventions, including policy revisions, infrastructure investments, participatory governance mechanisms, and the establishment of field-level ATSP committees, Banten risks falling short of ATSP compliance and undermining the cultural and environmental assets that are fundamental to its tourism appeal. These weaknesses underscore the urgent need for a more cohesive and sustainable approach to align with ASEAN's broader goals for inclusive and responsible tourism development.

Conclusions

Tourism development, both in Indonesia and globally, appears to be primarily driven by economic considerations. Tourism has always been aimed at increasing economic growth and creating jobs. Tourism has indeed been proven to have a positive impact on the community's economy, including a reduction in poverty rates. Tourism not only has a positive economic impact, but also has other beneficial effects, such as preserving cultural heritage. Tourism can help in maintaining the local culture. With the increasing number of tourists interested in learning about the culture and traditions of an area, local communities tend to pay more attention to and maintain their local cultural heritage. In addition, sustainable tourism also often promotes environmental awareness and environmentally friendly practices.

Sustainable tourism destination policies often pose a counterproductive risk if not formulated and applied appropriately. An example of a cultural tourism destination that faces

the challenge of sustainable tourism development is Tourism in Baduy. The Baduy people are renowned for their adherence to traditional customs and the teachings of their ancestors. Obedience to these customs gave rise to a unique way of life, particularly among the Baduy Dalam community. The Baduy people still hold fast to their ancestral teachings which are reflected in their rejection of change or modernization, such as not using soap, detergent, vehicles, and electronic devices. Even so, the Baduy people are open to residents from outside as long as they follow the customary rules that guide the lives of the residents there. The increasing presence of tourists in Baduy may lead to overtourism, posing a threat to the preservation of nature where the Baduy people live and to the cultural values they uphold.

Furthermore, sustainability principles are only mentioned in general terms without providing clear implementation guidelines. It means the policy has the potential to weaken cultural preservation and local ecosystem balance. Efforts such as consistent indigenous education, the implementation of a tourist quota system to reduce the environmental pressure, and community-based waste management need to be adopted to ensure that these policies are more inclusive, sustainable, and in accordance with the characteristics and needs of the Baduy indigenous people. The research presents a new perspective on evaluating tourism policies holistically, considering not only their impact on economic growth but also their contributions to cultural and environmental preservation. Thus, the findings make an important theoretical contribution to expanding the understanding of the effectiveness of tourism policies oriented towards local cultural sustainability, as well as filling gaps in the literature that have focused more on generic policy approaches.

The sustainable tourism practices in Banten, particularly in the Baduy region, exhibit partial but insufficient alignment with the ATSP. While some progress has been made in cultural preservation and limited community engagement, significant gaps in economic equity, environmental sustainability, governance, and infrastructure reveal a critical lack of readiness to support the ATSP's vision. The economic benefits of tourism remain inequitably distributed, with the Baduy Dalam community largely excluded from meaningful participation. Environmental degradation caused by unchecked tourism activities, coupled with inadequate waste management and the absence of a visitor management system, further exposes the region's inability to meet the ATSP's environmental objectives.

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Institutional Factors and FDI Inflows in ASEAN-7: A Bayesian Approach

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Abstract

Unlike previous research, which typically relied on frequency statistics, the research applies Bayesian regression to examine the impact of institutional factors on Foreign Direct Investment (FDI) inflows in the ASEAN-7 countries from 2002 to 2022. Counterintuitively, yet consistent with the unique context of the ASEAN-7, where institutional quality is relatively weak, the findings indicate that three institutional factors—control of corruption, rule of law, and voice and accountability—exerted a negative influence on FDI inflows. This suggests that strong anti-corruption measures, a robust rule of law, and high levels of voice and accountability do not necessarily attract more FDI in these countries. Only political stability and absence of violence/terrorism and Regulatory quality exhibited a positive correlation with FDI inflows, while Government effectiveness showed no significant impact. Robustness checks using Feasible generalized least squares estimation were conducted to ensure the reliability of the results and provide a solid foundation for policy implications. These findings underscore the intriguing possibility that countries with weaker institutional frameworks can compete effectively with developed economies in attracting FDI, a key driver of economic growth. Given the relatively low level of institutional quality in the ASEAN-7, other non-institutional factors may play a more prominent role in attracting FDI. Moreover, enhancing institutional quality to attract more FDI, as commonly perceived, requires a nuanced understanding of the specific conditions of each host country and necessitates further research on home country characteristics.

Keywords: ASEAN-7, Bayesian, FDI inflow, institutional factors

Introduction

FDI has long been recognized as a significant driver of economic growth (Hansen & Rand, 2006; Iamsiraroj, 2016), technological innovation (Ali et al., 2023), export activity (Kastratović, 2020; Kutan & Vukšić, 2007), and the creation of employment, higher wages, and enhanced productivity (Demena & van Bergeijk, 2017; Hale & Xu, 2016). For the Association

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of Southeast Asian Nations (ASEAN), a dynamic and rapidly growing region, FDI inflows have played a pivotal role in its economic transformation over the past decades (Intal Jr, 2017; Lee & Tan, 2006). Consequently, attracting sustainable and high-quality FDI is a primary priority for ASEAN member states seeking to enhance their competitiveness and achieve long-term prosperity.

While numerous factors influencing FDI decisions have been extensively studied (Tocar, 2018; Tokunaga & Iwasaki, 2017), the role of institutional factors has garnered increasing attention in recent years (Buchanan et al., 2012; Khan et al., 2023). Institutions, broadly defined as the formal and informal rules, norms, and organizations governing economic and political interactions, are considered to significantly shape the investment environment (Kaufmann & Kraay, 2023). However, the specific impact of different institutional dimensions on FDI attraction within the diverse context of ASEAN remains an area requiring further investigation. The heterogeneity in legal frameworks, governance quality, political stability, and corruption levels across ASEAN nations suggests that the influence of institutional factors on FDI may vary considerably.

ASEAN has been an increasingly attractive destination for FDI as some firms have shifted production out of China due to the US-China trade war and the COVID-19 pandemic (Cheung et al., 2023). However, the World Bank's institutional quality rankings for ASEAN countries reveal that most members, except for Singapore, possess relatively weak institutions (Kaufmann & Kraay, 2023). This raises the question of whether institutional factors are indeed the primary determinants of FDI inflows in these countries.

Empirically, previous research has examined the determinants of FDI inflows in general and the role of institutional factors in particular, using various samples including individual countries, regions, and the global economy. However, as Bailey (2018) concluded after reviewing 97 prior empirical studies, the results are inconsistent, and further research in specific contexts is warranted.

Another motivation for the research is the lack of a comprehensive theoretical framework in prior empirical research regarding the impact of institutional factors on FDI inflows. There seems to be an implicit understanding that good institutions attract more FDI inflows than poor ones, leading previous research to primarily present theories about the positive impact of institutions on FDI attraction rather than the converse (Dang & Nguyen, 2021; Gangi & Abdulrazak, 2012; Mengistu & Adhikary, 2011). Furthermore, Bailey (2018) confirmed the one-sided bias of previous research by affirming that certain institutional factors, such as political stability, democracy, and the rule of law promote FDI inflows without demonstrating the opposite effect.

Furthermore, no research has applied Bayesian regression to assess the impact of institutional factors on FDI inflows. According to Nguyen et al. (2024), Bayesian regression offers several advantages over frequentist regression methods. These include its ability to continuously update evidence as new data becomes available, as Bayesian methods rely on observed data rather than hypothetical scenarios. Bayesian inference is considered more coherent and logical than frequentist statistics; it provides clear and direct interpretations of

results through posterior probabilities, in contrast to the indirect measures of frequentist statistics. Additionally, Bayesian regression yields more accurate results with small sample sizes.

The research aims to address this gap in the literature by examining the impact of institutional factors on FDI inflows into ASEAN member states. Specifically, this study seeks to answer the following research question: How do different dimensions of institutional quality, such as political stability, rule of law, regulatory quality, government effectiveness, control of corruption, and voice and accountability influence FDI inflows in ASEAN countries? By empirically analyzing the relationship between these institutional factors and FDI inflows using Bayesian regression, this research intends to generate valuable insights into the institutional determinants of FDI inflows within the ASEAN region.

Institutional Factors in the ASEAN-7 from 2002 to 2022

The research applies the institutional quality indicators developed by Kaufmann and Kraay (2023). The measurement of institutional factors is based on percentile rank, which shows a country's ranking relative to all other countries in the dataset, ranging from 0 (lowest) to 100 (highest).

In their report, Kaufmann and Kraay (2023) define the six institutional dimensions as follows: (i) Political stability and Absence of violence/terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism; (ii) Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and its degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies; (iii) Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests; (iv) Regulatory quality captures perceptions of the government's ability to formulate and implement sound policies and regulations that permit and promote private sector development; (v) Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence; and (vi) Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

Political Stability and Absence of Violence/Terrorism

The Philippines exhibited the lowest level of Political stability within the ASEAN-7 (20.28 in 2022), a significant divergence from Laos, which demonstrated the highest stability (74.06 in 2022) (Figure 1). Laos, as a traditional single-party state reminiscent of the Soviet era, has maintained high political stability (Lintner, 2008). In the case of the Philippines, Kraft

(2003) posits that state weakness and its involvement in counter-terrorism operations with the United States pose a threat to short- to medium-term stability. Furthermore, the persistent presence of the Abu Sayyaf Group and the government's limited response capabilities contribute to the Philippines being the least stable nation in the ASEAN-7 (Manalo, 2004). Unsurprisingly, Thailand ranked as the second least stable country in the ASEAN-7 (31.60 in 2022, though frequently lower than Indonesia). The 2006 military coup and subsequent instances of the military overthrowing democratically elected governments have generated a profound and prolonged political crisis and instability in Thailand for decades (Ferrara, 2015). Indonesia was the third most politically unstable nation in the ASEAN-7. The country experienced a greater impact from the 1997-1998 East Asian financial crisis compared to its neighbors, accompanied by regime collapse. Subsequent administrations were short-lived, with Indonesia having five presidents between 1998 and 2004 (Hill & Shiraishi, 2007). Following the fall of the Suharto authoritarian regime in 1998, Indonesia transitioned into a fragile, democratic, corrupt, and volatile state (Aswicahyono et al., 2009). Conversely, the Indochina nations (Vietnam, Laos, and Cambodia) and Malaysia were assessed as having better Political stability and fewer instances of terrorist events. However, the graphical representation indicates substantial fluctuations in the political stability of the ASEAN-7 countries throughout the research period.

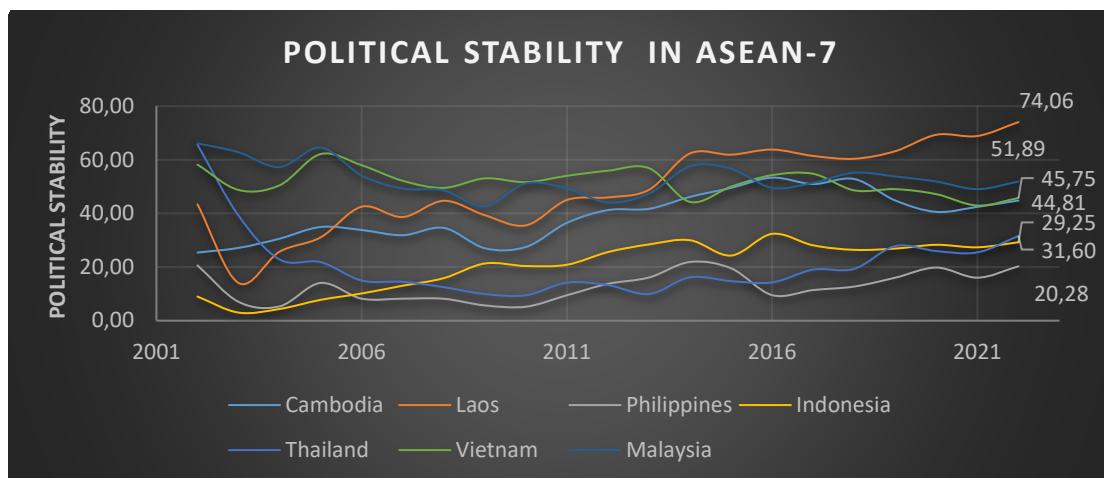


Figure 1. Political Stability and Absence of Violence/Terrorism in ASEAN-7

Source: Kaufmann and Kraay (2023)

Government Effectiveness

In 2022, Laos and Cambodia registered the lowest scores for government effectiveness indicator, at 30.19 and 36.79 respectively, while Malaysia exhibited the highest score at 79.25 (Figure 2). In Laos, the extensive scale of corruption has constrained Government effectiveness and fostered the growth of the informal economy. Furthermore, the Laotian economy is vulnerable to both exogenous and endogenous shocks (Carment et al., 2017). The remaining countries in the sample, ranked in ascending order of government effectiveness in 2022, are the Philippines (56.13), Thailand (58.02), Vietnam (59.43), and Indonesia (66.04). Although the government effectiveness index scores for the ASEAN-7 nations fluctuated during the research period, the variations were not substantial. Nevertheless, significant disparities in

government effectiveness scores existed across these countries. For instance, in 2022, the highest recorded value was 79.25, and the lowest was 30.19.

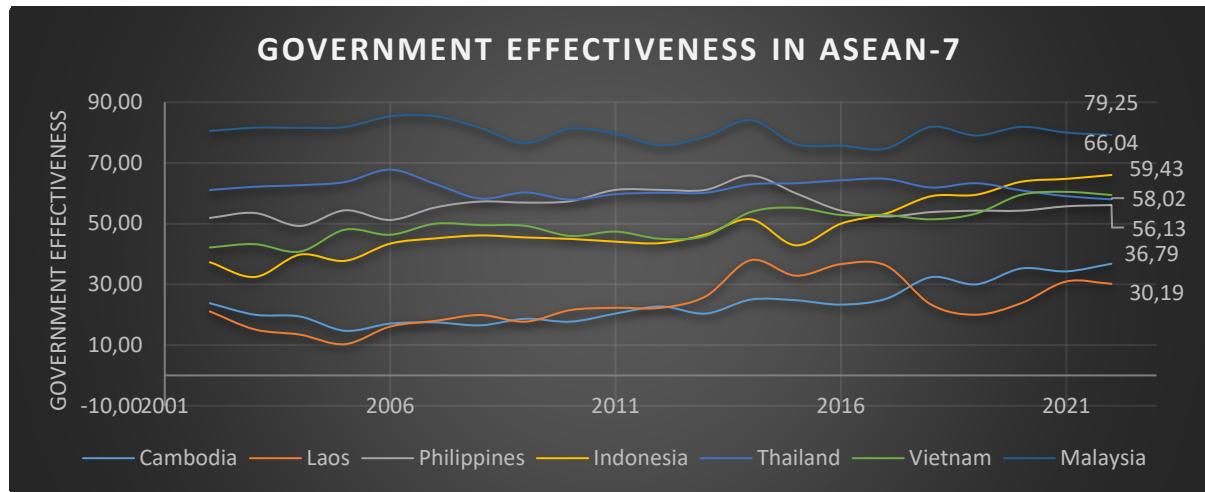


Figure 2. Government Effectiveness in ASEAN-7

Source: Kaufmann and Kraay (2023)

Control of Corruption

Control of corruption exhibits significant variation across the ASEAN-7 nations. In 2022, Malaysia demonstrated the strongest capacity for corruption control in the region, with a score of 62.26 (Figure 3). Conversely, Cambodia recorded the lowest control of corruption score among the seven surveyed countries, with a score of 9.91. Ear (2007) indicates that while Cambodia has achieved Political stability, the government has failed to control corruption effectively. Corruption in Cambodia has become pervasive due to limited anti-corruption efforts stemming from a lack of political will, rendering the implementation of anti-corruption measures a substantial challenge (Ear, 2016).

Laos also displays a very weak level of corruption control, with a score of 19.81 in 2022, ranking just above Cambodia within the ASEAN-7 (Figure 3). Williams (2020) assesses the prevalence of widespread corruption in Laos. Other nations in the region also receive low evaluations for their anti-corruption capabilities. The outlook for corruption control in Vietnam remains bleak, with a score of 45.75 in 2022, as corruption is deeply entrenched—particularly through elite rent-seeking (Gregory, 2016). Indonesia is similarly recognized as a country with high levels of corruption (Henderson & Kuncoro, 2004). Putra and Linda (2022) argue that corruption threatens all facets of Indonesian social, national, and state life, generating severe negative consequences for its economy, society, and culture, with a score of 37.74. The Philippines and Thailand also receive unfavorable assessments regarding corruption control, with respective scores of 33.49 and 35.85.

Evidently, the ASEAN-7 constitutes a region with high levels of corruption, yet it has become a leading global destination for investment. This raises the question of whether control of corruption genuinely impacts FDI inflows and whether investors can be compelled to coexist with corruption to capitalize on other advantages offered by the market.

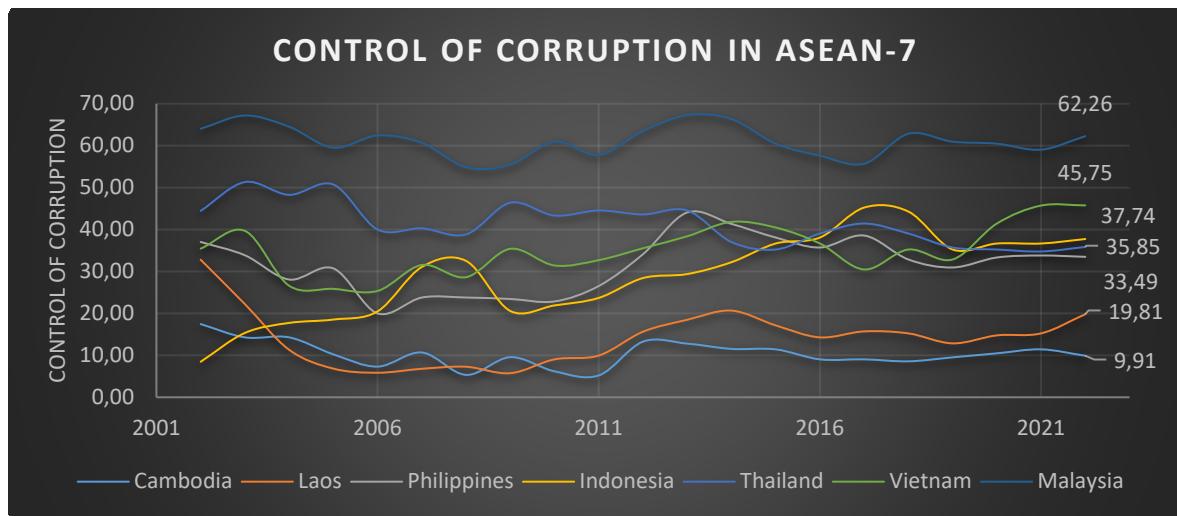


Figure 3. Control of Corruption in ASEAN-7

Source: Kaufmann and Kraay (2023)

Regulatory Quality

Regulatory quality exhibits substantial heterogeneity across the ASEAN-7 nations (Figure 4). Malaysia recorded the highest Regulatory quality index at 72.64 in 2022, while Laos registered the lowest at 16.04, representing a considerable divergence between the two extremes. Cambodia and Vietnam showed regulatory quality scores only slightly higher than Laos, at 25.00 and 36.32, respectively. Interestingly, in contrast to the general trend of improvement observed in most countries, Laos and Cambodia displayed a declining trajectory in their regulatory quality. Indonesia demonstrated the most significant advancement in regulatory quality, rising from the second-lowest rank (outperforming only Laos from 2002 to 2005) to the second-highest position (following only Malaysia) as of 2020, with a value of 59.43 in 2022. The regulatory quality indices of the Philippines and Thailand showed relative proximity, with Thailand at 58.49 and the Philippines at 53.77 in 2022.

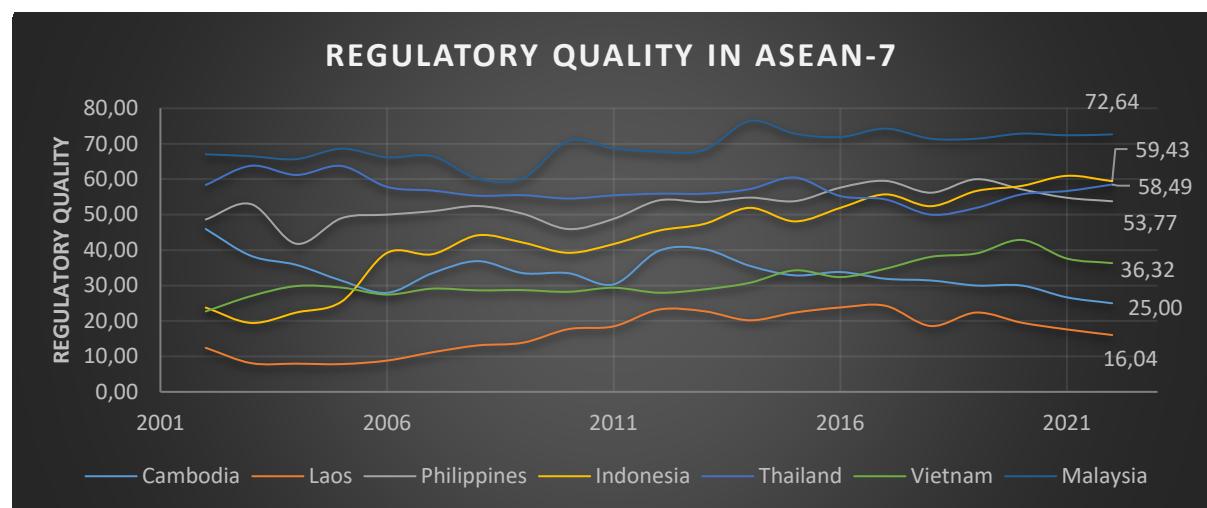


Figure 4. Regulatory quality in ASEAN-7

Source: Kaufmann and Kraay (2023)

Rule of Law

In 2022, Cambodia and Laos consistently ranked as the two nations with the lowest rule of law within the ASEAN-7, recording values of 21.23 and 23.58, respectively (Figure 5). Conversely, Malaysia and Thailand exhibited the highest levels of the rule of law, with indices of 68.40 and 54.72. Overall, the rule of law among the ASEAN-7 countries demonstrated limited fluctuation. Indonesia showed the most notable improvement in its rule of law, increasing from 23.38 in 2002 to 45.28 in 2022, positioning it fourth within the ASEAN-7. In contrast, Thailand's rule of law index declined from 62.19 in 2002 to 54.72 in 2022. Thailand, along with the Philippines, was one of the two countries experiencing a decrease in their rule of law during this period. The Philippines' rule of law index decreased from 39.80 in 2002 to 33.49 in 2022.



Figure 5. Rule of law in ASEAN-7

Source: Kaufmann and Kraay (2023)

Voice and Accountability

Voice and accountability represent the lowest performing indicator among the six institutional dimensions of Kaufmann and Kraay (2023) for the ASEAN-7. Laos and Cambodia consistently exhibited the lowest levels of voice and accountability, with indices of only 4.83 and 13.04, respectively, in 2022 (Figure 6). In contrast, Indonesia and Malaysia demonstrated the highest levels, registering 52.66 and 47.34, respectively. While the voice and accountability indices of Indonesia and Malaysia are not exceptionally high compared to developed nations, a substantial gap exists relative to countries with low scores, such as Laos, Cambodia, and even Vietnam (only 13.53 in 2022). The three Indochinese Peninsula nations recorded the lowest voice and accountability scores, significantly lagging behind the other ASEAN-7 countries. Thailand's voice and accountability index stood at 31.40 in 2020, lower than the Philippines' 43.96. Notably, while Indonesia showed an improvement in voice and accountability throughout the research period, several countries experienced a decline, particularly Cambodia and the Philippines. Thailand, in particular, experienced a sharp decline in this index, from 57.71 in 2002 to 19.90 in 2018.

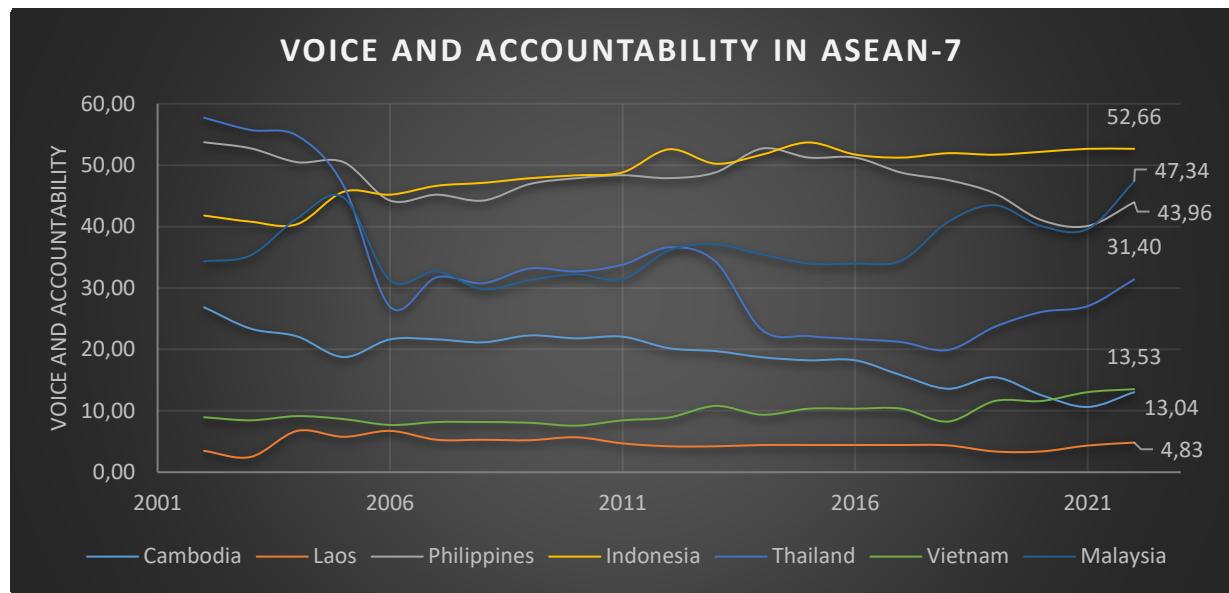


Figure 6. Voice and Accountability in ASEAN-7

Source: Kaufmann and Kraay (2023)

The preceding analyses of the six components of institutional quality highlight the heterogeneity in institutional factors among the ASEAN-7 countries. Consequently, careful consideration should be given to selecting an appropriate methodology for estimating the impact of these institutional factors on FDI attraction. Given the observed disparities in institutional elements, a Bayesian approach may represent a suitable methodological choice for this study (Martin et al., 2024; Wagenmakers et al., 2017; Xin, 2024). Specifically, Bayesian models are effective in recovering actual parameters and selecting appropriate models in the presence of data heterogeneity (Ansari et al., 2002). Furthermore, Bayesian models exhibit robustness in handling data heterogeneity. Hierarchical Bayesian modeling techniques offer a means to quantify uncertainty not only within sources but also across sources, performing well even with small data samples, unlike classical likelihood methods (Iešmantas & Alzbutas, 2016).

Theoretical Background

Institutions are among the factors that may influence FDI inflows. There are several reasons to explain the impact of institutions on FDI attraction. Foreign investors are drawn to countries with strong institutions that foster sound governance and enhance productivity prospects. Moreover, poor institutions, such as high corruption, can increase the costs for FDI firms. Additionally, poor institutions, as manifested in ineffective governments, policy reversals, weak enforcement of property rights, frequent changes in the legal system, or high corruption, lead to high sunk costs, thereby negatively affecting FDI attraction (Bénassy-Quéré et al., 2007).

However, institutions are multi-faceted constructs. Kaufmann et al. (2003) developed six dimensions of governance, which have been widely used as a measure of institutional

factors in previous research (Khan et al., 2023; Mengistu & Adhikary, 2011; Sabir et al., 2019; Saha et al., 2022). Therefore, to understand how institutional factors shape FDI inflows, it is essential to examine the role of each indicator.

Political Stability and FDI Inflows

Political risk in a country is a significant consideration for foreign investors when making investment decisions (Moosa, 2002). Investors are hesitant to risk their hard-earned capital in a politically unstable environment. The theoretical literature on the impact of Political stability on FDI is divided into two opposing schools of thought.

The first strand of literature posits that political stability is a prerequisite for fostering FDI inflows into host countries. Goswami and Haider (2014) argue that political instability, encompassing riots, strikes, bureaucratic red tape, civil wars, and inadequate socio-economic conditions, creates barriers to foreign investment. Additionally, Vadlamannati (2012) contends that political risk refers to the hazards Multinational Corporations (MNCs) face due to unexpected changes in host countries' regulatory frameworks, thereby significantly deterring FDI inflows. Alternatively, Alesina et al. (1996) define political instability as the propensity for government failure, stemming from conflict or competition among political parties. Political instability can shorten the time horizon of policymakers, leading to suboptimal short-term economic policies. Moreover, it can result in more frequent policy changes, creating uncertainty. Consequently, it has negative impacts on macroeconomic performance (Aisen & Veiga, 2013). Therefore, political instability deteriorates the investment climate, thereby reducing FDI inflows.

The second strand of literature argues that countries with low political stability can still attract higher levels of FDI. Bilateral investment treaties are one of the potential solutions. These treaties obligate host countries to protect investors from home countries, providing them equal or preferential treatment compared to domestic investors (Rose-Ackerman & Tobin, 2005). Shan et al. (2018) also support this view, arguing that China's higher FDI in politically unstable African countries is attributed to the bilateral investment treaties between China and these countries.

Past research has shown a positive relationship between political stability and FDI attraction, as evidenced by Mengistu and Adhikary (2011) for 15 Asian economies, Sadeghi et al. (2020) for 79 countries, and Elish (2022) for BRICS countries. However, some have found a negative impact of political stability on FDI attraction, as observed by Nizam and Hassan (2018) for 8 countries in the South Asian Association for Regional Cooperation, Shan et al. (2018) for 22 African countries, and Khan et al. (2023) for global countries.

This research hypothesizes that political stability in ASEAN-7 plays a significant role in promoting FDI inflows, given the less prevalent trend of signing China-Africa style bilateral investment treaties in the region.

H₁: Political stability has a positive impact on FDI inflows.

Government Effectiveness and FDI Inflows

Theoretically, an effective government ensures the establishment and implementation of policies that benefit investors (Awadhi et al., 2022). Moreover, countries with effective governments can build a reliable judicial system. Furthermore, a country with good government effectiveness can establish a transparent legal system and simplify administrative procedures to serve businesses and citizens efficiently, thereby creating a favorable business environment, mitigating risks for foreign investors, and strengthening confidence in the economy's stability. A country with good government effectiveness can participate in many free trade agreements, facilitating export and import activities. In addition, building the image of a dynamic country with an effective, transparent, and investor-friendly government is also a crucial factor in attracting FDI (Awadhi et al., 2022).

However, the government intervention theory suggests that an effective government may impose stricter regulations and higher requirements on investors. This can negatively impact investment growth and business turnover, especially for foreign investors (Lin & Wong, 2013). Additionally, the regulatory burden theory complements this explanation by arguing that the cost burdens from legislative, regulatory, and taxation measures increase costs and pressure on foreign investors. Therefore, it may hinder a country's ability to attract investment (Bickerdyke & Lattimore, 1997). Moreover, the government overreach theory suggests that excessive government intervention in business operations can limit investor activity competition and autonomy (Lai, 2021).

Empirically, it is not difficult to find evidence of the positive impact of Government effectiveness on FDI attraction, as shown by Nizam and Hassan (2018), Mengistu and Adhikary (2011), Gangi and Abdulrazak (2012) for African countries, and Younsi and Bechtini (2019) for 25 emerging economies. However, there is also research showing a negative impact, such as Méon and Sekkat (2004) for countries in the Middle East and North Africa, and Khan et al. (2023). However, research indicates that government effectiveness does not necessarily impact FDI attraction, as evidenced by Jurčić et al. (2020) for Croatia, Saha et al. (2022) for lower-middle income countries, and Faruq (2023) for emerging Asian economies.

ASEAN-7 is not considered a region with high government effectiveness (Kaufmann & Kraay, 2023), so the theories of government intervention, regulatory burden, and government overreach may not exist. Therefore, the research hypothesis is:

H_2 : Government effectiveness has a positive impact on FDI inflows.

Control of Corruption and FDI Inflows

Theoretically, Boatright (2000) argues that an economy with corruption will limit investors' market access. Investors who are unaware of or unwilling to engage in corruption will be unable to access the markets of host countries. Payments to host country officials will increase business costs and reduce the competitiveness of goods on the market. In addition, corruption also affects other important factors that determine a country's ability to attract investment, such as economic growth (Mauro, 1995) and the quality of infrastructure and

public investment productivity (Tanzi & Davoodi, 1998). Therefore, countries with high levels of corruption will find it more difficult to attract FDI. Empirically, the negative impact of corruption control on FDI attraction is evident in studies by Mengistu and Adhikary (2011), Sadeghi et al. (2020), and Khan et al. (2023).

In contrast, another perspective suggests that in countries characterized by rigid regulations and an inefficient, bureaucratic state apparatus, corruption can expedite the decision-making processes within the bureaucracy (Bardhan, 2017). Consequently, corruption may foster FDI inflows. Similarly, Leff (1964) argue that corruption could be beneficial for attracting FDI in economies where government agencies operate ineffectively, suggesting that "greasing the wheels" of government through corruption becomes a necessity.

Some research works even propose the "Corruption Tolerable Level of Investment" theory. This theory suggests that a certain level of corruption in host countries can be acceptable to foreign investors (Abotsi, 2016). Foreign firms may enter markets in host countries if they possess certain ownership and location advantages (Abotsi, 2016). In countries with high levels of corruption, foreign investors might utilize bribery to circumvent laws and regulations, thereby facilitating business operations and accelerating project implementation. While cumbersome procedures could deter foreign investors from funding projects in corrupt nations, the possibility of "buying their way out" of regulations can be appealing (Shaari et al., 2022). Several empirical studies indicate that high corruption levels act as a "helping hand" in promoting FDI attraction, as demonstrated by Kim (2010) for 28 countries and Syukri et al. (2022) for Indonesia. Furthermore, research by Moustafa (2021) on Egypt and Quazi et al. (2014) on 53 African countries also reveals a positive relationship between weak corruption control and increased FDI inflows.

ASEAN-7 is a region with a low corruption control index (Kaufmann & Kraay, 2023), yet it continues to attract FDI inflows. Corruption may be playing the role of a "helping hand" as suggested by Syukri et al. (2022) for Indonesia, a country in the ASEAN-7. Therefore, the hypothesis is:

H_2 : Control of corruption has a negative impact on FDI inflows.

Regulatory Quality and FDI Inflows

Regulatory quality is related to the government's ability to implement sound policies to promote private sector development and rules for economic engagement. Goswami and Haider (2014) argue that regulatory quality measures risks such as contract viability, profits repatriation, and payment delays. It determines the ability of foreign investors to receive their lawful benefits. Therefore, high regulatory quality will encourage host countries to be chosen by MNCs.

High regulatory quality generates advantages for foreign investors across the dimensions of the Ownership, Location, and Internalization (OLI) framework (Dunning, 2013). Regarding location advantages, transparent and predictable regulations significantly reduce policy risk and uncertainty, making the host country more attractive compared to

alternative locations (Hebous et al., 2020). Clear and predictable regulations are crucial for lowering transaction costs and enhancing profitability for foreign investors (Corcoran & Gillanders, 2015; Sabir et al., 2019). This necessitates a legal and regulatory system that is publicly available, easily accessible, and provides clear information on legal requirements and administrative procedures, enabling investors to better understand the business environment and mitigate risks arising from information asymmetry (Hebous et al., 2020). Concerning internalization advantages, high regulatory quality helps decrease transaction costs associated with establishing and operating businesses abroad. Explicit regulations and streamlined administrative procedures alleviate bureaucratic obstacles and compliance costs. Furthermore, access to effective dispute resolution mechanisms within a robust legal system reduces the potential risks and costs stemming from commercial disputes (Hebous et al., 2020).

Conversely, the regulatory burden implies that market-unfriendly policies can hinder inward FDI. For example, a regulatory burden in the labor market increases labor costs and becomes a barrier to inward FDI. Moreover, when regulatory costs in countries are already low, further reducing regulations may not stimulate but may decrease the ability to attract FDI. Furthermore, in countries with a favorable business environment (such as the G7), reducing business regulatory burdens decreases inward FDI flows (Borozan et al., 2022). At this point, tax incentives have a greater advantage in attracting FDI than improving regulatory quality.

Empirically, most previous research has shown that regulatory quality has a positive impact on the ability to attract FDI, such as Sadeghi et al. (2020) and Bouchoucha and Benammou (2020)'s research on African countries. Similar findings are reported by Bhujabal et al. (2024) in South and Southeast Asian countries, and by Kaushal (2021) in a research focused on India. However, Borozan et al. (2023) find that improving regulatory quality is effective in attracting FDI in BRICS countries but becomes a barrier to FDI inflows in G7 countries. Moreover, Khan et al. (2023) affirm that high regulatory quality has an attractive impact on FDI for a global sample but hinders FDI inflows in developed countries.

Since ASEAN-7 are developing countries with low regulatory quality (Kaufmann & Kraay, 2023), the hypothesis is:

H₄: Regulatory quality has a positive impact on attracting FDI.

Rule of Law and FDI Inflows

The rule of law is understood as a fundamental value, manifested by the fact that the power of the government and the state can only be exercised lawfully within the framework of appropriate regulations and established procedures (Shivute, 2008).

The level of economic growth and prosperity, a significant driver of FDI attraction, depends largely on whether the government can make credible commitments to uphold the rule of law and protect property rights (North & Weingast, 1989). Moreover, the rule of law encourages FDI inflows because it demonstrates the host countries' commitment to

implementing their FDI policies and protecting investors' future profits. The rule of law also prevents market-unfriendly policies and mitigates risks for investors (Hoff & Stiglitz, 2005).

However, Allen et al. (2005) argue that China, a country lacking the rule of law and weak in protecting property rights, has become the world's largest FDI recipient. This suggests that, while the rule of law may influence FDI, other factors must account for the differences in foreign investment in Chinese provinces and elsewhere. Furthermore, Alexander (2014) argues that countries with a weak rule of law can still attract FDI as investors can use personal relationships with business partners and government connections to reduce the uncertainty created by a weak rule of law. In this case, personal relationships can substitute for a strong rule of law.

Empirically, numerous research studies have shown the positive impact of the rule of law on FDI attraction, as seen in works by Gangi and Abdulrazak (2012) and Mengistu and Adhikary (2011). Meanwhile, Sachdev (2006) finds that China attracts more FDI than India, although the rule of law in China is lower. Wang et al. (2012) also show that the rule of law in China is neither necessary nor sufficient for a country to attract FDI. In this case, strong economic development can attract FDI flows without the rule of law. Besides, Younsi and Bechtini (2019) studied a sample of 25 emerging economies and also showed that the rule of law hurts inward FDI.

ASEAN-7 countries are not highly rated in terms of the rule of law (Kaufmann & Kraay, 2023). However, these countries continue to attract FDI inflows. Moreover, Vietnam and Laos are two socialist countries with many similarities to China. Therefore, the research expects the impact of the Rule of law on FDI inflows to be similar to research by Sachdev (2006) and Wang et al. (2012). The hypothesis is:

H₅: The Rule of law has a negative impact on FDI inflows.

Voice and Accountability and FDI Inflows

Voice and accountability reflect the freedom of speech, freedom of association, and free media enjoyed by a country's citizens. Through voice and accountability, citizens can choose a less corrupt government, creating a less risky environment for domestic and foreign investors (Sabir et al., 2019).

Higher voice and accountability contribute to higher institutional quality and better decision-making processes. It promotes citizen participation in lawmaking, government decision-making, corruption control, and better resource allocation (Shamsub, 2023). These are good conditions for attracting FDI. Moreover, voice and accountability increase the potential for attracting FDI as it enhances political credibility, encourages citizen participation in political arrangements, and promotes self-governing institutions (Khan et al., 2023).

Conversely, if investments have negative environmental impacts, voice, and accountability will empower citizens to oppose and hinder FDI inflows, especially in democratic institutions. Similarly, in countries with higher voice and accountability, citizens'

awareness of environmental issue is also higher, combined with a free media. They can form associations (freedom of association) and freely express their views on the impact of foreign investment projects on the environment (freedom of speech). This can be a barrier to FDI inflows with negative environmental impacts in democratic countries with high voice and accountability (Ha & Nguyen, 2021).

From a different perspective, Saha et al. (2022) argue that higher voice and accountability are associated with higher demands from citizens for a higher standard of living. Therefore, foreign investors will face higher demands for wages and social responsibility. This can become a barrier to attracting FDI as business operating costs become more expensive.

Many research studies have shown that voice and accountability have a positive impact on the ability to attract FDI, such as Gangi and Abdulrazak (2012), Nizam and Hassan (2018), and Bouchoucha and Benammou (2020). However, some research studies have shown a negative impact of voice and accountability on FDI inflows, as seen in Younsi and Bechtini (2019), Saha et al. (2022), which examine 28 lower-middle-income countries, and Khan et al. (2023).

ASEAN-7 is a region that is not highly rated in terms of voice and accountability (Kaufmann & Kraay, 2023). The research suggests that the view of Saha et al. (2022) may be reasonable, as this is one of the regions with high economic growth from a low base so, costs related to labor wages and investor social responsibility are increasing rapidly. Therefore the hypothesis is:

H₆: Voice and Accountability have a negative impact on FDI inflows.

Research Method

A singular, overarching theory of FDI remains elusive, with existing FDI theories adopting diverse perspectives that complement each other in the pursuit of a comprehensive understanding (Feng, 2017). Many prominent theories posit a linear relationship between institutional factors and FDI inflows. The Eclectic Paradigm, or OLI model, developed by Dunning (2013), stands as a leading framework for explaining MNCs' FDI decisions, predicated on three conditions: ownership advantages, location advantages, and internalization advantages. Within this framework, stable and effective institutions, characterized by a transparent legal system, robust protection of property rights, and favorable tax policies, enhance a location's attractiveness for FDI. Conversely, weak institutions, marked by lax regulations, high levels of corruption, and insecure property rights, impede investment. However, Dunning (2013) does not explicitly address the existence of a threshold at which the impact of institutional factors on FDI reverses. Besides, North (1990) conceptualizes institutions as the 'rules of the game' within a society or economy. These rules can be formally codified (e.g., laws, constitutions) or informally embedded (e.g., conventions, customs). The primary function of these rules is to mitigate uncertainty

associated with human interaction and exchange, and to establish behavioral norms. Consequently, institutions provide society with a predictable framework for engagement.

According to North (1990), effective institutions reduce transaction and production costs, enhancing profitability and stimulating economic activity. Building on this, Henisz and Williamson (1999) argue that institutional quality is critically important for FDI. They, along with Henisz (2000), emphasize that MNCs face a heightened risk of expropriation in countries where property rights are poorly protected. For instance, host country governments may be tempted to appropriate a portion of MNE profits or even nationalize their assets. Furthermore, domestic firms may exert influence on their governments to enact policies that disadvantage MNCs. Consequently, weak institutional quality, particularly regarding property rights security, creates a risky investment environment for multinational corporations. The fear of asset loss due to governmental actions or unfair competition from domestic entities diminishes a nation's appeal for FDI. Thus, a robust institutional system that guarantees property rights is a crucial determinant in attracting and retaining foreign investment (Henisz, 2000; Henisz & Williamson, 1999).

Based on this theoretical framework, a substantial body of empirical research has indicated a linear relationship between institutional factors and FDI. However, the results regarding the impact of these factors on FDI inflows have consistently yielded inconclusive findings, as evidenced by studies such as Busse and Hefeker (2007), Jensen (2008), Buchanan et al. (2012), Sabir et al. (2019), Jurčić et al. (2020), Dang and Nguyen (2021), Ha and Nguyen (2021), Le and Kim (2021), Khan et al. (2022), Saha et al. (2022), Cetin and Yaman (2023), Khan et al. (2023), and numerous other investigations.

This research model is an adjusted extension of the research models by Dang and Nguyen (2021) and Saha et al. (2022) (see Equation 1).

$$FDI_{it} = \beta_0 + \beta_j \sum_{j=1}^6 \text{institutional variables}_{i,t} + \beta_m \sum_{m=1}^6 \text{control variables}_{i,t} + \varepsilon_{it} \quad (1)$$

Notes:

ε_{it} : the error term

i : ASEAN-7 countries

t : the time period of the sample, from 2002 to 2022

Six governance indicators, constructed by Kaufmann et al. (2003), represent institutional factors, including political stability and absence of violence/terrorism, government effectiveness, control of corruption, regulatory quality, rule of law, and voice and accountability. Control variables include factors representing: the labor force and consumer market (population growth), liberty and free markets (economic freedom), tax burden, inflation, GDP growth, and overall uncertainty affecting FDI attraction such as trade wars, COVID-19, and other uncertainties represented by the World Uncertainty Index (WUI).

Table 1 Variables, Measurements, and Expected Effects

Variables	Notation	Measurements	Expected effects	Sources
<i>Dependent variable</i>				
FDI inflows	FDI	Foreign direct investment, net inflows (%) of GDP)		WDI
<i>Explanatory variables</i>				
Political Stability and Absence of Violence/Terrorism	POLSTAB	measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	+	WGI
Government effectiveness	GOVEFF	captures perceptions of the extent to which public power is exercised for private gain, including petty and grand forms of corruption, and "capture" of the state by elites and private interests.	+	WGI
Control of corruption	CCORRUP	captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	-	
Regulatory quality	REGUQ	captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.	+	
Rule of law	ROLAW	captures perceptions of the extent to which a country's citizens can participate in selecting their government, as well as freedom of expression, freedom of association, and free media.	-	
Voice and Accountability	VOICEACC		-	WGI
<i>Control variables</i>				
Population	POP	Population growth (annual %)		WDI
Economic Freedom	ECOFREE	measures the impact of liberty and free markets around the globe, at the country levels		Heritage Foundation
Tax burden	TAXBUR	measure that reflects marginal tax rates on both personal and corporate income and the overall level of taxation as a percentage of GDP		
Inflation	INF	Consumer prices (annual %)		
Growth	GDP	GDP growth (annual %)		WDI
World Uncertainty	WUI	World Uncertainty Index at the country levels		https://worlduncertaintyindex.com/

Notes: The measurement of institutional factors is based on "percentile rank", which shows a country's ranking relative to all other countries in the dataset, ranging from 0 (lowest) to 100 (highest).

Source: Author

The ASEAN has ten members. However, the research focuses on seven countries: Cambodia, Indonesia, Laos, Malaysia, Philippines, Thailand, and Vietnam. Brunei and Myanmar are excluded due to data limitations. Singapore is omitted as its institutional development is significantly more advanced than the others (Kaufmann & Kraay, 2023).

Data sources for each variable are listed in Table 1. Data on FDI inflows, institutional factors, population growth, inflation, and GDP growth are collected from the World Bank's Worldwide Governance Indicators (WGI) and World Development Indicators (WDI). Economic freedom and tax burden are published by the Heritage Foundation. The World Uncertainty Index at the country level is obtained from World Uncertainty Index website.

Unlike previous research that employed frequentist statistics, this research applies Bayesian regression to assess the impact of institutional factors on FDI inflows in the ASEAN-7 countries. Bayes' theorem in Bayesian regression enables the estimation of the probability of a set of parameters given the observed data (Thanh et al., 2024).

Wagenmakers et al. (2018) assert that the Bayesian approach offers ten advantages over frequentist estimation methods. Meanwhile, Xin (2024) argues that the Bayesian methodology can effectively handle complex features such as non-linearity and non-stationarity in financial data, thereby improving the accuracy and timeliness of risk warnings. Another key advantage is the Bayesian method's capacity for probabilistic forecasting. It allows for the quantification of uncertainty in predictions by considering all factors that may influence the outcomes, presenting results transparently and interpretably (Martin et al., 2024). Notably, the Bayesian method can mitigate the issue of multicollinearity in data (Assaf & Tsionas, 2021) and skewed distributions (Ghaderinezhad et al., 2020; Gong et al., 2023), potential concerns in this study given the various dimensions factors. Furthermore, the Bayesian approach is well-suited to address potential issues of data heterogeneity that this research may encounter (Ansari et al., 2002; Iešmantas & Alzbutas, 2016).

Furthermore, the Bayesian approach offers advantages over traditional maximum likelihood by incorporating prior information, accurately determining the number of factors, and providing improved estimates for financial data (Lee et al., 2007; Phoong & Ismail, 2015). The advancement of Markov Chain Monte Carlo (MCMC) and Gibbs sampling has facilitated the analysis of complex models and accelerated Bayesian parameter estimation (Paap, 2002). Notably, Gibbs sampling will be employed in this study to address missing data (Smith & Roberts, 1993).

Bayesian regression can determine the optimal estimates of all parameters in a model, reflecting the relationship between the prior probability of an event and its posterior probability after evidence is considered (Bayes, 1958) (see Equation 2):

$$P(A|B) = \frac{P(B|A)*P(A)}{P(B)} \quad (2)$$

A and B are events; $P(A | B)$ is the Posterior; $P(B | A)$ is the Likelihood; $P(A)$ is the Prior and $P(B)$ is the standardization constant. Therefore, Bayes' theorem can be expressed as a ratio (see Equation 3):

$$P(A|B) * P(B) = P(B|A) * P(A) \quad (3)$$

The principles of effective Bayesian estimation involve three steps, as outlined by Nguyen et al. (2024). First, a normal distribution prior is employed in the Bayesian analysis by using a prior distribution for the mean and an inverse-gamma distribution for the variance. Second, MCMC methods, combined with Gibbs sampling, are applied to generate posterior distributions. Finally, diagnostics are conducted to ensure MCMC convergence for reliable Bayesian regression results.

Gelman and Rubin (1992) suggest that stability and convergence must be ensured when using MCMC techniques to generate posterior distributions. An Efficiency of nearly 1 indicates a stable estimate. Additionally, the R_c statistic reflects the convergence of the MCMC process. An R_c value below 1.1 suggests that the MCMC process has converged sufficiently.

Results and Discussions

Descriptive Statistics

FDI inflows as a percentage of GDP for ASEAN-7 countries range from -0.99% to 14.15%, indicating substantial heterogeneity among countries in their ability to attract inward FDI. In 2020, Thailand had the lowest FDI inflow (-0.99% of GDP), due to lower new investment inflows than disinvestment. The country with the highest FDI inflow as a percentage of GDP in the sample was Cambodia in 2012, with 14.15% of GDP.

Table 2 shows that the mean values of institutional factors across ASEAN-7 countries are low and heterogeneous. Overall, ASEAN-7 countries have low institutional quality (the mean of all institutional variables is below 50). The wide range of data across all institutional factors indicates significant differences among these countries. Laos has the lowest values for four out of six indicators (GOVEFF, REGUQ, ROLAW, and VOICEACC), while Indonesia (POLSTAB) and Cambodia (CCORRUP) have the lowest values for the remaining two. In contrast, Malaysia has the highest values for four out of six indicators (GOVEFF, CCORRUP, REGUQ, and ROLAW), while Laos (POLSTAB) and Thailand (VOICEACC) have the highest values for the remaining two.

Table 2 Descriptive Statistics

Variables	Obs	Mean	Std. dev.	Min	Max
FDI	147	0.0415	0.0337	-0.0099	0.1415
POLSTAB	147	35.4062	18.4580	3.0151	74.0566
GOVEFF	147	49.0996	19.7720	10.2941	85.4369
CCORRUP	147	31.8612	16.9538	5.2133	67.2986
REGUQ	147	43.5099	17.6092	7.8431	76.4423
ROLAW	147	37.4675	17.3867	6.9652	71.1539
VOICEACC	147	28.4565	17.3134	2.4876	57.7114
POP	147	0.0131	0.0047	0.0013	0.0252
ECOFREE	147	58.5442	7.1507	36.8000	74.7000
TAXBUR	147	80.7007	6.3923	54.1000	91.4000
INF	147	0.0442	0.0416	-0.0124	0.2410
GDP	147	0.0536	0.0295	-0.0952	0.1325
WUI	147	0.1435	0.1157	0.0000	0.5047

Source: Author

Main findings

The estimation results presented in Table 3 indicate that five out of six institutional factors considered have a significant impact on ASEAN-7 countries' FDI attraction, except for government effectiveness.

Table 3 Estimation Results

Independent variables	Mean	Probability of Mean	Equal-tailed		MCMC Diagnostics	
			95% credible interval	Efficiency	Rc	
POLSTAB	0.0008	0.9999	0.0004 0.0011	1.0000	1.0000	
GOVEFF	0.0006	0.8886	-0.0003 0.0014	1.0000	1.0000	
CCORRUP	-0.0011	0.9945	-0.0019 -0.0003	0.9804	1.0000	
REGUQ	0.0013	0.9948	0.0003 0.0022	0.9879	1.0000	
ROLAW	-0.0011	0.9899	-0.0020 -0.0002	0.9893	1.0000	
VOICEACC	-0.0007	0.9985	-0.0012 -0.0002	0.9775	1.0001	
POP	-0.9171	0.9652	-1.9003 0.0756	1.0000	1.0001	
ECOFREE	-0.0005	0.7261	-0.0020 0.0011	1.0000	1.0000	
TAXBUR	0.0012	0.9851	0.0001 0.0022	0.9693	1.0000	
INF	-0.0358	0.7225	-0.1534 0.0807	1.0000	1.0002	
GDP	0.1421	0.9608	-0.0180 0.3012	1.0000	1.0003	
WUI	0.0067	0.6355	-0.0332 0.0454	1.0000	1.0000	
Constant	-0.0340	0.7908	-0.1157 0.0478	0.9896	1.0000	
Variance	0.0007	-	0.0005 0.0008	0.8559	1.0001	

Notes: Convergence rule: $Rc < 1.1$; Efficiency: the closer the value to 1, the better.

Source: Author

The mean parameter of POLSTAB is 0.0008, with a 99.99% probability, suggesting a highly robust effect of political stability on FDI inflows in these countries. The positive coefficient implies that the more stable the political situation, the higher the FDI attraction in ASEAN-7 countries. This finding supports hypothesis H_1 and is consistent with previous

research by Mengistu and Adhikary (2011), Sadeghi et al. (2020), and Elish (2022). Thus, a stable political system with fewer strikes, riots, and terrorism reassures investors to commit their hard-earned funds (Goswami & Haider, 2014).

The result is consistent with several theories positing that political stability is a prerequisite for attracting FDI. Foreign investors are generally hesitant to invest in countries with unstable political environments (Moosa, 2002). Accordingly, political stability is a crucial determinant for FDI inflows, as instability creates barriers and risks (Goswami & Haider, 2014). Furthermore, political instability can lead to short-term and suboptimal economic policies, characterized by frequent changes (Alesina et al., 1996; Vadlamannati, 2012), which negatively impact macroeconomic performance and consequently reduce the attractiveness for FDI (Aisen & Veiga, 2013). Additionally, heightened political risk can incentivize MNCs to withdraw from politically volatile markets (Gonchar & Greve, 2022; Vortherms & Zhang, 2024).

Control of corruption also impacts the ability to attract inward FDI, but the negative mean implies that a better ability to control corruption does not help host countries increase FDI inflows. ASEAN-7 countries, which are not highly rated for their ability to control corruption, are among the world's leading FDI destinations. This finding is supported by the perspectives of Bardhan (2017) and Leff (1964). When government machinery in countries is inefficient and bureaucratic, corruption can help lubricate and accelerate the decision-making process. The probability of the CCORRUP mean parameter is 99.45%, indicating a highly robust negative impact of control of corruption on inward FDI attraction, consistent with hypothesis H₃.

The Corruption Tolerable Level of Investment theory may help explain ASEAN's attractiveness for FDI inflows in recent times. The region possesses advantages such as a large population (offering a substantial market and a large, low-wage labor force), proximity to China (a significant market and source of raw materials), and relatively less stringent environmental quality requirements. Consequently, international investors may tolerate a certain level of corruption (Abotsi, 2016) to capitalize on these benefits. When operating in this region, investors might utilize 'bribery' as a tool to circumvent regulations, thereby accelerating project implementation and facilitating smoother business operations. Bribery becomes a means for foreign investors to influence government officials, persuading them to overlook regulations to favor project approval and subsequent business activities. Research on other developing and less developed nations also support this argument, including those by Kim (2010), Moustafa (2021), Quazi et al. (2014), and Syukri et al. (2022).

Regulatory quality also has a positive impact on FDI inflows with a mean of 0.0013. Therefore, how a host government is perceived in terms of its ability to create and implement investor-friendly policies is a crucial factor in attracting FDI (Goswami & Haider, 2014). This result supports hypothesis H₄ and is consistent with previous studies by Sadeghi et al. (2020), Bouchoucha and Benammou (2020), Kaushal (2021), Saha et al. (2022), and Bhujabal et al. (2024). The probability of the REGUQ mean parameter is 99.48%, confirming the strong role of Regulatory quality in attracting investment in ASEAN-7 countries.

These findings reinforce the notion that high regulatory quality provides advantages to foreign investors in terms of location and internalization (Dunning, 2013), thereby enabling host countries to attract increased FDI inflows. Specifically, high regulatory quality reduces policy risk and uncertainty, lowers transaction costs, and enhances profitability for foreign investors (Corcoran & Gillanders, 2015; Hebous et al., 2020; Sabir et al., 2019). Transparent and predictable regulations facilitate a clearer understanding of the business environment for investors and mitigate risks associated with information asymmetry, consequently reducing transaction costs for establishing and operating businesses abroad. Furthermore, effective dispute resolution mechanisms help to minimize risks and costs arising from commercial disputes (Hebous et al., 2020).

The rule of law is the fourth institutional factor that impacts ASEAN-7 countries' FDI attraction. The probability of the mean parameter is 98.99%, indicating a highly robust effect. However, a higher rule of law does not necessarily lead to more FDI attraction, as the mean is -0.0011. It seems that the assessments of Allen et al. (2005) and Alexander (2014) also hold for ASEAN-7, where the rule of law is not highly rated. In these countries, foreign investors may still rely on personal relationships with business partners and connections with the government to reduce the uncertainty created by a weak Rule of law. The result supports hypothesis H₅ and is consistent with the research by Sachdev (2006), Wang et al. (2012), Younsi and Bechtini (2019), and Saha et al. (2022). However, the result may yield significant policy implications for policymakers as it contradicts the mainstream view, as well as most prior empirical studies (Gangi & Abdulrazak, 2012; Gani, 2007; Mengistu & Adhikary, 2011; Minović et al., 2021).

ASEAN countries are not typically rated as having a strong rule of law (Kaufmann et al., 2003), yet the region remains a significant attractor of FDI. This finding partially aligns with the results regarding the impact of control of corruption on FDI. Weak rule of law and weak control of corruption not only fail to deter but may even act as potential drivers of FDI inflows. This suggests that in countries with a less robust rule of law, such as the ASEAN nations, investors might leverage personal connections with government officials to gain advantages in their investment activities (Alexander, 2014; Allen et al., 2005).

Voice and accountability also have a negative impact on FDI attraction with a probability of the mean of 99.85%, supporting hypothesis H₆ and similar to the findings of Younsi and Bechtini (2019), Saha et al. (2022), and Khan et al. (2023). Thus, high voice and accountability may be becoming a barrier to FDI attraction in ASEAN-7 as workers voice their concerns about environmental protection and demand higher wages and greater corporate social responsibility (Saha et al., 2022).

Freedom of speech and freedom of association are factors that empower citizens to participate more actively in the processes of law-making and policy formulation, including policies for foreign investors. High voice and accountability enable host countries to select investment attraction strategies that align with the interests of their citizens, such as ensuring minimum wages, environmental protection, and demanding greater corporate social responsibility from investors, which in turn may deter FDI inflows. This outcome does not

bode well for the citizens of the studied nations, as it suggests that the governments of the ASEAN-7 countries may be overlooking the interests of the majority of their population in their investment attraction strategies. Legitimate demands from citizens and civil society that could potentially increase the operating costs for FDI enterprises might lead these enterprises to favor countries with lower voice and accountability for their investments (Ha & Nguyen, 2021; Saha et al., 2022).

The only institutional factor that does not impact FDI attraction is government effectiveness, thereby not supporting hypothesis H₂. The finding is unexpected. Government effectiveness does not necessarily help countries attract more FDI. Other institutional factors may play a more important role than government effectiveness in attracting FDI. Some other research studies have similar results, such as Jurčić et al. (2020), Saha et al. (2022) and Faruq (2023).

Consistent with prior empirical research on the impact of government effectiveness on FDI attraction, it appears that factors other than government effectiveness are considered by international investors in their investment decisions within the ASEAN-7 nations. Dimensions of effective governance, such as establishing and enforcing investor-friendly policies, fostering a reliable judicial system, developing transparent legal frameworks, streamlining administrative procedures to serve the business community, creating a favorable business environment, mitigating risks for foreign investors, and enhancing confidence in economic stability, do not seem to influence MNCs' investment decisions. While these findings deviate from initial expectations, they align with the observed effects of the control of corruption and the rule of law on FDI. It suggests that foreign investors may be leveraging personal connections and potentially engaging in bribery to secure advantages by influencing government officials, rather than relying on an effective government characterized by transparent and dependable policies.

Among the control variables, the tax burden has a significant impact on FDI attraction in ASEAN-7 countries. This suggests that foreign investors consider the tax rate that MNCs have to pay in host countries when making investment decisions. The probability of the mean parameter of TAXBUR is 98.51%, indicating a highly robust effect of a tax burden on inward FDI. Meanwhile, population growth, GDP growth, inflation, economic freedom, and world uncertainty at the country level seem to have no significant impact on foreign investors' decisions.

Robustness Check

This research applies the Feasible Generalized Least Squares (FGLS) method to examine the robustness of the impact of institutional factors on FDI attraction in the ASEAN-7 countries. The results, presented in Table 4, illustrate two cases: (i) the full sample and (ii) the sample excluding the top 5% and bottom 5% of FDI values.

Table 4 Robustness Checks using FGLS Estimation

Independent Variables	(i) Full Sample		(ii) Trimmed 5% Sample	
	Coefficient	P> z	Coefficient	P> z
POLSTAB	0.0008 (0.0002)	0.0000	0.0007 (0.0002)	0.0000
GOVEFF	0.0006 (0.0004)	0.1100	0.0006 (0.0004)	0.1110
CCORRUP	-0.0011 (0.0003)	0.0020	-0.0010 (0.0003)	0.0010
REGUQ	0.0013 (0.0004)	0.0010	0.0012 (0.0004)	0.0020
ROLAW	-0.0012 (0.0004)	0.0030	-0.0011 (0.0004)	0.0040
VOICEACC	-0.0007 (0.0002)	0.0010	-0.0007 (0.0002)	0.0000
POP	-1.2394 (0.4896)	0.0110	-1.1328 (0.4636)	0.0150
ECOFREE	-0.0006 (0.0007)	0.3690	-0.0004 (0.0006)	0.4980
TAXBUR	0.0012 (0.0004)	0.0070	0.0011 (0.0004)	0.0070
INF	-0.0378 (0.0499)	0.4490	-0.0307 (0.0473)	0.5160
GDP	0.1507 (0.0682)	0.0270	0.1412 (0.0645)	0.0290
WUI	0.0069 (0.0166)	0.6780	0.0045 (0.0157)	0.7750
Constant	-0.0281 (0.0351)	0.4230	-0.0308 (0.0332)	0.3540

Notes: Standard errors are reported in parentheses.

Source: Author

For the explanatory variables, the FGLS estimation results in both cases are consistent with the Bayesian regression. Accordingly, except for government effectiveness, which does not affect inward FDI, the remaining five institutional factors all have an impact on FDI inflows in ASEAN-7 countries. Among them, political stability and absence of violence/terrorism and regulatory quality have a positive impact, while control of corruption, rule of law, and voice and accountability have a negative impact on FDI attraction.

For the control variables, the estimation results in both cases are also quite similar to the Bayesian regression estimation. The difference lies in the fact that in addition to TAXBUR, POP and GDP growth are also statistically significant. Meanwhile, foreign investors in ASEAN-7 are not affected by inflation, economic freedom, and world uncertainty.

Conclusion

Applying Bayesian regression, the research reveals interesting findings regarding the impact of institutional factors on FDI inflows in ASEAN-7 countries. Except for government effectiveness, which has no significant impact, political stability and regulatory quality positively affect FDI inflows, while control of corruption, rule of law, and voice and

accountability have a negative impact. These results suggest that maintaining political stability and high regulatory quality are drivers for attracting more FDI. However, promoting other good governance indicators does not yield the expected results.

These findings pose challenges for policymakers in ASEAN-7 countries as improving institutional factors does not guarantee increased FDI inflows. This is likely due to a relatively low level of institutional development in these countries. Foreign investors are accustomed to investment environments with corruption, weak rule of law, and low voice and accountability. They may utilize personal relationships with governments and relevant partners in host countries to facilitate their investments.

Furthermore, the findings outline a rather comprehensive, consistent, yet somewhat unsettling picture regarding the role of institutional factors in attracting FDI to ASEAN-7. International investors do not select ASEAN due to its robust institutions but rather because of weaknesses in government administration, poor policy planning, bureaucracy, corruption, and limited freedom of expression. This is likely because they can manipulate government officials through personal connections and informal benefits. Typically, such outcomes are observed in less developed nations with low-quality institutional foundations. The success of ASEAN-7 countries in attracting foreign investment is clearly unsustainable and disregards the interests and voices of the populace. The process of institutional reform may be protracted and face numerous obstacles, stemming not only from internal national issues but also requiring time to shift the perceptions of international investors. Nevertheless, this process must be undertaken and continued, as it is crucial for ensuring that foreign investment attraction and economic development ultimately serve the long-term and sustainable interests of the people.

The results also suggest avenues for future research to provide a stronger foundation for policymakers' decision-making. Which countries are the main sources of FDI for ASEAN-7 nations? Do these investors also come from countries with high corruption, weak Rule of law, and low Voice and Accountability? Are there any differences in investment decisions between investors from developed and developing countries? Which countries do ASEAN-7 nations prioritize for investment? With these answers, institutional solutions to enhance FDI inflows can be more grounded.

The most significant limitation of the research is the relatively small sample size, encompassing only 7 out of the 10 ASEAN nations due to Singapore's institutional distinctiveness and data unavailability for Myanmar and Brunei. This represents an inherent constraint. However, this limitation consequently complicates the handling of potential endogeneity issues. Expanding the scope of the research to include a broader range of countries represents a pertinent avenue for future research. This would aim to assess the impact of institutional factors on FDI inflows not only within ASEAN but also across Asia and globally, potentially yielding more comprehensive and robust findings.

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What Caused the Ethnic Revival? Multi-case Studies in 11 Southeast Asian Countries

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Abstract

Prolonged ethnic wars emerged due to disharmonious ethnic relations in Southeast Asian countries. Marginalized ethnic groups often create an ethnic revival in response to the dominance of other ethnic groups. The research analyzed the causes, processes, and ways to minimize ethnic revival in Southeast Asian countries. By using a multi-case study analysis, the results show that ethnic revival in Southeast Asia has similarities in terms of past conflict history passed down from generation to generation as well as the use of ethnic identity as a driving force of its movement. It also found that the cause of ethnic revival was the practice of injustice carried out by certain ethnic groups who dominated the government. Injustice then causes marginalized ethnic groups to use their ethnic identities to create ethnic sentiments, which are then used to form ethnic revival. Using Rawls' theory of justice, this research proposes three principles of justice: justice as fairness, principles of justice, and veil of ignorance that states must apply to create policies that are not ethnically biased.

Keywords: ethnic conflict, ethnic revival, Southeast Asia, theory of justice

Introduction

While inter-ethnic interactions in Southeast Asia appear to be going well, they still face various ethnic conflicts. The history of conflict shows that ethnic revival in the Southeast Asian region is widespread, especially in countries with heterogeneous ethnic compositions. Ethnic conflicts arise from the interaction between historical, cultural, socio-economic, and political awareness. In addition, the background of the conflict, such as economic inequality, injustice, and an autocratic government system, ultimately influences ethnic understanding to fight and the likelihood of conflicts.

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Southeast Asia is the continent with the highest cultural diversity in the world due to the combination of traditional cultures and colonial powers. The uniqueness of Southeast Asia is evident in its ethnic diversity and the way its people cherish their culture. This diversity is reflected in how they hold ceremonies, festivals, worship, and practice their beliefs. The diversity of religions such as Buddhism, Christianity, Hinduism, and Islam characterizes the physical structure and social relations of Southeast Asian society. Southeast Asia is also a conglomeration region where Indigenous peoples, immigrants, and ethnic and religious communities gather and form bonds between ethnicities (Abaya, 2016). In the study of sociology and political anthropology, it is found that inter-ethnic ties can pose a situational threat to the dominance of one ethnic group over another. As a result, individuals will react by forming appropriate defensive groups.

Injustice and ethnic domination can be done by majority or minority ethnic groups. Therefore, there IS an ethnic revival as an ideological movement to achieve autonomy (Smith, 1981). Countries in the Southeast Asian region have something in common. They have carried out an ethnic revival against other ethnic groups that dominate them. Some examples of ethnic revival are the Burmese ethnic minorities experiencing ongoing rebellion and violence (International Crisis Group, 2020). Thai Pattani militant actors continue to fight for minority rights (Srisompob & Panyasak 2006). Furthermore, since its independence, Indonesia has experienced various ethnic conflicts, including the rebellion of the Free Aceh Movement (GAM), the Free Papua Organization (OPM), and the Republic of South Maluku (RMS) (Aguswandi & Zunzer, 2008; Sari, 2018). Moreover, the Moro rebellion in the Philippines seeks to have their rights to be guaranteed by the state. In addition, expressions of disappointment, concern, and anti-ethnic violence were demonstrated through non-violent actions in Singapore (Brown, 2003).

Regarding conflict and ethnic revival, the state's role is crucial in minimizing conflict and distributing justice. Theoretically, this is discussed by Rawls (1971) in *The Theory of Justice*, that have three basic concepts: justice as fairness, principles of justice, and original position. These three basic concepts explain why ethnic revival occurs and what the state must do to manage conflict (Sari, 2020). Unfortunately, in some cases of ethnic conflict, the country is dominated by certain ethnicities and clashes with others.

The phenomenon of ethnic revival in Southeast Asia, along with the unfair practices carried out by the state, has led to the emergence of three research questions: (1) What causes ethnic revival?; (2) How does ethnic revival occur?; and (3) How does Rawls's theory of justice apply in minimizing ethnic revival? These three questions are answered by explaining cases of ethnic revival in 11 Southeast Asian countries. The research limits its discussion to cases of ethnic revival involving ethnic groups fighting against the domination of the central government which is controlled by certain ethnicities. These cases are analyzed using the concept of ethnic revival (Smith, 1981) and the three basic concepts of justice in Rawls's theory of justice (Rawls, 1971). Apart from answering the research problem, a significant output of this research is producing an ethnic revival scheme to obtain a clearer understanding of how the factors that cause conflict contribute to the formation of ethnic revival.

Literature Review

Ethnicity derives from the Greek, *ethnos* or *ethnikos*, and denotes a distinction between 'us' and 'them' (Barth, 1998). The research conducted by Eriksen (2015), Scupin & DeCorse (2015), and Smith (2001) also defines ethnicity as a human community that has a name, is related to one motherland, and has a common ancestral myth, shared memories, one or more common cultural elements, and a certain solidarity among its elites. The ethnic structure consists of two stratifications, namely the majority and the minority. Minorities are people who, because of their physical and cultural characteristics, are selected by society to live with unequal treatment. They occupy a low position in the hierarchy, live in poverty, struggle to find work, have limited education, reside in areas that may be less desirable, have little political power, and sometimes succumb to various social injustices (Wirth, 1945).

In multiethnic societies, a division also exist between dominant and subordinate ethnic groups. The dominant group is the group that occupies the top position in the social hierarchy. On the other hand, subordinate groups have little power, perhaps even no control. Majorities or minorities can exercise ethnic domination. However, in some cases, the dominant group comes from the ethnic majority. The stratification system is characterized by an unequal power distribution, which gives rise to social inequality and leads in ethnic conflict.

Ethnic conflicts can be categorized into inter-ethnic conflicts and intra-ethnic conflicts. The inter-ethnic conflict involves two or more ethnic groups living within the exact geopolitical boundaries (Apenguo, 2010; Walter, 2004). Moreover, regional sentiments, religion, and marginalization can trigger these clashes. The root causes of inter-ethnic conflict are complex because they are deeply rooted in the socio-cultural beliefs of society. Certain disputes are difficult to resolve, which means they have the potential to give rise to recurring conflicts. Several researchers have studied inter-ethnic conflict (Alusala, 2005; Dunlop, 2021; Mwiza & Okinedo, 2018; Saidi & Oladimeji, 2015). Among them are the Balkan conflicts, violence between Hutu and Tutsi, Turks and Armenians, and Jews and Arabs. Another example is the conflict between the Moro tribe and native Filipinos who are non-Muslim, giving rise to prolonged inter-ethnic conflict (Madale & Medina, 2004).

Meanwhile, intra-ethnic conflict is a dispute between the same ethnic or subethnic group, occurring within the same or different territorial boundaries. The reasons may be political, religious, or economic. Intra-ethnic conflict is an important phenomenon and has caused thousands of deaths and displacement worldwide. In conflicts like these, ethnic groups often polarize themselves. Competition, changes in leadership, and numerous other factors prompt individual to employ competitive strategies even within their ethnic group (Jinadu, 2004). Some cases studied are intra-ethnic competitions in Serbia and Croatia (Caspersen, 2006). Furthermore, Kim (2010) studies cases of intra-ethnic conflict in China, showing the existence of international ethnic networks, namely South Korea and China. The two often conflict due to differences in economic and social status.

Ethnicity has two essential dimensions. First, it shares history as a common mythical origin and cultural source. Second, cultural differences have differentiated one ethnic group

from another ethnic group, thereby forming an ethnic identity (Eriksen, 2015). Identity is a set of concepts based on descriptive characteristics such as language, religion, phenotypic markers, clothing, way of life, customs, culture, or historical experience. These characteristics distinguish individuals as group members and can arise from the question, 'Who am I?'. Ethnic identity serves as a framework for individuals to identify feelings of belonging to one another due to shared traditions, behaviors, values, and beliefs (Barth, 1969; Horowitz, 1985; Ott, 1989; Waters, 1990).

Horowitz (1985) states that ethnicity is a concept that easily embraces groups differentiated by color, language, and religion, covering tribes, races, nationalities, and castes. Chandra (2006) further adds that the qualifying identity for members of an ethnic group is restricted to one's own genetically transmitted features or the language, religion, place of origin, tribe, region, caste, clan, nationality, or race of one's parents and ancestors. Every ethnic group has its own identity that can be a complex combination of ethnic, religious, gender, class, and other layers that all refer to the same person, either in self-definition or as defined by others (Alubo, 2009).

Ethnic identity ultimately forms ethnic boundaries and is used to justify judging other ethnicities as better or worse. This situation caused the emergence of ethnic sentiment, which developed into ethnic conflict and became a driving force behind the ethnic revival. Ethnic revival is an ideological movement to achieve and perpetuate the autonomy, integration, and identity of a society whose members are determined to form a nation with potential and realism (Smith, 1981).

Ethnic identity has been a driving force facilitating conflict in the world for many years (Eriksen 2015). Investigations into ethnic cases began to develop in the late 1960s. At the beginning of the 21st century, the world political situation gave rise to armed conflicts with ethnic or religious dimensions. The reasons vary, but ultimately, it occurs because of the politics of sovereignty and control of certain areas. There are also situations where Indigenous peoples and immigrant groups ask for their rights and demand equal status with the ethnic majority. Varshney (2002) explains that ethnic conflicts can be narrowly categorized into religious, racial, linguistic, and sectarian conflicts. Someone will join an ethnic mobilization movement to gain collective support in achieving their goals. However, rational choice theory explains that ethnicity is seen as an instrumental aspect. They focus on how movement leaders use ethnic manipulation strategies to gain power.

Furthermore, identity conflicts contributed to more than 70% of civil wars between 1960 and 1999 (Sambanis, 2002). Ethnicity has the power to facilitate collective action with different causal mechanisms (Akpan, 2008; Appadurai, 1998; Barbero, 2002; Gahramanova, 2006; Mamdani, 2003; Rubin, 2006; Vanhanen, 1999). Collier and Hoeffler (2004) stated that economic injustice was a cause of 78 civil wars in 1960-1999. In an ethnically diverse society, an authoritarian political system and centralized government can open up the expression of these conflicts (Arcan 2014). Coercive lawlessness, exploitation of natural resources, inequality, and unfair distribution of wealth often increase the accumulation of ethnic sentiment and lead to outbursts of anger called ethnic revival.

Previous researchers have studied ethnic revival in various aspects. Lecomte-Tilouine (2009) studies the relationship between ethnic revival and the Maoist insurgency in Nepal. The research explores the historical power imbalances, particularly between the Magars and the Hindu rulers, that led to resentment and marginalization among the Magars. This historical context, combined with the ethnic revival of the 1990s, explains why the Magars and other tribal groups joined the Maoist insurgency.

Lecomte-Tilouine and Dollfus (2003) highlight that ethnic revival in Himalayan regions stems from and fuels societal division, mainly when weak central power and past forced cultural assimilation exist. Furthermore, the political expression of these ethnic divisions, without addressing the root causes, worsens instability. Furthermore, Lian (2008) reveals how the Manchus, facing a complex interplay between state influence and cultural assimilation, utilized online platforms to revive their identity. The research shows that the shift to online spaces was driven by a desire to reclaim their history and navigate their marginalized position in China's socio-political landscape. This online revival became an important space for the Manchus to assert their presence and negotiate their identity in a context where traditional forms of social and political expression were limited. The Tai Lue people in Sipsongpanna are practicing a discreet ethnic revival through cultural activities such as temple restoration and language preservation, as a form of subtle resistance against government constraints (Davis, 2005). The research illustrates how ethnic revival can manifest as a quiet yet meaningful form of opposition, utilizing cultural practices to maintain identity.

Peterson (2012) traces the history of the East African Revival, a Christian conversion movement that spread throughout East and Central Africa in the 1930s and 40s. His research study reveals the tensions between cosmopolitan Christian converts and nationalist patriots during this crucial period in African history. Ultimately, the research study contributes to the complex and evolving fabric of post-colonial African identity. Tsuda (2015) focuses on a younger generation of Japanese-Americans seeking to recover their ethnic heritage. They carry out an ethnic revival in response to the racialization of Japanese in America. Ethnic revival is carried out by involving as many Japanese communities as possible to strengthen their cultural identity.

Existing research on ethnic revival rarely explicitly integrates Rawls's theory of justice. However, this theory draws attention to how systemic discrimination and government bias perpetuate inequality between ethnic groups. Although not in the context of ethnicity, several previous studies have used Rawls's theory of justice in various topics. Manzano (2018), Miller (2011b), and Pilapil (2019) explore how Rawlsian principles can be applied beyond national borders to address global inequality and international justice issues. On the other hand, the topic of social justice and fairness has been studied by several researchers, such as Daniels (2001), Kayagula and Lameck (2024), Ruger (2004), and Sturesson (2022). Their research use the Rawlsian framework to address health disparities and ensure equitable access to health care and the social determinants of health.

Furthermore, the topic of economic injustice and capitalism, as examined through Rawls's theoretical framework, has also attracted the attention of previous researchers.

Koppelman (2023) investigates how capitalism produces economic injustice by exploring issues such as the role of market power, the influence of wealth on political processes, or the impact of financialization on economic inequality. On the other hand, Wolthuis (2017) uses Rawls' principles of justice to study the formation of economic unions. This study proposes using principles of justice that facilitate cooperation and mutual understanding between union members. Audard (2024) examines the relationship between Rawls' theory and broader social and political justice questions. This research also considers the role of democratic institutions and civic participation in addressing economic injustice in capitalist societies.

The current literature review shows that research studies on ethnic revival tend to focus on a specific region. The ethnic revival discussed only concerns the manifestations or consequences of ethnic revival (e.g., online activism, cultural revitalization, political mobilization). However, various factors contribute to ethnic revival, such as historical power imbalances, state influence, cultural assimilation, and marginalization. However, there is a significant lack of research examining ethnic revival in Southeast Asia, which has a unique history of colonialism, nation-building, and ethnic diversity. Although various ethnic groups have been studied in previous literature, there may be under-researched or marginalized ethnic groups in Southeast Asia whose revival experiences have not been documented.

On the other hand, while Rawls' theory of justice has been extensively discussed in political philosophy, its direct application to the phenomenon of ethnic revival, especially in the diverse context of Southeast Asia, is limited. Therefore, this research, which includes 11 countries in the Southeast Asian region, can contribute to filling the gap in previous research and offers the potential for a richer analysis of the causes of ethnic revival.

Research Method

The research applies qualitative methods and is based on several case studies with certain commonalities and differences. The multi-case study is chosen because it may show how the relevant phenomena change or remain unchanged in different contexts, settings, or circumstances, enhancing the validity and generalizability of the findings (Baxter & Jack 2015; Yin, 2009). In research on ethnic conflict, multiple-case study methods are barely available. Therefore, protocols are developed under RQ requirements. As explained by Creswell (2013), the multi-case study used in this research explores multiple real-life cases over time through detailed and in-depth data collection involving multiple sources of information. The primary data sources used in this research are text sources obtained from books, journal articles, and documents. The process of collecting text sources has been carried out by modifying several steps proposed by Schutt (2018) and Taylor et al. (2016).

First, collect literature and select cases related to ethnic conflicts in Southeast Asia. According to Yin (2009), identifying the specific cases and types must be implemented. This research selects cases of ethnic revival in 11 Southeast Asian countries and limits it to cases involving ethnic groups against the central government (dominated by certain ethnic groups). There is no periodical limit for cases, and if the case is related to ethnic revival in the Southeast

Asian region, then the case can be included in the analysis. Second, organizing and condensing data from literature searches. Previous publications studying ethnic conflicts were selected and arranged based on Southeast Asian countries' classification. Third, the literature was reviewed and described in thematic description to obtain information about how ethnic conflict occurs and what triggers it. Fourth, carrying out data analysis using the concept of ethnic revival (Smith 1981) to produce an ethnic revival process scheme and answer Research Question 1 (RQ1) - What causes the ethnic revival? and Research Question (RQ2) - How does the process of ethnic revival occur?, and integrating theory of justice (Rawls 1971) to answer Research Question 3 (RQ3) - How does Rawls's theory of justice apply in minimizing ethnic revival.

Thematic Description

Countries in the Southeast Asian region have similarities, consisting of multi-ethnic and multi-religious societies, and have a record of ethnic conflicts, some of which are more serious than others. Based on a literature review, this chapter explains cases of ethnic revival in 11 Southeast Asian countries in a brief thematic description.

Moro's Struggle in Philippine

The armed resistance of the Muslim Moro tribe in the Southern Philippines against the Philippine government began in 1565 under Spanish colonial rule and remains unresolved. The background is that the state has not fulfilled the demands for political autonomy, development, socio-economic, social justice, and religious right for the Moro tribe (Buendia 2005). Montiel et al. (2012) explain that the Moro people experienced marginalization and discrimination, which caused them to establish the Moro National Liberation Front (MNLF) in 1972 and aspire to establish the Bangsamoro Republik. Other armed groups also formed, including the Moro Islamic Liberation Front (MILF), formed in 1977 as the largest armed group in Mindanao. The New People's Army (NPA) of 1969 was the armed wing of the Communist Party of the Philippines..

The Bangsamoro Islamic Freedom Fighters (BIFF) emerged in 2008 and is known as the MILF Splinter Group, which wants independence and rejects autonomous government. BIFF also has another faction, the Abu Turaifie Faction (Cook & Collier, 2006; Imbong, 2018; Niksih, 2007). The movement currently recognized internationally is The Abu Sayyaf Group (ASG), a splinter group from the MNLF and labeled as one of Southeast Asia's most violent extremist groups. This organization also has massively expanded networks with violent foreign extremists (Hutchison, 2009; Iacovou, 2000; Schuck, 2021; Singh, 2018).

Myanmar's Ceasefire Groups

Myanmar is also a country with a history of ethnic conflict since 1948 (South, 2008). The Myanmar government has been unable to address the complaints of ethnic minorities

struggling to form a national identity that reflects their ethnic diversity. The state gives Burmese privileges as the majority. In 2011, Myanmar's political system recognized ethnic diversity. However, the facts show that the majority still get more rights (International Crisis Group, 2020). The grievances of minority groups in Myanmar are the longest-running armed conflict in the world, where militarization and insecurity are growing. The exclusivity of the ethnic majority causes minority groups to develop several ethno-nationalist movements. A total of 40 ceasefire groups in Myanmar have been registered (Buchanan, 2016; Kyed & Gravers, 2014). Shan state, for example, has ethnically based armed groups, each of which fights to defend their communal rights. Another movement is the Karen National Union, which demands greater autonomy for its community (Core, 2009; Jolliffe, 2016).

Myanmar's most challenging ethnic conflict is between the Muslim Rohingya and the Myanmar government. Since 2018, the war has occurred in Myanmar's western Rakhine state. The Rohingya experienced an ethnic cleansing by the Burmese Myanmar military (Anwary, 2020; Laoutides, 2021; Selth, 2018). This conflict was determined by inequality in politics and religion experienced by Rohingya, which was listed as a crime against humanity. They complained about the failure of electoral democracy to provide representation for ethnic minorities. Juliano et al. (2019) also explained that the Rohingya Muslim minorities were evicted from their homes by the Burmese military. Since 2015, the number of Rohingya refugees has increased to 700,000 by October 2015. Meanwhile, the UN ASEAN has been unable to overcome this crisis.

Insurgency in Indonesia

Furnivall (2014) finds that Indonesians lived alongside other ethnic groups but did not unite. The existence of various ethnic groups has resulted in a high intensity of conflict. Therefore, a pluralistic society needs help to achieve its collective will. It turns out that Furnivall's concept of dividing a plural society is still valid in Indonesia today. The presence of various ethnic groups in Indonesia results in high conflict intensity. Researchers have focused on conflicts between Christians and Muslims in Indonesia since 1998. Disputes between the two religions occurred in various areas, including North Maluku, between 1999 and 2002 (Rahman, 2004; Trijono, 2001). Then, the Poso conflict occurred in Sulawesi from 1998 to 2001 (Ecip, 2002; Purwanto, 2007).

The anti-ethnic Chinese movement that occurred at the end of the Suharto government in 1998 led to increased criminal acts against ethnic Chinese. In the Solo-Central Java area, anti-Chinese violence occurred from 13 to 15 May 1998, caused by racial issues, ethnic differences, and social and economic inequalities (Nurhadiantomo, 2004; Pattiradjawane, 2000). How could it not be, considering that ethnic Chinese people are a minority but can still hold the title of "market-dominant minorities." Chinese Indonesians made up just 3% of the population in 1988. Nevertheless, they could maintain influence over Indonesia's top companies and almost 70% of its private economy (Chua, 2004).

Later, Indonesia faced a three-armed movement. First, the Free Papua Movement (OPM), founded in 1965, desires independence from Indonesia because of economic issues

and disappointment with the central government (Bhakti, 2005). Second is the Republic of South Maluku (RMS) movement, founded in 1950 because the Dutch were deemed to have illegally transferred the Maluku Islands to Indonesia. It turned out that the people of Maluku were still living in poverty while Indonesia was considered to be exploiting its natural resources (van Klinken, 2001). Third is the Free Aceh Movement (GAM), which aims to separate itself/secede from Indonesia. Minority discrimination, centralized government dominated by ethnic Javanese, exploitation of natural resources, and unequal welfare distribution caused the emergence of the three free movements (Nurhasim, 2008; Sari et al. 2019, 2022; Sari & Khalid 2024).

Pattani Movement in Thailand

The best-known ethnic conflict in Thailand is the Pattani movement. Historically, this dispute has its roots in the 18th century. Islam and the Malay language form the ethnic identity of the Pattani people, differentiating them from the majority of the Thai population, who are predominantly Buddhist. Srisompob and Panyasak (2006) explained that Pattani has existed since the early 20th century and was under strict administrative control under the Bangkok government. Since 1962, local Muslim actors have been in conflict with the central government in Bangkok because the Kingdom of Siam was known to want to annex the independence of the Sultanate of Pattani.

The ancient kingdom of Siam, under the rule of Marshal Pribun Songkram (1938-1944 and 1948-1957), implemented a nation-building policy by making Thai culture the primary cultural identity, and Buddhism became the national religion (Aphornsuvan, 2007). The symbol of the creation of nationalism began with changing the country's name from Siam to Thailand in 1939. Subsequently, Thai was made the only language that had to be used in educational institutions. The impact was the emergence of the first separatist groups in the 1940s and increased violence in the 1960s and 1970s. There were 468 violent incidents recorded between 1993 and 2000. The conflict reached its climax in 2004 in Narathiwat and Yala provinces, leading to more than 2400 deaths and 4,000 injured people (Melvin, 2007).

East Timor Tension

The ethnic conflict in East Timor has a unique historical background. Since Indonesia invaded in 1975, East Timor has become the 27th province in Indonesia. Under President Soekarno's regime, Indonesia's ideological foundation was based on Pancasila and a centralized government under Javanese rule. The people of East Timor disagree with the Indonesian government's forced unification of identity. This rejection occurred because East Timor felt it had a distinct identity and a different experience of colonialism from Indonesia (Narayan, 2000; Tsuchiya, 2021).

At the same time, the Indonesian military attempted to destroy the Revolutionary Front for an Independent East Timor (Fretilin) and integrate East Timor into Indonesia. Crimes against humanity and genocide occurred after Indonesia invaded and occupied East Timor in

1975. According to Scambary and Wassel (2018), around 100,000 people died during the occupation in Indonesia. Some of them suffer from malnutrition and contract various diseases. Disembowelment, beheading, and cannibalism are among the crimes committed against humanity. President Soeharto's regime brought people from other islands to East Timor to assimilate and erase the original culture, language, and religion.

Fretolin used the fall of the Suharto regime in 1989 to launch independence demonstrations. As a result, many demonstrators were arrested and imprisoned, including the Fretolin leader in 1992 (Arthur, 2018). East Timor is reported to be one of the regions with the worst cases of genocide in Indonesia. Therefore, international pressure and Indonesia's movement towards reform and democracy in 1999 led the UN to sponsor a referendum agreement between Indonesia and Portugal. Ultimately, the international world recognized East Timor's independence in 2002.

Racial Riot in Singapore

One of the critical experiences of ethnic integration in Singapore was marked by the racial riots in 1964. Cheng (2001) states that the dispute between the national identity and ethnic identity in Malaysia and Singapore caused Singapore's worst history. In this incident, at least 22 people were killed and 454 were injured. From this riot, it is also known that clashes between Chinese and Malays caused Singapore's independence. When Japan was defeated in World War II, Britain returned to Singapore and granted special autonomy to Singapore and Malaysia. Lee Kuan Yew, who was elected Prime Minister in 1959, chose to join Malaysia in 1963 (Clutterbuck, 1985; Suryadinata, 2015).

In Singapore, the ethnic Chinese are the majority, dominating the economy; in contrast, the Malay community is a minority (Liu et al., 2002). Several issues related to the country's separation finally surfaced in 1965. Failure to integrate racial identity and dissonance between the treatment of Malays and clashes with Chinese groups caused Singapore to leave Malaysia on 9 August 1965 to become an independent country (Goh, 2008; Narayan, 2000; Vasil, 1995).

Multiracialism remains deeply embedded in Singaporean society and is essential in everyday life (Huat, 2003; Rocha, 2011). Prejudice against ethnic groups still grows, especially among the Malay minority community. The formulation of the national ideology emphasizes the core values of Confucian morality, which is often associated with Chinese cultural chauvinism. This policy threatens the success of the People's Action Party (PAP) in creating a modern, secular, and multiracial society (Suryadinata, 2015).

However, the Malay minority in Singapore feared they would be relegated to the lower classes, and in response, they formed the Muslim Professionals Association. Therefore, the Singapore government continues to seek approaches to improve ethnic cohesion. 'One of them is to approve the 'Preservation of Religious Harmony Bill' to avoid political subversion or social unrest.

The Indigenous, Religion, and Ethnic Relation in Malaysia

The Malay tribe, as an indigenous tribe in Malaysia, has existed since the Malacca Sultanate, dating back to the 17th century. The main ethnicities in Malaysia are Malay, Chinese, and Indian. Malaysia recognizes Malay as the national language. Together with nationalism, Islam is an essential element in Malaysian cultural identity (Hooker, 2003; Saad, 1983). However, various contradictions over Malay Muslim domination have given rise to religious and ethnic tensions in Malaysia (Kumar, 2012).

Politically, Malaysia is ruled by a coalition of political parties representing different ethnic communities. The United Malays National Organization (UMNO) is the party that dominates the government, while the Malaysian Chinese Association (MCA) represents the ethnic Chinese community. Furthermore, the Malaysian Indian Congress (MIC) represented the Indian community, and the three formed a coalition of parties called the Barisan Nasional (BN). On the other hand, the opposition parties considered are the Malaysian People's Movement Party, the Democratic Action Party (DAP), and the People's Progressive Party (PPP) (The Asia Foundation, 2017).

Although Malaysian ethnic relations appear neutral and peaceful initially, they are very competitive. When ethnic Chinese DAP supporters won the election and challenged the UMNO party's hegemony, rioting broke out on May 13, 1969. To celebrate their win, thousands of ethnic Chinese marched through Kuala Lumpur on brooms. The Malay people were incensed by this behavior because they thought the Chinese wanted to eradicate the Malay ethnic group. At least 196 people lost their lives during Kuala Lumpur's five-day riots (Singh, 2001; Soong, 2007). Another tension arose in 1969 when Malaysian Deputy Prime Minister Tun Abdul Razak' explained that Malaysian culture should be based on indigenous Malay culture (Teh, 1983).

In another case, the First Malaysian Cultural Congress in 1971 issued a resolution stating that Malaysia's national culture would be based on Indigenous Malay culture, but the non-Malay community rejected it. Cultural intolerance was shown when the lion dance drew criticism from several Malay leaders who sought to change the lion symbol to a tiger. However, this was rejected by ethnic Chinese (Suryadinata, 2015). Case (1994) found that in 1987, UMNO split into the Mahatir and Razaleigh camps. Both of them competed for the support of the Malay ethnic group by competing to get the support from the Chinese tycoons. The Malay political elites and the Chinese capital elites were interdependent within the equal class, but the results differed according to social class, which cut across ethnic groups (Osman, 1989).

Moreover, tensions between Chinese and Malaysian are considered normal. Although they are a minority, ethnic Chinese constitute the majority regarding economic power. Ethnic Chinese enjoyed many years of economic prosperity due to British policies during the colonial era. They control the financial supply chain in Malaysia (Liu et al. 2002). Therefore, as a traditional community, ethnic Malays have the right to protect their land, rights, and nation as children of the land. As discussed by Chua (2004), this phenomenon is referred to as a

'market-dominant minority,' where China, as a minority group, holds significant control over the economies of several countries.

Right Abuses of Khmer Krom in Vietnam

The Khmer Krom are the fourth-largest ethnic minority in Vietnam, concentrated in the region south of the Mekong River. They are indigenous people who have lived in the Mekong Delta for a long time before the arrival of the Vietnamese (McHale, 2013). They speak Khmer, follow Theravada Buddhism, worship ancestral spirits, and observe ceremonies, customs, and art. Their culture is unique but heavily influenced by the Vietnamese government's development policies (Taylor, 2014b).

The Khmer people of the Mekong Delta were displaced and lost their land during the 20th century. Economic development in the mining and industrial sectors has reduced the welfare of the marginalized Khmer community. The ethnic Khmers, especially farmers, have been displaced, affecting their livelihoods. As a result, they protested, demanding the return of their ancestral land. In response, the Vietnamese government stated that the Khmer Krom community was not recognized as indigenous, meaning their property would not be returned to them. It is also known that promised compensation was never paid (Doan, 2017; Taylor, 2014a).

Ethnic antagonism has existed since the 18th century and has made a long-term contribution to today's rivalries and conflicts. Restrictions on freedom of religion, language, and education led to a public protest by more than 200 monks on February 8, 2007, which was carried out peacefully. However, the Vietnamese government prohibited and restricted the formation of human rights associations and instead arrested and fired 20 monks and imprisoned five monks. Human Right Watch (2009) notes that the Vietnamese government opposed dissent, freedom of expression, assembly, association, and movement for the Khmer Krom. Restrictions caused the Khmer Krom to go to Cambodia to seek political asylum. Crossing Cambodia was an option because the Cambodian government was more tolerant of the Khmer Krom and gave them access to housing, work, and study.

However, the Cambodian government states that ethnic Khmer citizens in Cambodia must fully comply with the Cambodian constitution. On the other hand, Cambodian authorities often reacted harshly when the Khmer Krom are too critical of Vietnam. This reaction is caused by Vietnam's close relationship with the Cambodian government.

Racial Stereotype of Vietnamese in Cambodia

Cambodian Khmer is the ethnic majority in Cambodia and have a strong sense of nationalism. French colonialism increased Vietnamese immigration to Cambodia, resulting in racial rivalry due to French favoritism towards Vietnamese people. Vietnam was considered more competent in accepting Westernization, which made it easier for France to dominate the role of government and business. Fear and hatred of ethnic Vietnamese have historically been deep-rooted and have become a form of verbal discrimination passed down from generation

to generation. The history of racial stereotypes against Vietnamese people is caused by historical narratives circulating in Cambodian society. It is said that the king of Cambodia was once tricked into marrying a Vietnamese princess; therefore, the Vietnamese could access trade and temporary settlement. The implication was that Cambodia was deceived and lost Khmer territory and culture (Chandler, 2000).

Another history is described by Hinton (2005) about Vietnamese people who allegedly buried the body of a Khmer maid up to the neck. They put wood stoves on Khmer butlers to boil tea for the Vietnamese people. This story has been passed down from generation to generation, depicting Vietnam as an ethnically cruel, manipulative, and encroaching Khmer nation. The sentiment was evident under the Pol Pot regime, which seized power from the Khmer Rouge in 1975. As a result, approximately 150,000 Vietnamese minorities were killed in repression and genocide (Chan, 2004; M. A. Miller, 2011; Neupert & Prum, 2005; Zimmer et al., 2006). Lewis (2015) also explained that history shapes a country's ideological beliefs through the Khmer Rouge regime. Pol Pot expanded racial hatred and determined people's social status based on ethnicity. Pol Pot differentiated between 'us' (Khmer-Cambodia) and 'the enemy' (Vietnam) to mobilize Khmer Rouge sympathizers to discriminate and destroy Vietnam.

The Stateless 'China' in Brunei

Ethnic Malays are the indigenous population and dominate Brunei. They are divided into seven subethnicities: Brunei Malay, Kadian, Tutong, Belait, Bisaya, Murut, and Sama Baian. The majority religion is Islam (Fanselow, 2014). Meanwhile, the Chinese community was the largest non-indigenous group to migrate to Brunei during the British protectorate, namely 10.3% of the total population (Ho, 2021; King, 2001; Ullah & Kumpoh, 2019).

The Brunei authorities grant special privileges to the native Malay population, such as access to higher education, employment opportunities, and civil services. The government also generously provides land and houses to the poor Malay community through the 'Jati People's Land Resettlement Program.' However, the Chinese-Bruneian community does not benefit from this policy. Up to 90% of them do not hold full citizenship, despite being third-generation descendants born in Brunei (Loo, 2009). They lack access to health and housing services. The annual quota for accepting Chinese Bruneians as citizens is minimal. Moreover, many applicants do not pass the Malay language competency test. In 2005, the government regulated Chinese New Year celebrations in Brunei, with traditional dances restricted to certain times, days, and places. Restrictions were also imposed on public Christmas celebrations. As required by the Brunei National Law of 1961, Brunei authorities instructed the commercial sector to remove Christmas decorations. Due to their decision to integrate or flee, there are fewer ethnic Chinese today than there were fifty years ago (Sinaga, 2022).

Hmong Minorities in Laos

About 49 ethnic groups are found in Laos. The Lao ethnic group makes up about 55%, the Khmu 11%, the Hmong 8%, the Vietnamese 2%, and other smaller ethnic groups comprise 26%. The term 'indigenous people' is not commonly used in Laos, and instead, the term 'ethnic minority' is often used to refer to non-Lao ethnic groups. The Lao ethnic group, often referred to as Lao Loum, holds a dominant cultural and political position among other major ethnic groups (Schlemmer, 2017). In the past, they were used as resistance groups against communism and were armed by the United States during the Vietnam War.

Following the fall of Laos to communist rule in 1974, an estimated 350,000 Hmong fled to Thailand, and 130,000 immigrated to the US. As a result, the Hmong are now considered second-class citizens in Laos. The government prohibited them from establishing independent religious, political, and labor organizations and restricted their rights to freedom of expression (Lum, 2010).

The online media ASEAN Today wrote that Laos' military operations were against the Hmong ethnic community on April 9, 2021. The government is tightening control over development and investment target areas. Lao military forces have repeatedly attacked Hmong residents living around Mount Show Bia in Xaysomboun province, north of Vientiane. This coincided with the development of Mount Phou Bia as an attractive tourist destination for foreign investment, economic integration, mining, logging, and hydroelectric power generation. Therefore, 20,000 Hmong lived hidden in the forests, suffered social discrimination, and were subjected to policies that led to their extinction (Lao Movement for Human Rights, 2005).

Analysis

Caused and Process of The Ethnic Revival

A thematic description of ethnic revival in 11 countries in Southeast Asia can answer RQ1 and RQ2. Conflict cases in Southeast Asian countries share two similarities. First, each country has a history of disharmonious ethnic relations that has persisted for many years. History refer to past conflict events that have not been resolved or passed down through generations. History can also be in the form of experiences, origins, or identities of each ethnic group, which differ from one another. Certain ethnicities usually dominate the country and tend to make policies that support their ethnic group. The way to do this is to consolidate the ethno-nationalist framework and convert it into national loyalty. For reasons of nationalism, ethnic identities are tried to be eliminated by making them national identities. This is undoubtedly ineffective, considering that each ethnic group in a country has its identity and uniqueness that must be respected. Therefore, ethnic identity becomes the driving force for ethnic revival. Figure 1 visualize the ethnic revival within the Southeast Asia region.

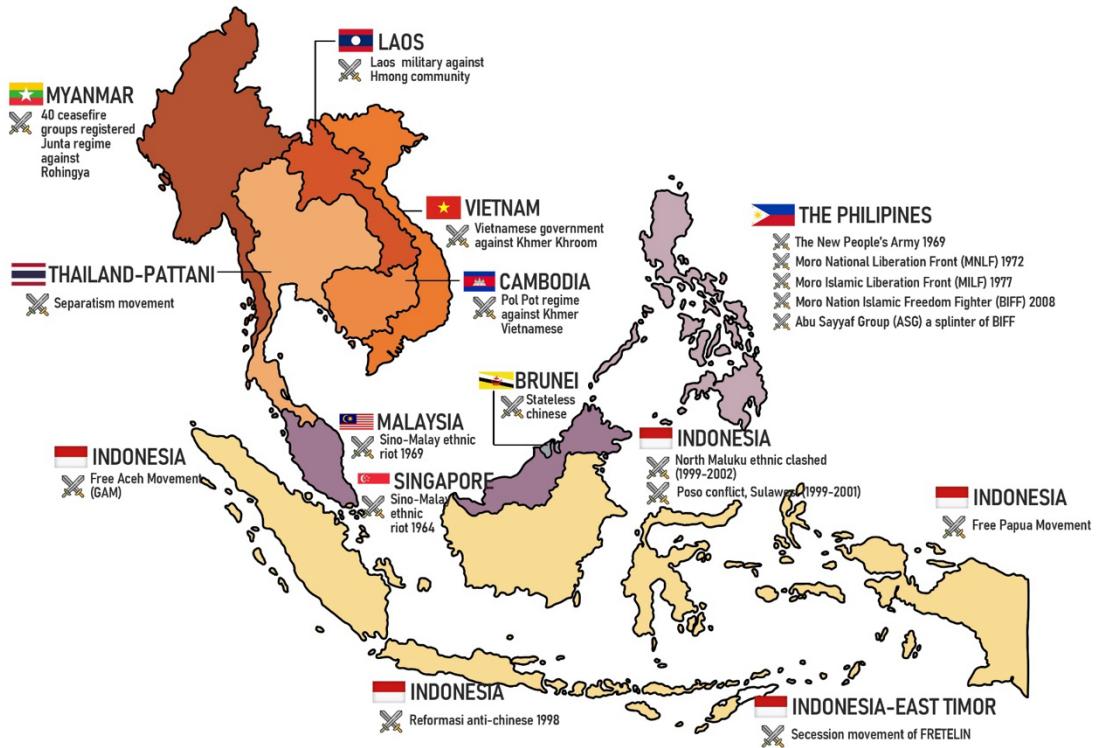


Figure 1. Visual Map of Ethnic Revival in Southeast Asia

RQ1 has been answered – one of the leading causes of ethnic revival is injustice carried out by the state (usually dominated by certain ethnicities). The injustice experienced by subordinate ethnic groups includes exploitation, discrimination, marginalization, an autocratic system, domination, centralized government, racial stereotypes, and rights abuses. The history of disharmonious ethnic relations due to injustice has been passed down from generation to generation, forming an ethnic revival that has never been resolved. This situation shows that the main political driver of ethnic revival is state-driven injustice. Politically, this often manifests itself in policies that favor the dominant ethnic group, leading to the marginalization and discrimination of minority groups.

Historical injustices, both recent and long-standing, serve as powerful political rallying points for ethnic revival movements. These grievances are not simply historical; they are actively politicized and used to mobilize support. For example, in Cambodia, the history of racial stereotypes due to inherited verbal discrimination is a common experience among ethnic Vietnamese (Chandler, 2000). Furthermore, the Hmong ethnic minority was hostile because of their history of involvement in the Vietnam War (Lum, 2010). Moreover, Aceh, East Timor, and Papua rebelled because they believed their histories differed from those of other ethnic groups in Indonesia. The history of injustice in Aceh, East Timor, and Papua, which has been part of Indonesia, has also shaped its collective memory, passed down from generation to generation (Bhakti, 2005; Sari et al., 2023; Scambary & Wassel, 2018). The history of Muslim

resistance in the Philippines dates back to 1965, whereas in Thailand, in the twentieth century (Aphornsuvan, 2007; Buendia, 2005).

The second similarity is that every ethnic revival found in Southeast Asia uses ethnic identity as the driving force behind its movement. Ethnic identity has become an important tool for political mobilization. Movements strategically use religious, customary, or other identity markers to unite and mobilize their constituents. Identity politics involves framing political issues regarding ethnic group interests, which can lead to internal cohesion and external conflict. The ethnic identity used can consist of various combinations. Ethnic movements in Moro Mindanao, Aceh, Pattani-Thai, and Malaysia use religious identity.

Furthermore, the indigenous issue is raised by the ethnic movements of Myanmar, Malays-Singapore, and Khmer Krom-Vietnam. Meanwhile, a combination of other identities, such as differences in physical characteristics, language, and place of origin, is used by the stateless Chinese in Brunei, the Hmong Minority in Laos movements, RMS, OPM, and Vietnamese in Cambodia. "Consolidating an ethno-nationalist framework" involves the state's attempt to impose a single national identity, often at the expense of multiple ethnic identities. This is an inherently political act involving the state's power to shape national identity. Attempts to erase ethnic identities through nationalization policies create a political backlash, as they deny minority groups political recognition and representation.

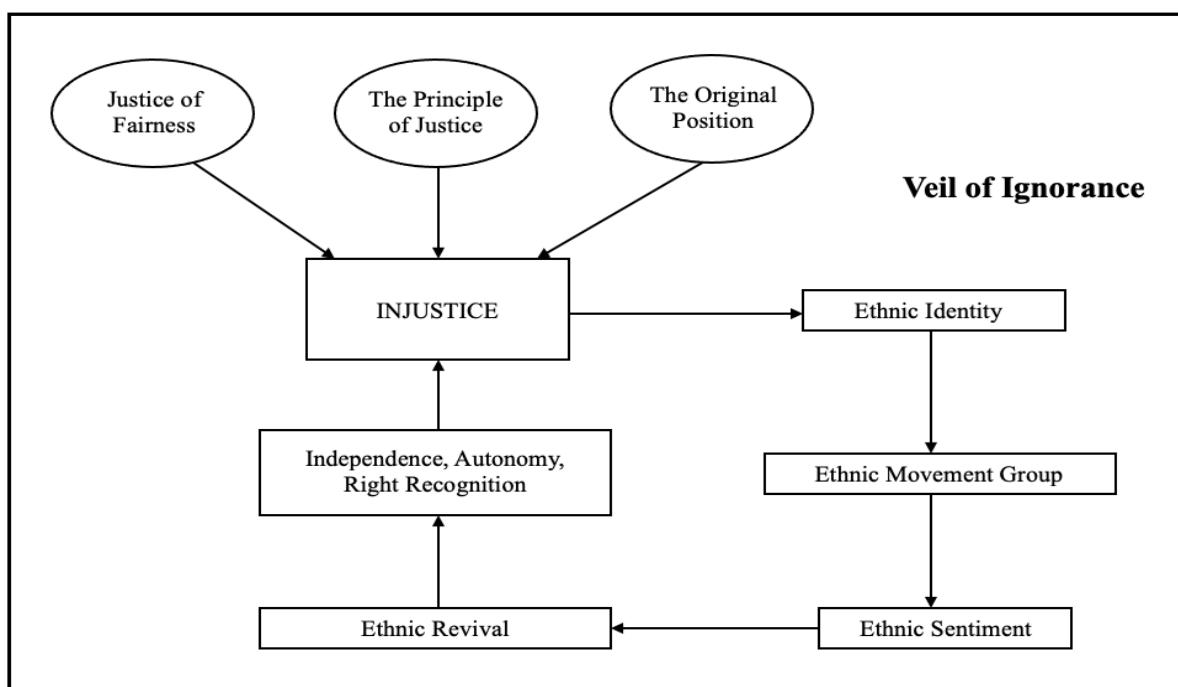


Figure 2. Scheme of Ethnic Revival

Figure 2 shows the process of ethnic revival and provides an answer to RQ2. When marginalized, exploited, or subjected to other injustice, subordinate ethnic groups often seek protection for their ethnic identity. Ethnic identity includes religion, social class, skin color, language, history, and other aspects. This identity clarifies who is "us" and who is "other."

Thus, creating ethnic sentiment and ethnic revival. Ethnic revival movements often pursue political goals, such as autonomy, self-determination, or increased representation in government. These movements challenge existing political power structures and demand a redistribution of power and resources. The quest to recognize minority rights is a direct political challenge to the existing political framework. The state can apply the three concepts of justice outlined by Rawls (1971) to inhibit or even prevent ethnic revival.

Rawls's Justice Theory in Minimizing the Ethnic Revival

The state plays an essential role in the distribution of justice, as Rawls (1971) discusses in his Theory of Justice. The theory is the preeminent treatise on contemporary political philosophy and an essential reference for studies in social philosophy (Sari, 2020). Rawls explained three essential concepts: justice as fairness, principles of justice, and the original position through the veil of ignorance. Three of Rawls's concepts of justice can be used as an analytical tool to study ethnic conflicts. Rawls's concerns are expressed in essential questions about privilege, social status, and justice. One of the key questions asks what kind of justice system people would prefer if they were to lose their privileges and social status. For this reason, Rawls formulated the concept of justice as fairness. For him, society is the main subject of justice and has a basic structure comprising all social, political, legal, and economic institutions (Edor, 2020; Fanton, 2020).

Society can only accept social justice if the state provides its people with a fair system and individual freedom. Justice as fairness is the first concept that explains how the state is expected to regulate competition between ethnic groups by prioritizing a justice system. Fairness is defined as a competition arrangement based on strength groupings. Therefore, social cooperation is necessary in three forms: social cohesion, where the state must make policies that acceptable to various groups; the state guarantees the absence of group domination; and all elements must work together to achieve the greater good.

Ethnicity cannot be distinguished from social justice, a concept that has generated much debate worldwide. Unequal government treatment causes marginalized ethnic groups to be used as a means of ethnic mobilization (Varshney, 2002). Cases of injustice often arise from exploitation, neglect of minorities, autocratic systems, domination, centralized government, and corrupt societies. The difference in ethnic identity and injustice perpetuated by the government is a significant factor in ethnic revival. Table 1 shows the relationship between Rawls' justice theory and the cases of ethnic revival that occurred in Southeast Asian countries.

Table 1. Application of Rawls' justice theory on ethnic injustice in Southeast Asian countries

Concepts on Rawls's Theory of Justice		Injustice Experiences
Justice as Fairness	Competition arrangement based on strength groupings.	Southeast Asian countries are characterized by power groupings based on ethnic hierarchy. Injustice is carried out by dominant ethnic groups (which usually dominate/close to the government). Meanwhile, subordinate ethnic groups are marginalized in various aspects of life.
Fair Equality of Opportunity	Emphasis on equal rights and freedoms for all. Opportunities should be open to all, regardless of social background.	Subordinate ethnic groups frequently experience limitations on their liberties, including political, cultural, and religious freedoms. Limit opportunities for subordinate groups, hindering their social and economic mobility.
Difference Principle	Social and economic inequalities should benefit the least advantaged.	Southeast Asian countries exhibit significant inequalities, with subordinate ethnic groups often disproportionately disadvantaged. Exploitation and marginalization are common.
"Original Position" and "Veil of Ignorance"	Ideal scenario where which personal matters (including race, gender, class, education, physical characteristics, sexual orientation, career, family, and other factors) are behind a 'veil of ignorance.'	Historical and ongoing inequalities demonstrate a departure from this ideal. Dominant groups have historically shaped societies to their advantage. In many cases, the state is perceived as a source of injustice, favoring dominant ethnic groups and suppressing subordinate ethnic group rights.

The ethnic revival in Southeast Asia does not embrace social cooperation or competition arrangements. It is suggested that the violence resulted from growing power disparities between various ethnic groups. For example, most Chinese in Brunei are stateless because many applicants fail Malay language proficiency tests. Justice as fairness in this case is contradicted by the difficulties faced by ethnic Chinese individuals in achieving high standards of Malay language competency. In Indonesia, the anti-Chinese movement stems from economic hostility, as ethnic Chinese have become a minority that dominates the market. In a different situation, Khmer Krom people are treated as second-class citizens by the Vietnamese government, which limits their freedom of speech. Therefore, they are ethnically backward in many ways. It is possible to analyze this example of ethnic revival to show that social justice was not realized because the state failed to deliver justice as fairness.

Certain ethnic groups in Southeast Asian countries are given special privileges by the state, giving rise to ethnic disparities that trigger conflict. Therefore, to achieve a just society, Rawls (1971) proposes a second idea known as the principle of justice. The idea is based on the principle of fair equality of opportunity and the difference principle. The state must control the provision of equal opportunities for each ethnic group to obtain their fundamental rights within the principle of fair equality of opportunity. In other words, the state must apply the difference principle when it finds social and economic disparities. The way to do this is by

managing these differences to provide more significant benefits to less fortunate communities. However, the state is unable to implement these two principles.

The state's failure to implement these two principles is a contributing factor to ethnic revival. A ceasefire group is formed in Myanmar because the government supports the dominant ethnic group. Another example is how the Philippine government marginalized the Moro community. When the government fails to provide fair equality of opportunity, the realization of equal liberty in society will be hampered. Similar events also occur in Indonesia, Malaysia, Singapore, Cambodia, and Laos during ethnic revivals. Other examples are the Pattani movement in Thailand, armed Muslim resistance by the Moro community in the Philippines, and tensions in East Timor.

State-driven injustice, where the dominant ethnic group makes policies that marginalize the subordinate ethnic group, directly contradicts Rawl's principles. It violates the principle of fair equality of opportunity and the difference principle. The exploitation, discrimination, and marginalization of subordinate ethnic groups demonstrate an apparent failure to ensure fair equality of opportunity and to organize social and economic inequalities to benefit the least advantaged. The persistence of historical grievances passed down through generations demonstrates a failure to build a just and stable society. Rawls emphasizes the importance of a well-ordered society in which the principles of justice are upheld. The fact that historical injustices are not redressed means that the basic structure of society is inherently unjust, and thus, the stability of that society is questionable. Ethnic revival movements are attempts to redress injustices and demand adherence to Rawls's principles. The quest for autonomy, recognition of minority rights, and justice reflect a desire for fundamental equal freedoms and fair treatment. In this way, these movements aim to bring the societies in which they exist more in line with Rawls's ideals.

The original position is the third concept that explains how to achieve justice. Rawls explains that the original position is a hypothetical situation in which personal matters (including race, gender, class, education, physical characteristics, sexual orientation, career, family, and other factors) are behind a veil of ignorance (De Coninck & Van De Putte, 2023; Jackson, 2005; von Platz, 2017). By wearing the veil of ignorance, a person will not know anything about themselves – their abilities, physical condition, and societal position. People's general beliefs about justice and injustice are based on personal experiences. Therefore, the veil of ignorance significantly impacts producing a just society. According to Rawls (1971), applying the three concepts of justice can help the government decide that the rules of society must be structured relatively.

However, the reality of ethnic conflicts in Southeast Asian countries shows that the ideals of the original position have not been fulfilled. That is, the people who built the basic structure of this society did not do so from behind the veil of ignorance. They do not create a system that is fair to everyone, but rather a system that benefits their group. If the state and its apparatus wear a veil of ignorance, they can ignore personal matters. The veil of ignorance will help the state avoid biased views from ethnic majorities or minorities, indigenous or non-indigenous, dominant or subordinate. Rawls understands that the veil of ignorance is a tool

that enables a person to think clearly and protects them from knowing specific things that they can use to support members of society. Therefore, the resulting policies can be realized in a series of fair and objective settings for everyone (Huang et al., 2019; von Platz, 2017).

To answer RQ3, the three concepts of justice can be used to minimize ethnic revival. The state is responsible for implementing a fair system in a multi-ethnic society. All institutions (social, political, legal, and economic) have their respective functions to distribute social burdens and benefits to individuals. Everyone involved must be free, rational, and equal. For example, economic institutions must distribute welfare to the community. Legal institutions distribute protection and guarantee rights and freedoms for individuals. Socio-political institutions will distribute power to individuals.

The distribution of social burdens and benefits must be carried out with the principle of justice. The goal is for individuals from diverse backgrounds and social conditions to have access to their fundamental rights, which ultimately lead to social justice conditions (Sari, 2020). Furthermore, the state must regulate the principle of fair equality of opportunity and the difference principle to provide justice for disadvantaged ethnic groups. The assumption is that the state will succeed if it adopts an original position and employs the veil of ignorance to create just policies.

Conclusions

A multi-case analysis of ethnic revival cases in 11 countries in the Southeast Asia region reveals a consistent pattern: historical and ongoing injustices experienced by marginalized ethnic groups are the primary drivers of these movements. These injustices, often perpetuated by dominant state actors, fuel ethnic sentiments and mobilize ethnic identity, creating a cycle of "we" versus "them" that culminates in ethnic revival. The research highlights the deep-seated impact of state-driven disparities on intergroup relations.

Furthermore, applying Rawlsian principles of justice highlights the state's critical role in mitigating ethnic conflict. By failing to uphold justice as fairness, principles of justice, and original position through the veil of ignorance, governments inadvertently contribute to the conditions that foster ethnic revival. Conversely, a commitment to these principles can provide a framework for creating equitable policies that address the root causes of ethnic grievances and promote social harmony. Ultimately, the research suggests that a just and inclusive state is essential for preventing the resurgence of ethnic tensions and fostering lasting peace in the Southeast Asian region.

Overall, the research is unique and novel. Discussing ethnic revival in 11 diverse Southeast Asian countries allows for identifying similarities and variations in the phenomenon across different political and social landscapes. It also shows how ethnic identity serves as a driver of ethnic revival movements. It explains how marginalized ethnic groups use their shared identity to challenge dominant groups, often leading to conflict. This analysis contributes to a deeper understanding of the dynamics of identity politics in ethnic revival.

A significant novelty is a direct link between ethnic revival and the state's failure to uphold principles of justice. This framework offers a theoretical lens for understanding why certain countries are more susceptible to ethnic revival movements than others. It argues that state policies that perpetuate injustice and discrimination against certain ethnic groups directly contribute to the likelihood of ethnic revival.

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Reimagining Cross-Border Cooperation From Indonesia-Malaysia Experiences: A Thematic Literature Review

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Abstract

The research aimed to explore the scientific discourse of cross-border cooperation in Southeast Asia, particularly on the Indonesia-Malaysia border area. Through thematic literature review, this research collected and analyzed journal articles, books, book chapters, and doctoral dissertations. The literature review find the gaps in literatures on cross-border cooperation which focus more on physical connectivity on land border area with less attention to institutional and people-to-people dimensions. This research also shows that Indonesia-Malaysia and Southeast Asia in general pose a less-structured and informal form of cross-border cooperation, which is different with an institutionalized and formal form of cross-border cooperation posed by Euroregion. The literature review also synthesizes new insights to the existing cross-border cooperation understanding. These insights shows that cooperation can address various purposes in complement to socio-economic sector, can be expanded to include subnational, national, subregional level, and should adopt more inclusive goals by considering the interests of all parties involved and affected.

Keywords: connectivity, cross-border cooperation, Indonesia, Malaysia, thematic literature review

Introduction

Cross-border cooperation is defined as an institutionalized collaboration among multiple networks of public, private, and civil society actors across national borders on various socio-economic initiatives at local or subnational level (Perkmann, 2003; Scott, 2017; Usui, 2019). It is essential for border area development, as a case study in Europe showed that doubling the number of cross-border cooperation projects is correlated with a 2.3% increase in regional gross value added per capita in border regions (Basboga, 2020). Another research study shows that cross-border cooperation has fostered regional development and addressed common challenges in economic dynamism, job creation, and entrepreneurship in the border region (Chamusca, 2024).

Research on cross-border cooperation has been extensively conducted in various regions worldwide, including Europe, North America, Latin America, Africa, East Asia, and South Asia (Brunet-Jailly, 2022; Scott, 2017). Among these regions, Europe is a model for the development of institutionalized cross-border cooperation for others. Several reasons underpin this viewpoint. First cross-border cooperation has its origins in the economic core of continental Europe (Scott, 2017). Second, cross-border regions have flourished throughout Europe over the past 50 years (Brunet-Jailly, 2022). Third, cross-border cooperation has played an essential role in the regional integration of the European Union (Lina & Bedrule-Grigoruta, 2009). Fourth, European countries have developed the concept of Euroregion as a platform for cross-border cooperation (Jeřábek et al., 2018).

Meanwhile, research on cross-border cooperation in Southeast Asia remains limited compared to Europe. Some previous research studies compile and refer Southeast Asia with other regions to analyze cross-border cooperation. For instance, Wang and Wei (2022) explore the practice of cross-border cooperation between Southeast Asian countries and China within the framework of the Greater Mekong Subregion. Nadalutti (2022) compares cross-border cooperation in Europe and Southeast Asia as the building block of regionalism.

Another challenge for research studies on cross-border cooperation in Southeast Asia is that many researchers from the region publish their work in their respective national languages. Despite containing in-depth data and field-based analysis, these studies are dispersed in languages such as Malay (Awang et al., 2013; Sarjono, 2018) and Indonesian (Septaria, 2023; Yanti & Muawanah, 2020), limiting their accessibility for international readers.

The discourse on cross-border cooperation, which has been predominantly shaped by the experiences of European countries, tends to place excessive emphasis on institutionalization. This focus may lead to conceptual pitfalls in defining functional cross-border areas (Molak & Soukopová, 2022), or may encounter administrative inefficiencies (Fogarasi, 2025). Moreover, the institutional approach to cross-border cooperation often prioritizes formal mechanisms, overlooking the persistence of informal cross-border practices—particularly along the borders of developing countries in Southeast Asia. Therefore, the research argues that the conceptualization of cross-border cooperation may differ between Europe, which is largely composed of developed nations, and Southeast Asia,

which is predominantly made up of developing countries. In Europe, cross-border cooperation generally refers to formal, structured arrangements. In contrast, in Southeast Asia, such cooperation may remain relatively flexible, accommodating non-institutionalized initiatives and informal cross-border activities.

Among the 11 countries located in Southeast Asia, cross-border cooperation between Indonesia and Malaysia stands out as an intriguing topic of discussion. Firstly, Indonesia and Malaysia share both land and maritime borders. The land border is situated on Borneo/Kalimantan, while the maritime borders are located along the Malacca Strait, the Eastern Singapore Strait, the South China Sea, and the Sulawesi Sea. In contrast, other Southeast Asian countries generally share either land or maritime borders. Secondly, the length of the border between Indonesia and Malaysia is among the longest in Southeast Asia. The land border in Kalimantan spans approximately 2,004 kilometers. On the other hand, the maritime border encompasses the territorial sea, continental shelf, and exclusive economic zone, resulting from Indonesia's status as an archipelagic state and Malaysia's status as a coastal state under UNCLOS 1982 (BNPP RI, 2015). Thirdly, these two countries are among the founders of the Association of Southeast Asian Nations (ASEAN) and have initiated cross-border cooperation since 1967 through the Basic Arrangement on Border Crossing Agreement on Border Trade between the Government of the Republic of Indonesia and the Government of Malaysia, 1970). An in-depth thematic literature review on cross-border cooperation between Indonesia and Malaysia are expected to reveal the unique characteristics of cross-border cooperation specific to these two countries and Southeast Asia in general, distinguishing them from cross-border cooperation characteristics in other regions of the world.

Therefore, this research aims to review the literature on the practice of cross-border cooperation in Southeast Asia, particularly between Indonesia and Malaysia. Given the extensive land border and the complex maritime boundaries between the two countries, this research is expected to illustrate the dynamics and complexities of Indonesia-Malaysia cross-border cooperation, along with the progress and challenges. Furthermore, this research also offers policy recommendations based on the reflection of the findings.

Research Methods

The research uses thematic literature review as a method of data collection and analysis. A thematic literature review is a methodological approach to gather information about topics of interest in order to critique, analyze, and synthesize materials to provide a foundation for further inquiry of discipline-specific phenomena (Parse, 2023). In contrast to other review formats that may arrange literature based on chronology, a thematic review emphasizes identifying recurring themes or patterns within a body of work. These themes emerge through a thorough reading and synthesis of the literature, rather than being predetermined (Hecker & Kalpokas, n.d.).

From the broad range of existing literature, this research selects sources for the literature review based on several criteria. First, the literature must be related to the topic of cross-border cooperation between Indonesia and Malaysia. Second, the research only includes literature that has been formally published as journal articles, books, book chapters, proceedings, or doctoral theses. These types of publications are considered sources with established academic rigor. Consequently, other forms of publications such as website articles, unpublished reports, as well as master's and undergraduate theses are excluded from the selected literature. Third, the research prioritizes literature published within the last decade to ensure the engagement that it engages with current debates on cross-border cooperation. Meanwhile, older publications may be cited in sections other than the results, such as the introduction.

A thematic literature review involves several steps. First, relevant research themes are identified by reading the selected literature and noting recurring themes, concepts, or patterns that emerge. The literature is then categorized based on these themes, each representing a distinct aspect of the research topic to ensure a structured and coherent review. Subsequently, the literature is synthesized by comparing findings across studies, identifying gaps, and highlighting areas of consensus and controversy. Finally, a critical evaluation of the literature within each theme is conducted, assessing the methodological quality of the studies, the robustness of the findings, and their relevance to the overall topic.

Results and Discussions

The thematic literature review collects previous research published in journal articles, books or book chapters, and doctoral theses. These research studies are subsequently categorized into four themes.

Border Related Issues for Cross-Border Cooperation

ManyNumerous border-related issues arise from the dynamic of bilateral relations, including those between Indonesia and Malaysia. Most of the traced research on this topic discusses Indonesia-Malaysia relations in three main issues, namely border dispute (Druce & Baikoeni, 2016; Hamzah et al., 2014; Mons, 2022), migrant workers (Arisman & Jaya, 2021; Elias, 2013; Maksum, 2022), and cultural contestation (Clark, 2013; Mulyana & Yaputra, 2020; Ulyana, 2018).

Regarding the Indonesia-Malaysia border dispute, Mon (2022) highlights unresolved maritime boundaries between Malaysia and its neighboring countries, particularly with Indonesia on the eastern coast of Sabah and in the Celebes Sea. These unresolved boundaries include the vulnerability of the area to various security threats, such as piracy and kidnapping for ransom. The research also examines various cooperation mechanisms involving Malaysia and its neighboring countries to maintain maritime security, such as the Malacca Straits Patrol, Trilateral Maritime Patrol, and Trilateral Air Patrol. Mon's (2022) analysis implies the importance of cooperation with neighboring countries in maintaining maritime security. In another case, Druce & Baikoeni (2016) discuss the Ambalat block dispute in the Sulawesi Sea

between Indonesia and Malaysia, which escalated in 2005 when a naval standoff between the two sides threatened to use their military force. The research identifies several factors driving this escalation, including economic interests, media and nationalist sentiments, as well as provocative comments by politicians and lawmakers. The research also notes that cross-border cooperation, particularly through joint military exercises, has been initiated as part of a conflict management mechanism. The analysis underscores the importance of cross-border cooperation between countries in the security sector.

Regarding the issue of migrant workers, Maksum (2022) highlights the differences in the relationship patterns between the national and grassroots levels. At the national level, mainstream media often depict tensions in the relationship between the two countries. However, at the grassroots level, the relationship between Indonesian migrants and local Malaysians in Penang is harmonious and cohesive. The finding suggests that shared identity is a supportive factor for this harmonious grassroots-level relationship. Although Maksum (2022) does not specifically discuss cross-border cooperation, the factor of shared identity can also be considered as a determining factor in cross-border cooperation.

Meanwhile, Arisman & Jaya (2021) discuss various foreign policies related to migrant workers between Indonesia, as the sending country, and Malaysia, as the receiving country. Using a mixed-method approach, the research finds that the protection of Indonesian migrant workers in Malaysia is still weak, as indicated by the withholding of documents by employers and the denial of the right to leave. Moreover, the research recommends the need for policy improvements, but with a more unilateral dimension, rather than bilateral policies such as cross-border cooperation. Elias (2013) also discusses how disputes over the domestic workers' issue between Indonesia and Malaysia are understood in the context of foreign policy. The research can serve as a valuable reference, particularly regarding the mobility of migrant workers, which could potentially be facilitated by cross-border connectivity.

On the issue of cultural contestation, Clark (2013) extensively discusses the cultural claim regarding batik between the two countries. In this case, Indonesia excels in diplomacy to gain international recognition for its culture, but has little motivation to preserve and revitalize much of its cultural heritage. On the other hand, Malaysia is more successful in emphasizing the role of history and heritage in its national cultural narrative, justified by well-maintained batik galleries and museums. The research views Indonesia-Malaysia in the context of contestation rather than cooperation. Furthermore, Mulyana and Yaputra (2020) find that Indonesian media is exaggerating the cultural conflict issue and that it is only in the interest of the mass media to find exciting news to publish. In contrast, Ulyana (2018) focuses on cultural diplomacy to improve the occasionally strained relations between the two countries, including issues related to cultural heritage claims. The research evaluates cultural diplomacy programs conducted by both countries in the fields of education, the performing arts, and literature. The research finds that cultural diplomacy has helped improve relations between the two countries, indicated by an increase in the exchange of students, tourists, and performing arts among them.

The research highlights key issues in the bilateral relationship between Indonesia and Malaysia, including political security, migration, and cultural relations. These literatures also reveal a divergence in attitudes between central governments and local communities in addressing these issues. This difference in perspectives suggests a potential gap between governmental interests and the needs of local populations in dealing with border-related matters. This gap may contribute to the development of a context-specific approach to cross-border cooperation. Raharjo (2025) indicates that Indonesia and Malaysia, both classified as flawed democracies, tend to adopt a top-down approach, largely based on what central governments deem appropriate. In contrast, this approach differs from the model of cross-border cooperation in the European Union, where, over the past three decades, an open government approach has been implemented, grounded in the three principles of transparency, participation, and collaboration. This model involves the state in building and implementing cross-border cooperation through close interactions with actors from civil society, business, and academia (Beck, 2022).

Existing Frameworks of Cross-border Cooperation

Several scholars have discussed cross-border cooperation between Indonesia and Malaysia. For example, Karim (2015, 2019) analyzed the border between Indonesia's West Kalimantan and Malaysia's Sarawak within the frameworks of micro-regionalism and cross-border regionalism, respectively. Using a qualitative approach with interviews as a data collection method, the research finds that micro-regionalism between West Kalimantan and Sarawak remained limited. Some of the inhibiting factors include the lack of coordination between local and central governments, the limited authority of local government to manage border area affairs, and the use of the issue of sovereignty by local elites which has degenerated relations between the two parties. Karim cites many examples of cross-border cooperation under the Sosek Malindo and BIMP-EAGA frameworks. Although not focusing on the connectivity sector, the research presents several examples of physical connectivity development, but is limited to the land dimension. Moreover, explanations for the failure of cross-border cooperation to foster micro-regionalism have primarily drawn on case analyses from the Indonesian government's perspective, while cases involving Malaysian actors and non-state actors remain underexplored.

Anuar and Harun (2019) describe the dynamics of cross-border cooperation between Indonesia and Malaysia at the Sebatik-Tawau border area, highlighting the impact of increasing security issues in the economic sector. The research shows that cross-border economic activities of the local population are disrupted due to the Malaysian government's implementation of security-tightening policies. While security issues are more prevalent on the Malaysia-Philippines border, these policies also negatively affect the Indonesia-Malaysia border area. Security authorities restrict the activities of fishermen in Sebatik and Tawau, limiting their fishing time and area, resulting in reduced income. The research shows that regional instability can disrupt cross-border cooperation. However, the research does not specifically describe how these security issues hinder cross-border connectivity at the

Indonesia-Malaysia border, especially regarding the operation of the Tawau-Nunukan ferry and the Tawau-Tarakan flights.

Other scholars, Sudiar and Irawan (2019), conduct research on various agreements between Indonesia and Malaysia aimed at facilitating cross-border activities. They find that not all of these agreements are implemented. Some factors hindering their implementation include the limited authority of provincial or state governments responsible for carrying out the agreements compared to the central government's authority, as well as a lack of political will on both sides to execute these cross-border agreements. Satyawan (2018) also discovers that while cross-border cooperation between Indonesia and Malaysia has brought benefits, these benefits are not felt by the people in the border areas. As a result, the relationship becomes more dependent rather than interdependent. Several contributing factors include lengthy bureaucratic processes, once-a-year coordination meetings that hinder timely and responsive decisions, conflicting policies among the authoritative agencies at the border, and limited human resource capabilities. Unfortunately, the works of Sudiar and Irawan (2019) and Satyawan (2018) do not provide further details on the specific benefits from cross-border cooperation.

The benefits of cross-border cooperation at the Indonesia-Malaysia border have been studied by Raharjo et al. (2018), with a focus on the case of Sebatik Island. The research shows that cross-border cooperation has had a positive impact on five out of the six capitals of social resilience of the Sebatik community. However, the research does not specifically discuss the impact of cross-border cooperation on connectivity. Issues related to connectivity are mentioned in the discussion of physical capital, such as the opening of traditional cross-border shipping routes between Indonesia and Malaysia, which unfortunately ceased in 2012 due to security and passenger safety concerns. Considering the recent developments, such as the construction of a modern Integrated Border Crossing Post on Sebatik Island, there is a need for more up-to-date research to describe the benefits of cross-border cooperation on physical capital or physical connectivity in that location.

The review of the literature reveals several key points. First, micro-regionalism or minilateralism among subnational authorities between Indonesia and Malaysia remains limited. One contributing factor is the uneven distribution of authority in managing border areas, where central governments retain predominant—if not total—control over these areas. As a consequence of this concentration of power, the institutionalization of cross-border cooperation through the establishment of supranational authorities has been difficult to realize, as decision-making in micro-regionalism remains firmly in the hands of each member state's central government. Anuar et al. (2024) confirm that the subregional institution formed through Indonesia-Malaysia-Thailand minilateralism functions merely as a coordination agency. This stands in contrast to the European model of cross-border cooperation, which has developed supraregional institutions to enable autonomous territorial governance (Ulrich, 2019).

Second, the literature review highlights that in the Indonesia-Malaysia border region, the practice of traditional border crossing remains a significant issue in bilateral cooperation.

Traditional border crossing refers to activities undertaken by local border residents for purposes such as visiting relatives, engaging in socio-cultural exchanges, and conducting small-scale trade across border areas. These practices typically bypass formal procedures, such as the use of passports and the imposition of customs duties on goods brought across the border. They are also referred to as informal border crossings. At the same times, activities are often regarded as illegal in other regions (Dzawanda & Matsa, 2023). In Southeast Asia, states tend to facilitate informal border crossings as a means of supporting the well-being of local communities.

Connectivity Development in Cross-border Cooperation

Connectivity has become a widely discussed issue in Southeast Asia, especially following the release of the Master Plan on ASEAN Connectivity in 2010 (ASEAN, 2010). Subsequently, in 2016, ASEAN published the Master Plan on ASEAN Connectivity 2025 (ASEAN, 2016). Studies on connectivity are not only discussed within the framework of ASEAN (Fünfgeld, 2019; Yap & Zahraei, 2018) but also in the context of smaller-scale subregional cooperation (Guina, 2023; H. Idris & Hussin, 2018; Majid et al., 2022). Furthermore, this topic is also addressed in the context of bilateral relations (H. Idris & Ling, 2021), specifically between Indonesia and Malaysia (Hariyatie, 2009; R. Idris, 2018).

Within the ASEAN framework, Fünfgeld (2019) explores ASEAN's vision for the future of connectivity in Southeast Asia. By employing hermeneutic analysis on video releases that promote the Master Plan on ASEAN Connectivity, this research asserts that the vision of connectivity is closely tied to imaginaries of movement and modernity. However, the vision is almost exclusively urban, which may lead to more fragmentation. Furthermore, the research does not review the actual implementation of connectivity programs in ASEAN.

Yap and Zahraei (2018) conduct a more evaluative study on maritime connectivity in Southeast Asia. They analyze the impact of the increasing concentration ratio of the top ten carriers in the liner shipping industry on shipping connectivity from major container transshipment hubs in Southeast Asia. Between 2014 and 2017, the top ten carriers increased their dominance in the shipping industry from 64 percent to 82 percent. The research indicates that participation in alliance arrangements is a key factor for shipping lines to succeed in a competitive market. Furthermore, the research highlights the importance of cooperation among private actors in matters of maritime connectivity in Southeast Asia. Unfortunately, the research fails to further explain the complementing cooperation among state actors in shipping connectivity between transshipment hubs in Southeast Asia.

In the context of subregional cooperation, Majid et al. (2022) discuss air connectivity between Indonesia and Malaysia within the framework of the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) cooperation. Using the SWOT analysis framework, the research finds the quantity and quality of human resources, government support, and mastery of information technology as strength factors. Meanwhile, the lack of diplomacy or negotiation skills and limited budgets are the weakness factors. This research also reveals that healthy competition among air transport operators presents an opportunity to increase air

connectivity, while the biggest challenge is the limited performance of the tourism sector. Majid et al. (2022) specifically focus on air connectivity in the IMT-GT area, namely between Sumatra Island and the Malay Peninsula, while land and sea connectivity in Borneo are not discussed. In addition, Majid et al. (2022) test the SWOT analysis only on civil aviation authorities on the Indonesian side.

In relation to connectivity development within subregional cooperation, H. Idris and Hussin (2018) research on intra-ASEAN connectivity and inland waterways networks in the coastal shipping and tourism sector. By examining three subregional cooperation cases, namely IMT-GT, Greater Mekong Subregion (GMS), and Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), the research finds that the programs implemented within these cooperatives deliver significant benefits. These include cost reduction, the establishment of new regional connections, and the expansion of regional markets. Regarding the Indonesia-Malaysia border, the research also indicates initiatives for connectivity within the IMT-GT subregional cooperation, such as the building of several cross-border economic corridors, including the Songkhla-Penang-Medan economic corridor and the Dumai-Melaka economic corridor. However, the impact of these economic corridor developments on trade and tourism is not further analysed with statistical data on trade and people mobility.

Guina (2023) highlights the role of connectivity development through economic corridors in the IMT-GT plays in facilitating cross-border trade. The research concludes that land connectivity may not have a transformative impact on cross-border trade performance. This can happen because major commodities usually go through ports to reach their markets or destination countries. Land connectivity primarily serves as a transit route to the ports. This research is only focused on the IMT-GT cooperation area, serving as a benchmark for research in other border regions, including Kalimantan.

Regarding bilateral relations, H. Idris and Ling (2021) analyze Malaysia and Indonesia's responses and participation in the Belt and Road Initiative (BRI) scheme and the Master Plan on ASEAN Connectivity. The research shows that Indonesia is slower and more cautious in embracing the BRI compared to Malaysia. Several contributing factors include inefficiencies in infrastructure development, various red tape, and longstanding anti-Chinese sentiments. This research does not examine into bilateral cooperation between Indonesia and Malaysia but rather compares the responses of each country.

Hariyatie (2009) discusses the development of connectivity based on bilateral cooperation between Indonesia and Malaysia. One of the findings highlights the role of the Sosek Malindo cooperation between West Kalimantan Province, Indonesia and Sarawak, Malaysia in the transportation sector. The collaboration between two parties in improving transportation facilities has increased the number of vehicles crossing the border. The finding refers to the cooperation that took place before 2009, during which the Master Plan on ASEAN Connectivity did not exist. Also, the research only covers the Sosek Malindo cooperation between West Kalimantan and Sarawak, while the Sosek Malindo's chapter on North Kalimantan-Sabah is not discussed.

Complementing the previous research, R. Idris (2018) addresses the topic of common border through road connectivity between Sabah (Malaysia) and Kalimantan (Indonesia) and its impact on exports. Using a gravity model and trade data from 1990 to 2010, the research shows that a common border had a positive and significant association with Malaysia's exports during the 1990-2010 period. Therefore, R. Idris (2018) argues that road connectivity between Sabah and Kalimantan is projected to enhance Malaysia's exports in general and specifically the Sabah State (to Indonesia). However, the data utilized are outdated and need updating. Additionally, this research still utilizes Malaysia's overall export data rather than specific export data for Sabah. There is a need of research that focus on the specific export data from the Kalimantan region, making the data analysis more accurate.

The literature clusters suggest that cross-border cooperation between Indonesia and Malaysia, as well as among several other Southeast Asian countries, has had a positive impact on the development of connectivity – both in terms of hard and soft infrastructure – which in turn contributes to the development of border region. These findings exhibit patterns similar to those observed in cross-border cooperation practices in Europe and other regions. This further reinforces the premise that cross-border cooperation serves as an important tool in advancing cross-border governance.

Infrastructure Connectivity in Cross-Border Cooperation

Research on cross-border infrastructure has developed more in the European region. Wendt et al. (2021) highlight that transport infrastructure is critical to ensure cross-border connectivity, and ethnic diversity is an influential factor in the cross-border tourist traffic along the Romanian-Ukrainian borderland. Another research by Puka and Szulecki (2014) reveals that on Germany-Poland border, political and governance issues may pose more obstacles to cross-border infrastructure than economic factors such as inadequate financing and differing interests. Both research focus on borders among European countries.

Meanwhile, Fung et al. (2011) attempt to provide a broader perspective on cross-border infrastructure, not limited to Europe but also including the Asia-Pacific and Latin American regions. They emphasize the importance of government involvement, the need for smooth coordination among diverse stakeholder groups, and top-level support for the success of transnational cross-border infrastructure projects. The importance of government involvement in cross-border infrastructure development in the Asia-Pacific region is also noted by Bisbey et al. (2020). These research works cover a large area of the Asia Pacific, which may could not give details on each case. Nevertheless, research conducted in different regions can serve as a reference for identifying factors that support and hinder cross-border cooperation.

In the context of Southeast Asia, research on cross-border infrastructure has been carried out by Xiao et al. (2024). They examine the relative significance of the China-Laos Railway's cross-border infrastructure on land-use changes and landscape patterns. The research discovered that, from 2017 onwards, approximately 3% of deforestation is attributed to the growth of cropland (8%) and the development of construction land (38%) in the vicinity of the

China-Laos Railway. It poses a challenge in developing cross-border infrastructure, which is the potential impact of ecological threats, such as soil and land degradation, pollution, deforestation, and loss of biodiversity and ecosystems. However, this research does not include how the cross-border infrastructure is being built, except for the fact that the case focuses on land-based infrastructure only. Rana and Ji (2020) show that in the context of BRI, cross-border infrastructure development in Southeast Asia faces challenges of the China's hegemony, corruption, and debt distress. Fujimura and Edmonds (2006) research on the effects of cross-border transport infrastructure on the economies within the Greater Mekong Subregion. The research posits that the cross-border and domestic transport infrastructure can effectively reduce trade-related expenses and, thereby directly contribute to increased trade and investment. However, disparities in the distribution of benefits and costs can pose a threat to the long-term viability of cross-border transport infrastructure projects. However, research by Rana and Ji (2020) and Fujimura and Edmonds (2006) take cases in Indo-China countries as a more land-based area in Southeast Asia.

Table 1. Contents and Gaps in Existing Literatures of Cross-Border Cooperation

Themes	Sources	Contents	Gaps
Border related issues for cross-border cooperation	Arisman & Jaya, 2021; Clark, 2013; Druce & Baikoeni, 2016; Elias, 2013; Hamzah et al., 2014; Maksum, 2022; Mon, 2022; Mulyana & Yaputra, 2020; Ulyana, 2018	Border dispute, migrant workers, and contestation and similar cultural heritage.	More on unilateral policy by each country, framing similar cultural heritage in the context of contestation instead of cooperation.
Existing cross-border cooperation between Indonesia and Malaysia	Anuar & Harun, 2019; Karim, 2022; Raharjo et al., 2018; Satyawan, 2018; Sudiar & Irawan, 2019	Cross-border cooperation under the Sosek-Malindo and BIMP-EAGA; and their benefits on social resilience of border residents	Connectivity development only limited to the land dimension, no explanation on how security issues hinder cross-border connectivity, no specific forms of benefits from cross-border cooperation on connectivity.
Connectivity Development in cross-border cooperation	Fünfgeld, 2019; Guina, 2023; Hariyati, 2009; R. Idris, 2019, H. Idris & Hussin, 2018; H. Idris & Ling, 2021; Majid et al., 2022; Yap & Zahraei, 2018	Connectivity development through cooperation under the framework of ASEAN, IMT-GT cooperation, BRI, and Sosek Malindo.	No further analysis on the impact of economic corridor developments on trade and tourism.
Infrastructure connectivity in cross-border cooperation	Bisbey et al., 2020; Fujimura & Edmonds, 2006; Fung et al., 2011; Puka & Szulecki, 2014; Rana & Ji, 2020; Wendt et al., 2021; Xiao et al., 2024	Political issues, corruption, and ecological threats as challenges toward cross-border infrastructure development, the importance of government involvement to deal with these issues.	The research does not specifically include what framework to build cross-border infrastructure among neighbouring countries, beside the fact that the cases are on land-based infrastructure.

Source: authors

The research works on cross-border infrastructure provide lessons about several critical factors and impacts that need to be considered for future research. Previous research in Southeast Asia has predominantly discussed land-based cross-border infrastructure, with less research on the maritime border area. Moreover, previous research is also predominantly associating cross-border infrastructure with the physical dimension (hard infrastructure). However, infrastructure in the context of institutional dimension (soft infrastructure) is also equally important. This soft infrastructure dimension can serve as a strength and differentiating factor for future study in comparison to the previous ones. Table 1 presents a summary of four the thematic literature reviews.

Discussion

Refer to the definition of cross-border cooperation introduced earlier, this literature review synthesizes key elements as a lesson learned from Southeast Asia, especially Indonesia-Malaysia border area. The definition of cross-border cooperation—an institutionalized collaboration among multiple networks of public, private, and civil society actors across national borders on various socio-economic initiatives at local or subnational level—represent elements of actor (public, private, and civil society), role of cooperation (socio-economic well-being), and level or form of cooperation (local, subnational, or subregional). In addition, this literature review also reveals supporting and inhibiting factors. These elements of form, actor, roles, and factor of cross-border cooperation are discussed in the following part.

Regarding the element of form of cross-border cooperation, the literature review shows examples of cross-border initiatives conducted by Indonesia and Malaysia. The cross-border cooperation include initiatives in the maritime security sector, such as Malacca Straits Patrol, Trilateral Maritime Patrol, Trilateral Air Patrol, and joint military exercises. They also cover cultural diplomacy sector, such as cultural exchange of students, tourists, and performing arts. The initiatives also extend to transportation and connectivity sector, such as the establishment of border crossing post, cross-border ferry routes, and direct flights. It implies that cross-border cooperation can be used to address various purposes, not limited only to socio-economic sector.

Table 2 gives the range of issues and purposes of the cross-border cooperation based on the existing agreements between Indonesia and Malaysia, as collected during this research. Moreover, Table 2 reveals that several cross-border cooperation initiatives intersect with one another. For instance, the Agreement on Border Crossing and the Agreement on Border Trade address economic and socio-cultural interests simultaneously. These agreements accommodate the traditional movement of people and goods to support the well-being of border residents. Similarly, the 1972 Security Arrangement encompasses security and defense dimensions, as it involves military and police forces. Such evidence suggests that a single cross-border cooperation initiative can accommodate multiple interests at once.

Table 2. The Purpose of Cross-border Cooperation Based on Existing Agreements between Indonesia and Malaysia

Main Issue	Agreement	Year	Purpose
Socio-Culture	Basic Arrangement on Border Crossing	1967	Governing movement of goods and people into and out of the border areas.
	Agreement on Border Crossing	2006	Improving the facilities to be accorded to citizens living within Indonesian border area (West Kalimantan, East Kalimantan, Riau, and Riau Islands) and Malaysian border area (Sabah, Sarawak, Melaka, Johor, Selangor, and Negeri Sembilan).
	Agreement on Border Crossing	2023	Improving the facilities to be accorded to citizens living within Indonesian border area (West Kalimantan, East Kalimantan, North Kalimantan, and Riau Islands) and Malaysian border area (Sabah and Sarawak).
Sovereignty	Agreement Relating to the Delimitation of the Continental Shelves	1969	Delimitating continental shelves to strengthen historic relations of both countries
	Treaty on Determination of Boundary Lines of Territorial Waters at the Strait of Malacca	1970	Determining the boundary lines of territorial waters of the two countries at the narrow part of the Strait of Malacca.
Economy	Agreement on Border Trade	1970	Governing the conduct of both overland and sea border trade for agricultural products and daily-use goods.
	Agreement on Travel Facilities for Sea Border Trade	1974	Simplifying the system of control for the entry and exit of citizens to conduct sea border trade.
	Agreement on Border Trade	2023	Accommodating the fulfilment of daily needs of the residents in the border area through border trade within the threshold value.
Security	MoU in the Respect of the Common Guidelines Concerning Treatment of Fishermen by Maritime Law Enforcement Agency	2012	Establishing standard guidelines for respective maritime law enforcement agencies relating to the treatment of fishermen of the parties.
Defense	Security Arrangement in the Border Regions	1972	Dealing with security problems along the common border by establishing general border committee.
	Joint Declaration of Foreign Ministers and Chiefs of Defence Forces	2016	Addressing security issues in the maritime areas of common concern and addressing the growing non-traditional challenges in the region through coordinated patrols, the provision of immediate assistance to ensure the safety of people and vessels, and the establishment of focal points and communication hotlines.

Source: Authors

Moreover, the literature review shows that Indonesia and Malaysia execute cross-border cooperation through various cooperation frameworks. In the Sosek Malindo initiative, cooperation operates at the subnational level with provinces in Indonesia and states in Malaysia serving as the main actors. Border trade and border crossing are managed through

bilateral agreements at the national level, with the participation of central government line ministries. For land, air, and sea linkages, they utilize multilateral forums such as BIMP-EAGA and IMT-GT subregional cooperation, and even through ASEAN. These findings suggest that the need to extend the definition of cross-border cooperation to include subregional and regional levels, in addition to the local or subnational level.

Regarding the role of cross-border cooperation, the literature review reveals that it can have numerous positive impacts, including increasing cross-border trade and investment, expanding regional markets, facilitating the mobility of people, such as through tourism, and enhancing the social resilience and socio-economic wellbeing of border communities. Updated export statistics support this finding. At the Nanga Badau Customs, Immigration, Quarantine, and Security (CIQS), BPS-Statistics of Indonesia recorded that Indonesia's exports to Malaysia increased significantly from USD 33 million in 2016 to USD 41 million in 2017—an increase of over 24% following the inauguration of the facility. A similar trend continued in the following year, with exports rising by approximately 63%.

However, cross-border cooperation can also have undesirable effects, such as land degradation, pollution, deforestation, and biodiversity loss from unsustainable development of cross-border infrastructure. Fieldnotes from the fieldwork conducted between July and September 2024 confirm these findings. According to several residents around the Aruk-Biawak CIQS facility, they used to sell their crops, such as durian, pepper, and vegetables, to neighboring countries with good prices without any significant barriers. However, since the CIQS' inauguration in 2017, they have been unable to sell their agricultural products to Malaysia because of the increasing number of regulatory requirements. As a result, their only remaining option is to sell their crops domestically at lower prices. The Dayak Bakati, an indigenous community living near the CIQS, faces challenges in conducting cross-border activities, including visiting relatives in neighboring countries, especially during emergencies such as illness or death. The difficulties are due to rigid cross-border procedures that restrict crossing between 6 am and 6 pm, require specific documentation, and prohibit the use of motorbikes. The CIQS should also accommodate their sociocultural rights. Therefore, the goals of cross-border cooperation should be expanded to ensure inclusivity, considering the interests of all parties that are involved and affected.

Regarding the actors, the literature review shows several types of actors involved in cross-border cooperation between Indonesia and Malaysia. First, the national government plays a key role in making regulations to make cross-border infrastructure projects a success. Second, subnational governments play a role in implementing cross-border cooperation in border areas under their authority. Third, civil society is the perpetrator of various cross-border activities, including those involving migrant workers, tourists, and border residents. Lastly, private actors collaborate in running cross-border businesses such as shipping companies, foreign trading, and related activities. These findings introduce no new actors, as all of them already exist in the general definition of cross-border cooperation. However, these findings underline the remaining strong role of national governments in Southeast Asia amidst the discourse in other regions that emphasizes subnational governments as the main actors in cross-border cooperation.

Regarding factors affecting cross-border cooperation, the literature review synthesizes two types of factors. The first are the supporting factors, which include strong political will from both parties, quantity and quality of human resources, government support, and mastery of information technology. The second are inhibiting factors, which include the lack of coordination between local and central governments, the limited authority of local government to manage border area affairs, regional instability, lengthy bureaucratic processes, and limited budgets. In the context of Southeast Asia, especially Indonesia and Malaysia, one interesting factor to discuss further is shared identity, which can be a supporting or inhibiting factor, depending on the context. In contexts related to economic interests such as trade and tourism, shared identity functions more as a supporting factor for cross-border cooperation. Meanwhile, in the context of cultural pride, shared identity can trigger contestation, as has happened in cases of cultural claims on batik between two countries.

The identification of the forms, actors, roles, and factors of cross-border cooperation – based on the Indonesia–Malaysia experience in particular, and Southeast Asia more broadly – reveals a markedly different picture compared to Europe and other regions. In Southeast Asia, cross-border cooperation often lacks formalized structures and processes, relying instead on informal or ad-hoc arrangements, or even experiencing a complete absence of structured collaboration. In some cases, cooperation is formalized through agreements but lacks practical implementation; in others, initiatives are endorsed by agencies that lack the political or administrative authority to regulate and execute them. In the Indonesia–Malaysia case, for example, subnational governments have reached certain agreements, but the authority and competence to act on these agreements lie with the central government. In contrast, European countries exemplify an institutionalized model of cross-border cooperation, characterized by established frameworks, rules, and organizations that facilitate the implementation of joint projects and policies. This model moves beyond ad-hoc agreements, aiming instead for long-term and sustainable collaboration. This contrasting pattern may be influenced by the fact that most Southeast Asian countries are classified as developing nations, while their European counterparts are developed countries, or possibly because many Southeast Asian countries are categorized as flawed democracies, whereas European countries are generally classified as full democracies.

Another significant difference lies in the approach to establishing cross-border cooperation. In Southeast Asia, central governments continue to play a key and dominant role in determining both the content and the mechanisms of cooperation. As a result, cross-border initiatives are predominantly shaped through a top-down strategy. In contrast, European countries have long adopted an open governance approach that emphasizes transparency, participation, and collaboration with other stakeholders, including civil society, business, and science, in both the development and implementation of cross-border cooperation.

Furthermore, due to the ad-hoc and short-term nature of cross-border cooperation in Southeast Asia, there remains a degree of acceptance toward informal border-crossing activities conducted by residents to meet their basic economic and socio-cultural needs. The weak level of institutionalization has resulted in uneven and underdeveloped systems of

governance. In contrast, in several other regions—particularly in countries affected by conflict—various forms of informal cross-border activities, even those rooted in traditional practices, are still classified as illegal. A perspective that distinguishes between formal and informal practices, rather than relying solely on a legal-illegal dichotomy, may be more appropriate for developing countries beyond the Southeast Asian context.

Conclusion

This thematic literature review on cross-border cooperation reveals that, in contrast to Europe—where such cooperation is institutionalized and characterized by open governance among developed and democratic countries—Southeast Asia, in general, and the Indonesia-Malaysia context in particular, exhibits a less-structured and informal form of cross-border cooperation among developing and flawed-democratic nations. The findings then generate five insights related to the existing understanding of cross-border cooperation. First, cross-border cooperation can be used to address various purposes, not limited only to the socio-economic sector, as stated in the referred definition. Second, the definition of cross-border cooperation can be expanded to also include the subregional and regional levels, in addition to local or subnational levels. Third, the goals of cross-border cooperation should be expanded to be more inclusive, considering the interests of all parties involved and affected. Fourth, the subnational government plays an important role amidst the previous discourse that emphasizes national governments as the main actor. Fifth, in Southeast Asia, shared identity can become a supporting or inhibiting factor towards cross-border cooperation, depending on the context.

The insights highlight the need for a more inclusive revision of cross-border cooperation that involves consultation with all relevant stakeholders and those affected by such initiatives, including borderland populations and Indigenous communities residing along the Indonesia-Malaysia border. It is important to address recent development of Indonesia-Malaysia cross-border cooperation by removing Riau in Indonesia, as well as Melaka, Johor, Selangor, and Negeri Sembilan in Malaysia, from the designated border area list of both countries. However, traditional cross-border activities continue in several of these regions. As a result, practices that were once tolerated may now be deemed illegal, placing local communities at risk of criminalization. Therefore, both governments need to reconsider the scope of the designated border areas in their bilateral agreements.

Furthermore, the review also reveals that there are still gaps in the existing literatures that need to be filled. First, most of the previous research do not specifically address the roles of cross-border cooperation on connectivity. Second, the connectivity discussion in most previous research tends to cover physical dimension only. Third, the locus of the research is predominantly in the land border area. Fourth, some previous research discussing the Indonesia-Malaysia border only covered one side of the perspective. Fifth, several research do not justify the argumentation with objective measurements, such as actual data on cross-border trade and people's mobility. Sixth, previous research has yet to describe the dynamics

that have occurred in recent times, especially with massive infrastructure development of the last decade. These six gaps can lead future research to offer novelty towards the existing discourses of cross-border cooperation in the Indonesia-Malaysia border area and Southeast Asia.

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A Focal Point of Coordination: A Case Study of the ASEAN-Indonesia National Secretariat's Coordination Efforts

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Abstract

The research assessed the internalization of the 2007 Charter of the Association of Southeast Asian Nations or the ASEAN Charter into national legislation, particularly on the mandate stipulated in Article 13, to establish an ASEAN National Secretariat for each ASEAN member state. The case study provided an overview of the ASEAN-Indonesia National Secretariat, to examine the regional-level to national-level policy transfer of ASEAN cooperation adopted by the Indonesian government and demonstrates the democratic foreign policy-making process in Indonesia. A qualitative content analysis was applied to assess the official and legal documents regarding the ASEAN-Indonesia National Secretariat. The research finds that the Indonesian statutory provisions stipulate that the ASEAN-Indonesia National Secretariat is a focal point of coordination for ASEAN cooperation in Indonesia, where the Indonesian Ministry of Foreign Affairs is the main supporting unit and functions as a public relation for advocating ASEAN awareness of the Indonesian people. The study is expected to contribute to the literature on international relations and public administration, where Indonesia's experience in constructing a coordinated policy network among governmental institutions for the implementation of ASEAN regional commitments in domestic settings could be a model for other ASEAN member states or other regional framework.

Keywords: ASEAN-Indonesia National Secretariat, ASEAN Charter, Indonesian government, policy transfer, democratic foreign policy making

Introduction

Article 13 of the 2007 Association of Southeast Asian Nations (ASEAN) Charter stipulates that each ASEAN member state shall establish an ASEAN National Secretariat within its respective country (ASEAN, 2008). The article also outlines the role and functions of the ASEAN National Secretariats as the national central point for coordination, administration of the ASEAN repository, management of ASEAN policy implementation at the national level, organizing national arrangements for ASEAN meetings, promoting ASEAN awareness, and supporting ASEAN community building (ASEAN, 2008).

To fulfil these responsibilities, ASEAN diplomats and officers in charge of ASEAN affairs must ensure close working relationships, accessible communication, and open consultations with the ASEAN Secretariat, ASEAN external partners, and other domestic stakeholders. Diplomats and civil servants from ASEAN member states must maintain coordination on key negotiation topics. Technical aspects, such as rules, procedures, and administrative tasks, are crucial for maintaining archives and records among related ASEAN bodies. However, the 2007 ASEAN Charter does not specify the institutional designs or working mechanisms for the ASEAN National Secretariats (see ASEAN, 2008, Art. 13), which provides flexibility for ASEAN member states to design their national secretariat.

The research examines two central questions. First, it examines how the ASEAN-Indonesia National Secretariat facilitates the policy transfer process, specifically its collaboration with other national institutions and their constituents to implement ASEAN policies. Second, it examines the roles of the Indonesian government and other national-level institutions in contributing to democratic foreign policy-making on ASEAN issues.

Literature Review

Based on neoliberal institutionalism, Southeast Asian countries set aside their differences to cooperate within the ASEAN institution as an intergovernmental organization, aiming to achieve common goals for the region. Simon (1995, p. 7) argues that Southeast Asia's fundamental structure will maintain its member states' authority to varying degrees (realism perspective), while the process of member states' collaboration will be formalized through the establishment of customs and institutions (neo-liberalism perspective).

When it was established in 1967 during the Cold War, ASEAN was a mutual non-aggression pact between its five founding members, Indonesia, Malaysia, the Philippines, Thailand, and Singapore (Narine, 2017). With the signing of the ASEAN Charter in 2007, the now-ten ASEAN member states have taken steps toward becoming a more institutionalized intergovernmental organization and advancing further regional integration.

The 2007 ASEAN Charter ratification by ASEAN member states' domestic legislation is important for ensuring the readiness of a working mechanism to accomplish ASEAN's purposes at the state level. Zartner (2010, p. 6) emphasizes that, "the incorporation of

international law into the domestic understandings of appropriate standards of behavior and the structure of a state is necessary for these rules to act as influences on state and sub-state actors."

Article 13 of the 2007 ASEAN Charter mandates the establishment of the ASEAN National Secretariats by each member state (ASEAN, 2008). Moreover, the creation of ASEAN departments within ASEAN member states' government institutions is also expected to facilitate the implementation of ASEAN policies, particularly at the domestic level. Dolowitz and Marsh (1996, p. 344) described that, "Policy transfer, emulation, and lesson drawing all refer to a process in which knowledge about policies, administrative arrangements, institutions, etc., in one time and/or place is used in the development of policies, administrative arrangements, and institutions in another time and/or place."

The current research on ASEAN mostly focuses on substantive international relations, encompassing the three pillars of political security, sociocultural, and economic communities. For instance, Acharya (2014, 2021) provides an in-depth overview of the construction of a political security community in Southeast Asia. Some research works also discuss the institutionalist process that takes shape in Southeast Asia, where ASEAN and its related agencies play a focal point within the region (Acharya, 2004; Natalegawa, 2018; Roberts, 2012). Moreover, previous research has discussed the differences between institutional models of multilateral institutions, such as the United Nations (UN), and regional organizations, including the European Union (EU), in comparison to ASEAN (Jetschke, 2017; Wunderlich, 2012). As the previous literature mainly covers the regionalization process and the regional-level institutions in ASEAN, this research focuses on discussing ASEAN institutionalization at the national level within an ASEAN member state, specifically the case of Indonesia.

The Policy Transfer Process and Democratic Foreign Policy Making

The 2007 ASEAN Charter Article 13 mandates the establishment of ASEAN National Secretariats (ASEAN, 2008). The arrangement reflects a policy transfer process from the ASEAN's regional-level organs to the implementation at national level under the coordination of ASEAN National Secretariats. Knowledge diffusion is the core of transnational policy transfer (Stone et al., 2020). The process of transnational policy transfer involves three main aspects: knowledge actors (individuals), institutions (organizations), and networks. In addition, the direction of policy transfer could be within a 'restricted set' of countries, such as among member states of an international organization, or from the North to the South hemisphere as transfer of 'best practices' (Stone et al., 2020, p. 2).

Bulmer and Padgett (2005) discuss the policy transfer process within EU governance. Bulmer and Padgett (2005) emphasized that policy transfer in the EU depends on the type of institutions and their governance, which is not limited only to the Open-Method of Coordination (OMC). The EU's negotiated transfer tends to opt for Qualified Majority Voting (QMV) for policy transfer and problem-solving (Bulmer & Padgett, 2005).

However, there are differences in ASEAN's policy-making culture, commonly referred to 'the ASEAN Way', which places great emphasis on non-interference in the domestic affairs of other member states and decision-making based on consensus (Acharya, 2014; Caballero-Anthony, 2022). Therefore, the localization of norms is expected in policy transfer and the adoption of norms within ASEAN (Acharya, 2004).

The 2007 ASEAN Charter does not specify the institutional model or framework of the ASEAN National Secretariats (ASEAN, 2008). Hence, it provides flexibility for each member state in designing its own model of the ASEAN National Secretariat. The domestic arrangements of the ASEAN National Secretariats would likely involve the Ministry of Foreign Affairs in each member state, which then coordinates and deliberates on the implementation of ASEAN policies with its national institutions, as well as with each department that handles a specific issue in the field. This may be an example of democratic foreign policy making.

Democratic foreign policy making should be built across various independent institutions, and a democratic process should be in place to resolve any disagreements over policy between these institutions (Pahre, 2006). Moreover, Pahre (2006, p. 2) emphasizes that "our understanding of democratic foreign policy making be built on variation across democratic institutions" and that "democracy is a process by which groups make decisions when they disagree with one another." Hammond and Prins (2006) also argue that a divided government and domestic veto institutions have some influence on international negotiations, particularly in international trade negotiations.

Several studies by Rüland (2009, 2017) examine the democratization of Indonesia's foreign policy making process, focusing on the domestic strengthening of ASEAN cooperation and the promotion of democracy within ASEAN. According to Rüland (2009), the Indonesian Parliament has a significant role, as it must ratify the ASEAN Charter. He further observes that the Indonesian Parliament, along with academia, the media, and civil society organizations, have been outspoken domestic actors and even be veto players (Rüland, 2009).

However, Rüland (2017) notes that the definition of democratization in Indonesia, particularly during reform era, differs from the Western-style of democracy. Indonesia still upholds the norms of *musyawarah* (consultation) and *mufakat* (consensus). These norms hold true to the localization concept. Acharya (2004) defines a customized policy adaptation that takes into account the regional 'ASEAN Way' and local norms in Indonesia.

Overview of the ASEAN National Secretariats

The ASEAN National Secretariats are responsible for advancing the national interests of the member states at the regional level, managing the interministerial implementation of ASEAN decisions and policies, and providing a repository of information on ASEAN at the national level (ASEAN-Indonesia National Secretariat, n.d.; Ministry of Foreign Affairs Malaysia, 2023).

During the early years of ASEAN's establishment, Indorf (1975) discusses the initial considerations for establishing an ASEAN National Secretariat for each member state. While the continuance of international organizational work relies on an administrative apparatus, ASEAN shows a preference for decentralization and rotational chairmanship (Indorf, 1975).

The tasks and responsibilities of ASEAN National Secretariats are described in the 2007 ASEAN Charter, Article 13, as quoted:

Each ASEAN Member State shall establish an ASEAN National Secretariat which shall:
(a) serve as the national focal point; (b) be the repository of information on all ASEAN matters at the national level; (c) coordinate the implementation of ASEAN decisions at the national level; (d) coordinate and support the national preparations of ASEAN meetings; (e) promote ASEAN identity and awareness at the national level; and (f) contribute to ASEAN community building (ASEAN, 2008).

ASEAN member states organize their ASEAN National Secretariat structures in different ways. In most ASEAN countries, the ASEAN National Secretariat is commonly housed within Ministry of Foreign Affairs and headed by the Director-General (ASEAN Secretariat, 2023). In Malaysia, the ASEAN National Secretariat operates within the Malaysian Ministry of Foreign Affairs headed by the Director-General of the ASEAN-Malaysia National Secretariat (Ministry of Foreign Affairs Malaysia, 2022, 2023). The ASEAN-Malaysia National Secretariat consists of three departments according to the ASEAN pillars (Ministry of Foreign Affairs Malaysia, 2023). The secretariat functions as a focal point for ASEAN policy implementation at the domestic-level and acts as a liaison to the ASEAN Secretariat in Jakarta and other national secretariats (ASEAN, 2008; Ministry of Foreign Affairs Malaysia, 2023). Moreover, the ASEAN-Malaysia National Secretariat seeks to foster cooperation between Malaysia and other ASEAN member states, the ASEAN Dialogue Partners, and the Sectoral Dialogue Partners, including the Development Partners (Ministry of Foreign Affairs Malaysia, 2023).

Similar arrangements for ASEAN National Secretariats can be found in other ASEAN member states, as the Ministry of Foreign Affairs in charge of ASEAN affairs undertakes the role of the national secretariat (ASEAN, n.d.-c; Ministry of Foreign Affairs of Brunei Darussalam, 2018; Ministry of Foreign Affairs, Kingdom of Thailand, 2019). For instance, the Department of ASEAN Affairs within the Thailand Ministry of Foreign Affairs plays a role as the ASEAN-Thailand National Secretariat under the leadership of the Director-General (Ministry of Foreign Affairs, Kingdom of Thailand, 2019, 2020). The ASEAN-Brunei Darussalam National Secretariat is part of the Ministry of Foreign Affairs of Brunei Darussalam, where the ASEAN Department assumes the role of the national secretariat (Ministry of Foreign Affairs of Brunei Darussalam, 2018).

Timor-Leste, as the aspiring 11th member state of ASEAN, has been preparing the necessary institutions to join ASEAN (Government of Timor-Leste, 2016). Some of Timor-Leste's efforts include the establishment of an ASEAN-Timor-Leste National Secretariat, the creation of focal points, and participation in the ASEAN Regional Forum, including other ASEAN meetings (Government of Timor-Leste, 2016). The ASEAN Secretariat and member

states support Timor-Leste with capacity building to prepare for their readiness as a full member of ASEAN (ASEAN Secretariat, 2022; Government of Timor-Leste, 2016).

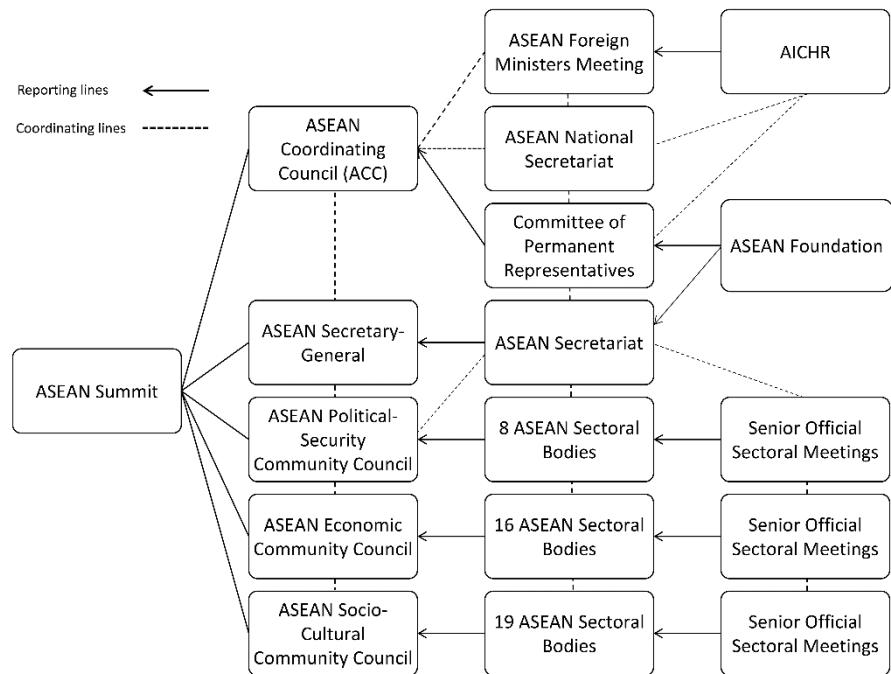


Figure 1. ASEAN Reporting and Coordination Line

Note. This chart is illustrated by the author and adapted from a presentation presented by Wahyuningrum (2013) and edited with updated information on the number of ASEAN Ministerial Sectoral Bodies from the ASEAN Charter Annex 1, which was updated on October 30th, 2023, pursuant to Article 10 (2) of the ASEAN Charter (ASEAN, n.d.-d).

Figure 1 shows that ASEAN Foreign Ministers, as part of the ASEAN Coordination Council (ACC), receive reports from their respective ASEAN National Secretariats and Permanent Missions to ASEAN. The ASEAN National Secretariats in each member state are preparing substantive materials and technical support, while maintaining close coordination with their respective ASEAN permanent representatives. The reports are given by the Director-General, who oversees the daily operations of each ASEAN National Secretariat, to the respective foreign ministers, and the reports are further deliberated with other ASEAN member states in the ACC to be implemented within the region.

Furthermore, in preparation for the ASEAN Summit and ASEAN Community meetings, the ASEAN National Secretariat and the Committee of Permanent Representatives (CPR) also coordinate with the ASEAN Secretariat, especially for projects involving ASEAN external partners such as the Dialogue Partners (see Figure 1).

The ASEAN Charter, signed in November 2007, was ratified by Indonesia through Law No. 38 of 2008 and took effect on December 15th, 2008, when all ASEAN member states submitted their instruments of ratification to the ASEAN Secretary General (Negara Republik Indonesia, 2008; PTRI ASEAN, 2025). The ASEAN pillar blueprints of 2025 were adapted to

be the 'National Plan of Action 2022–2025' by the Indonesian Government through the adoption of ministerial regulations of the Indonesian Foreign Ministry No. 1/2022 (Menteri Luar Negeri Republik Indonesia, 2022a). The coordinating ministries are responsible for monitoring the implementation of the ASEAN Community Vision 2025 in Indonesia, including harmonizing and synchronizing national regulations with ASEAN regional policies (Menteri Luar Negeri Republik Indonesia, 2022a).

Moreover, ASEAN National Secretariats play a major role in preparing of each member state's ASEAN chairmanship. The ASEAN Chairmanship rotates every year (ASEAN, n.d.-a). The Ministry of Foreign Affairs, as the lead coordinator of the ASEAN National Secretariat, shall prepare timelines and substantive materials, such as recommendations for deliverables and priority areas as well as technical matters and logistics related to the ASEAN Chairmanship in their respective countries. In preparation for the ASEAN Chairmanship in 2023, the ASEAN-Indonesia National Secretariat held plenary meetings with the ministries and institutions—members of the national secretariat—to prepare deliverables and priorities that Indonesia would pursue during the chairmanship period (Sekretariat Kabinet Republik Indonesia, 2022).

The ASEAN National Secretariats are responsible for promoting ASEAN goals and educating society to support ASEAN efforts. In the case of the ASEAN Chairmanship of 2023, the ASEAN-Indonesia National Secretariat (represented by the Indonesian Ministry of Foreign Affairs) and the Indonesian State Secretariat held public outreach and public engagement events about the Indonesian ASEAN Chairmanship 2023 for the people, in particular, the business community and tourism professionals, as well as school students at Labuan Bajo, East Nusa Tenggara (Kementerian Sekretariat Negara Republik Indonesia, 2023).

The Ministry of Foreign Affairs in ASEAN member states, including prospective member states, plays an integral role in ASEAN National Secretariat coordination efforts nationwide, regardless of its organizational structure or coordination lines. The ASEAN National Secretariats, in general, serve as the main liaisons between domestic ministries and institutions and the ASEAN regional architecture, supervising the implementation of cooperation programs with other ASEAN member states and partners in their respective countries.

Thus, this research identifies a gap in the literature concerning the policy transfer process and democratic foreign policy-making process of ASEAN cooperation at the national level. The existing literature on policy transfer has yet discussing a case of localization in designing regionally mandated institutions at the national level and how regional norms, in this case 'the ASEAN Way,' are maintained domestically in foreign policy making.

However, this research also finds a literature gap in the academic discussion of how ASEAN institutions and individuals work technically. There are very few references to how the roles are divided within the ASEAN organizational structure, particularly within the ASEAN National Secretariats, and how they work with ASEAN external partners. A review of the institutional design of the ASEAN-Indonesia National Secretariat could contribute to the discussion on how to establish the national level coordinating institution mandated by a

regional agreement, which may be relevant for other countries or in other regional settings. Questions also arise as to whether, at the national level, an ASEAN member state would still maintain the regional norms of “the ASEAN Way” and the traditional decision-making procedures of consultation and consensus or opt for adopting other decision-making procedures, such as voting mechanisms, which are present in other regional institutions.

This research applies Stone et al.’s (2020) framework of policy transfer, which highlights three main concepts: knowledge actors (individuals), institutions (organizations), and networks. It also points to the definition of democratic foreign policy making proposed by Pahre (2006). This research focuses on policy transfer from the regional to the national level, focusing on the domestic arrangements within Indonesia. Furthermore, this research identifies the potential challenges within the institutional model of the ASEAN-Indonesia National Secretariat.

Theoretical Framework

The research is expected to evaluate the policy transfer process of the 2007 ASEAN Charter to Indonesian national laws regarding the institutionalization of the ASEAN-Indonesia National Secretariat. It also seeks to assess the democratic foreign policy making process among domestic Indonesian institutions that participate in the coordination network of the ASEAN-Indonesia National Secretariat.

The research hypothesizes that the institutionalization of the ASEAN-Indonesia National Secretariat demonstrates policy transfer from the regional to the national level as a coordinated policy network for ASEAN cooperation in Indonesia. Furthermore, the democratic foreign policy making on ASEAN issues can be strengthened by the ASEAN-Indonesia National Secretariat, which upholds regional norms, the ASEAN Way, in its policy-making and decision-making procedures.

Due to limitation of space, it should be noted that there are other government institutions that are not yet included in the diagram. In addition, other specialized or ad hoc groups can also be established to be an ASEAN task force. As illustrated in Table 1, the process of policy transfer between institutions in Indonesia constitutes a democratic foreign policy making on ASEAN issues.

Table 1. Theoretical Framework

Policy Transfer from ASEAN-level to National-level in Indonesia			Democratic Foreign Policy Making in Indonesia
Knowledge Individuals	Knowledge Institutions	Knowledge Networks	
Members of Parliament	Legislative/Parliament	Plenary sessions	
Diplomats	Ministry of Foreign Affairs		
	Coordinating Ministries		
Civil Servants	Ministry of Trade		
	Ministry of Internal Affairs		
Civil Servants, Teachers & Lecturers	Ministry of Education	ASEAN-Indonesia National Secretariat (<i>A coordinated policy network</i>)	
Military Personnel	National Armed Forces		
Police Personnel	National Police		
etc.	Other government institutions	<ul style="list-style-type: none"> • ASEAN Studies Centers (in Indonesian: <i>Pusat Studi ASEAN</i>) • Academic conferences • University networks • etc. 	
Academia/Lecturers	Universities	<ul style="list-style-type: none"> • Academic conferences • Joint-research • etc. 	
University Students		<ul style="list-style-type: none"> • Workshops • Seminars • Technical cooperation • etc. 	
Researchers	Think-tanks/ Research Institutes	<ul style="list-style-type: none"> • Press Council (in Indonesian: <i>Dewan Pers</i>) • etc. 	
Society members	Civil society organizations		
Activists	NGOs		
Journalists	Media		
etc.	etc.		

Note. Theoretical framework of policy transfer on ASEAN issues and democratic foreign policy making in Indonesia. Table prepared by the author

Research Method

This paper provides a case study of the ASEAN-Indonesia National Secretariat. The research method used in this study was a qualitative content analysis of the main data. Qualitative Data Analysis Software (QDAS), in this case Atlas.ti version 24 and 25, is utilized to help the author in the coding process. The documents are coded through an open coding process with an inductive approach.

The main data assessed are legal documents that stipulate the coordination and working mechanisms of the ASEAN-Indonesia National Secretariat (see Table 2).

Table 2. List of Documents on the ASEAN-Indonesia National Secretariat

No.	Name of Documents
1.	The 2007 ASEAN Charter (ASEAN, 2008)
2.	Law of the Republic of Indonesia No. 38/2008 on the Ratification of the ASEAN Charter (Negara Republik Indonesia, 2008)
3.	Indonesian Presidential Regulations No. 53/2020 on ASEAN-Indonesia National Secretariat (Presiden Republik Indonesia, 2020)
4.	Indonesian Presidential Decree No. 23/2012 on the Members of the ASEAN-Indonesia National Secretariat (Presiden Republik Indonesia, 2012)
5.	Ministerial Regulations of the Indonesian Foreign Ministry No. 2/2014 concerning the Organization and Work Procedures of the ASEAN-Indonesia National Secretariat (Menteri Luar Negeri Republik Indonesia, 2014)
6.	Ministerial Regulations of the Indonesian Foreign Ministry No. 6/2021 concerning the Organization and Work Procedures of the Ministry of Foreign Affairs Menteri Luar Negeri Republik Indonesia, 2021)
7.	Ministerial Regulations of the Indonesian Foreign Ministry No. 1/2022 concerning the Implementation of Meetings and Coordination Mechanisms of ASEAN National Secretariat (Menteri Luar Negeri Republik Indonesia, 2022b) *without its addendum

Note. List of documents coded with qualitative content analysis (Source: author).

The research faces two initial limitations. First, except for the ASEAN Charter, the main documents in this research are available only in the Indonesian language. Second, academic literature is scarce on ASEAN's administrative arrangements and institutional management on the national level.

While the ASEAN Secretariat's official documents are accessible in English, the official records of ASEAN National Secretariats are predominantly available in the member states' respective national or official languages. Due to language skill limitations, the research focuses on assessing official documents written in Indonesian and other Malay-rooted languages (such as Malaysian and Bruneian Malays), apart from the English materials. Automatic language translation machines, such as Google Translate, are occasionally used to translate secondary data written in other languages to gain a general comprehension of the information. However, the legal documents are coded in their original language, either in English or in Indonesian, to maintain originality and avoid misinterpretation.

Documents number 4 and 5 have been repealed following the new amendments. The addendum to Document 7, the National Action Plan 2022-2025, which pertains to the ASEAN Community Blueprint 2025, falls outside the scope of this research. Document number 6 has been repealed with the latest Ministerial Regulations of the Indonesian Foreign Ministry No. 4/2025 (Menteri Luar Negeri Republik Indonesia, 2025). However, this document is outside the scope of this study, and these amendments do not change the main structure of the Directorate-General of ASEAN Cooperation (see Menteri Luar Negeri Republik Indonesia, 2025). The research focuses on assessing the ASEAN-Indonesia National Secretariat as a network of policy transfers. The assessment period covers the arrangements of the ASEAN-

Indonesia National Secretariat after the establishment of the ASEAN Community in 2015 and until the completion of Indonesia's ASEAN Chairmanship in 2023.

Findings

Based on the qualitative content analysis of the main documents, Table 3 presents the selected themes and their related subcodes along with the frequency for each code, in relation to the research questions and objectives. Several themes and codes have been translated from the original codes in Indonesian into English due to limited space and practicality.

Table 3. Key Findings from The Qualitative Content Analysis

Themes	Codes	Number of Frequency
<i>Tasks of the ASEAN National Secretariats</i>	Promote ASEAN Identity & Awareness	16
	National Focal Point	11
	Support ASEAN Integration & Community Building	10
	Repository of Information	8
	Preparation of Meetings	8
<i>Objectives of the Legal Documents</i>	Determining the Membership Composition of the ASEAN-Indonesia National Secretariat	13
	Strengthening the coordination and synergy of the three pillars of ASEAN	6
	Implement the Mandates of the ASEAN Charter	5
	Establishing the ASEAN-Indonesia National Secretariat	4
	Carrying out the Mandates of the 1945 Constitution	2
<i>Duties of the Directorate-General of ASEAN Cooperation (Indonesian Ministry of Foreign Affairs)</i>	Implementing evaluation and reporting of ASEAN foreign policy	11
	Implementing coordination of ASEAN foreign policy	7
	Formulation of foreign policy and implementation of ASEAN cooperation	6
	Drafting of legal documents	5
	Providing substantive guidance and facilitation of ASEAN policies	4
<i>ASEAN-Indonesia National Secretariat Meetings Mechanism</i>	Plenary Meeting	10
	Coordination Meeting	8
	Working Meeting	6
	Meeting Results in the form of Minutes/Meeting Report	6
	Plenary Meetings can be led by the chief of staff for the daily operations/representing the Minister of Foreign Affairs	4
<i>Coordination Efforts</i>	National Level	24
	Working with External Partners	20
	Regional level	4
<i>Decision-Making</i>	Consensus	12
	Consultation	9

Note. Selected key themes and subcodes from the coding process (Source: author).

Discussions and Analysis

The Policy Transfer Process of ASEAN-Indonesia National Secretariat

The tasks and responsibilities of the ASEAN-Indonesian National Secretariat are directly derived from the 2007 ASEAN Charter, with details of its roles being nearly identical. As illustrated in Table 2 and Table 3, the ASEAN-Indonesia National Secretariat is a knowledge network consisting of individuals and organizations that promote and implement ASEAN policies in Indonesia. The forums of coordination within this network consist of meetings held throughout the year (see Table 3), where the policy transfer process mainly occurs domestically. However, the Indonesian Ministry of Foreign Affairs has a role in supervising the policy transfer process of ASEAN policies to other institutions in Indonesia (see Table 3). The details of roles and responsibilities, including the structure of the ASEAN-Indonesia National Secretariat, are stipulated in Presidential Decree Number 23 of 2012, which was later amended by the Presidential Regulations Number 53 of 2020 (ASEAN-Indonesia National Secretariat, n.d.; Presiden Republik Indonesia, 2012).

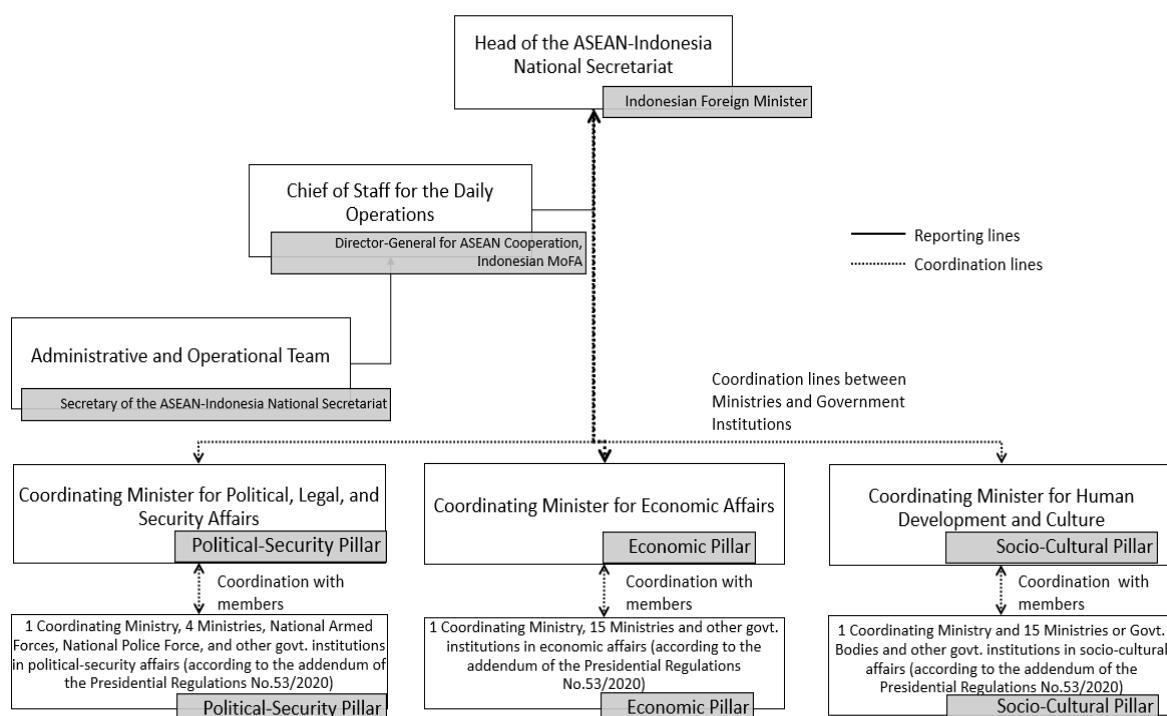


Figure 2. ASEAN-Indonesia National Secretariat Coordination Structure

Note. This graph is illustrated by the author and mainly adapted from Presidential Regulations No. 53/2020 and its addendum, in addition to that, the Ministerial Regulations of the Indonesian Foreign Ministry No. 1/2022, and the Ministerial Decree of the Indonesian Foreign Ministry No. 06/B/KA/VII/2022/01 of 2022 (Presiden Republik Indonesia, 2020) and the Indonesian Ministry of Foreign Affairs, (Menteri Luar Negeri Republik Indonesia, 2022a, 2022b).

According to the Presidential Regulations No. 53/2020 Articles 6 and 7 (Presiden Republik Indonesia, 2020), the Head of the ASEAN-Indonesia National Secretariat is the Indonesian Foreign Minister, and the Director-General of ASEAN Cooperation will serve as the ex officio chief of staff for the daily operations of the national secretariat (Figure 2). Article 8 and the Appendix indicate that the ASEAN-Indonesia National Secretariat clusters groups and government institutions, including the National Police and the National Armed Forces, according to the three ASEAN pillars, as members of the ASEAN cooperation coordination structures at the national level (Presiden Republik Indonesia, 2020). Furthermore, according to the Ministerial Regulations of the Indonesian Foreign Ministry, No. 2/2014 and No. 1/2022, the focal point of each pillar of cooperation is led by the Indonesian coordinating ministries, clustered according to the three pillars of the ASEAN Community (Menteri Luar Negeri Republik Indonesia, 2014, 2022a). Administrative and operational support for the ASEAN-Indonesia National Secretariat was provided by the Ministry of Foreign Affairs as stipulated in the Presidential Regulations No. 53/2020, Article 9 (Presiden Republik Indonesia, 2020).

The Permanent Mission of the Republic of Indonesia to ASEAN (Perutusan Tetap Republik Indonesia untuk ASEAN/PTRI ASEAN) is headed by the Permanent Representative of the Republic of Indonesia to ASEAN, with the rank of ambassador (PTRI ASEAN, 2025). Within the Directorate-General of ASEAN Cooperation in the Indonesian Ministry of Foreign Affairs, the organizational structure is categorized based on ASEAN's three pillars. These comprise the Directorate of ASEAN Political-Security Cooperation, the Directorate of ASEAN Economic Cooperation, and the Directorate of ASEAN Social-Cultural Cooperation. In addition, the Directorate of ASEAN External Cooperation and the Secretariat of the Directorate-General of ASEAN Cooperation oversee external partnerships and administrative arrangements (Kementerian Luar Negeri Indonesia, n.d.). Figure 3 illustrates the coordination structure of the Indonesian Ministry of Foreign Affairs.

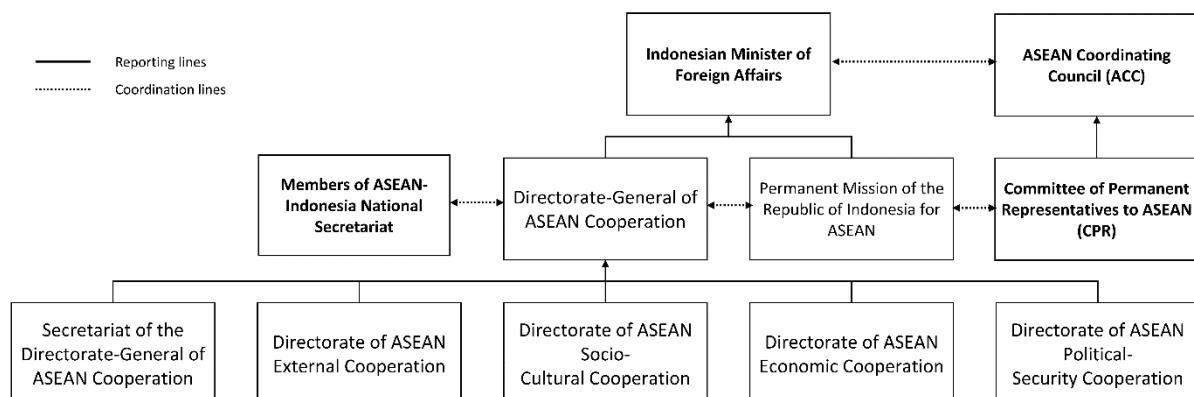


Figure 3. The Coordination Structure of the Indonesian Ministry of Foreign Affairs and PTRI ASEAN with ASEAN bodies

Note. This graph is illustrated by the author and adapted from the organizational structure stipulated in the Ministerial Regulations of the Indonesian Foreign Ministry No. 6/2021 and the Ministerial Regulations of the Indonesian Foreign Ministry No. 1/2022 (Menteri Luar Negeri Indonesia, 2021, 2022b). The adjustments made on this graph connect the coordination lines from the Indonesian Ministry of Foreign Affairs to the Permanent Missions and Permanent Representatives for ASEAN.

Presidential Regulations No. 53/2020, Article 11(3) stipulates that the ASEAN-Indonesia National Secretariat shall hold at least one annual coordination meeting, chaired by the Foreign Minister, and attended by all related ministries and institutions, with the outcomes reported to the president (Presiden Republik Indonesia, 2020). The plenary meeting of the ASEAN-Indonesia National Secretariat, chaired by the Director-General of ASEAN Cooperation, as an ex officio chief of staff for the daily operations, shall invite high-ranking officials from the ministries and agencies in the national coordination clusters (Presiden Republik Indonesia, 2020). In reference to the mandates provided by Presidential Regulations No. 53/2020 and the Ministerial Regulations of the Indonesian Foreign Ministry No. 6/2021, the ASEAN-Indonesia National Secretariat is also responsible for the promotion and awareness of ASEAN cooperation at the national level (Presiden Republik Indonesia, 2020; Menteri Luar Negeri Republik Indonesia, 2021). The findings also show that this role is reiterated significantly in the Indonesian legal texts (see Table 3)

The ASEAN-Indonesia National Secretariat assumes the role of public relations in engaging its target audience and ensuring communication channels such as websites, social media, and publications. Key documents, such as the ASEAN Community blueprints, have been published and translated into Indonesian to reach a broader domestic audience (ASEAN, 2015). Additionally, the national secretariat publishes the magazine '*Majalah Masyarakat ASEAN*' to promote ASEAN Community awareness in Indonesia and encourage regional cooperation (ASEAN-Indonesia National Secretariat, n.d.).

The ASEAN-Indonesia National Secretariat maintains relations with civil society, particularly with educational institutions, such as universities. Through its Directorate-General of ASEAN Cooperation, the Indonesian Ministry of Foreign Affairs establishes a nationwide university network of ASEAN Studies Centers (Pusat Studi ASEAN/PSA) in Indonesia (ASEAN-Indonesia National Secretariat, n.d.). These universities are expected to publish work on ASEAN cooperation and organize campus activities that focus on outreach, teaching, and public advocacy for the ASEAN Community (ASEAN-Indonesia National Secretariat, n.d.).

In collaboration with the Indonesian Ministry of Education, Culture, Research, and Technology at that time, the ASEAN-Indonesia National Secretariat, represented by the Indonesian Ministry of Foreign Affairs, coordinated the adoption of the ASEAN Curriculum Sourcebook in primary and secondary schools (BBPMP Jawa Timur, 2023). In 2021, the Indonesian Government published ASEAN Teaching Materials for primary and secondary education, based on the ASEAN Curriculum Sourcebook, as a reference for teachers in teaching ASEAN studies and fostering awareness among students (BBPMP Jawa Timur, 2023; Setiawan, 2021).

In addition to liaising cooperation between Indonesian national institutions, the ASEAN-Indonesia National Secretariat also liaises with the implementation of ASEAN policies to be transferred and adapted to the national policy. Referring to the policy transfer model by Stone et al. (2020), the ASEAN-Indonesia Secretariat upholds the theory of knowledge diffusion in policy transfer, but within the limited scope of ASEAN level to the

national level in Indonesia, rather than encompassing transnational or global diffusion. The internalization of the 2007 ASEAN Charter into the Indonesian legislation creates a coordinated policy network through the ASEAN-Indonesia National Secretariat, which consists of related institutions and individuals responsible for the implementation of ASEAN cooperation.

Democratic Foreign Policy Making of ASEAN Policies in Indonesia

The findings from the studied documents show that coordination is the main role of the ASEAN-Indonesia National Secretariat (see Table 3). As the coordination of its institutions is conducted mainly through meetings (see Table 3), this arrangement may provide an opportunity for other national institutions to express their opinions, support, or even have reservations regarding the Indonesian position or policies on ASEAN. Individuals involved in these meetings, as personal representatives or representatives of their institutions, may be able to convey their thoughts or even express disagreements on the issue at hand. Moreover, the main documents also explicitly mentioned that the decision-making process within the ASEAN-Indonesia National Secretariat should be conducted through consultation and consensus (see Table 3). There is no voting mechanism in place.

This demonstrates that the ASEAN-Indonesia National Secretariat can cater to and facilitate the democratic foreign policy making on ASEAN issues in Indonesia. In addition, the decision-making process directly adopted ASEAN norms of consultation and consensus. The 'ASEAN Way' norms make their way in the internalization of the 2007 ASEAN Charter to the ASEAN-Indonesia National Secretariat internal processes. In other words, ideally, Indonesia shall not proceed with a proposed ASEAN policy unless all parties in the national secretariat have consented to accept the decision. This arrangement equipped the institutions in ASEAN-Indonesian National Secretariat with some degree of veto power. However, the extent to which other parties can block a decision in a meeting should be the future research.

Some research works have criticized the decision-making mechanism in ASEAN, where consensus is seen as slow and hindering prompt necessary actions (Aggarwal & Chow, 2010; Limsiritong et al., 2019). These issues could potentially arise in the decision-making process within the ASEAN-National Secretariat which could pose a challenge in the long run. However, due to limitations of the research methods and the availability of secondary data on ASEAN National Secretariats, this research cannot address this issue in an in-depth manner. Thus, further research should also cover these issues.

Regarding the policy making in ASEAN, the ASEAN member states and their domestic institutions are not the sole actors. There are ASEAN external partners that are also involved through the partnerships under the ASEAN framework. Furthermore, ASEAN's external partners, particularly the dialogue partners, to some extent, have an influence on policy making in ASEAN (Müller, 2023). Therefore, this research also argues that external partners have some degree of influence to shape the outcomes of ASEAN policies in Indonesia, although they are not involved in the decision-making process.

The ASEAN-Indonesia National Secretariat is also responsible for maintaining contact and coordination with ASEAN external partners' missions and ambassadors located at their embassy compounds in Jakarta, particularly in fulfilling their commitments to achieve the National Action Plan 2022-2025 on the ASEAN Community Blueprint 2025, such as cooperation with the East Asian Summit (EAS) participating members (see the addendum of Indonesian Foreign Ministry Regulations No. 1/2022) (Menteri Luar Negeri Republik Indonesia, 2022b). For instance, the National Action Plan specified that the Indonesian Ministry of Foreign Affairs is assigned to follow up on important issues in the ASEAN region and to draft the new EAS Plan of Action (PoA) (Menteri Luar Negeri Republik Indonesia, 2022b). This also demonstrates that individuals from ASEAN National Secretariats play a role as a bridge with representatives or diplomats from other foreign countries.

In reference to Article 42 of the 2007 ASEAN Charter, each ASEAN member state should oversee ASEAN External Relations Coordinatorship as a country coordinator for each dialogue partner on a rotating basis (ASEAN, 2008; ASEAN, n.d.-b). The ASEAN National Secretariats shall support the application and the achievement of the dialogue partnership cooperation PoA with the designated partner, while also representing ASEAN in strengthening relations, including aiding conflict resolution with external partners as needed.

Pitakdumrongkit (2016) argues that a country coordinator can influence negotiation outcomes, particularly in conflict resolution within the ASEAN region. By studying Thailand as a country coordinator for China (July 2012-June 2015), several roles of a country coordinator can influence the bargaining results in the negotiations on the South China Sea (Pitakdumrongkit, 2016). Those roles are (1) initiating a dialogue and inviting external partners to the discussion; (2) framing substantive material and creating issues linkages to cooperative projects; and 3) turning the momentum through agenda-setting and keeping the issue on consecutive ASEAN meetings (Pitakdumrongkit, 2016).

In principle, the ASEAN National Secretariats retain their duties as the central coordination point of ASEAN cooperation between the member states' government institutions, the ASEAN Secretariat, other ASEAN bodies, and external partners. The influence between ASEAN member states and the external partners is reciprocal. The external partners can express their thoughts on the implementation at the national level, but the ASEAN National Secretariats and their representatives at ASEAN meetings can also influence negotiations on partnerships at the regional level.

Additionally, the key findings (see Table 3) indicate an overlapping role of diplomats, referring to the roles of diplomats stipulated in the 1961 Vienna Convention on Diplomatic Relations (United Nations, 2005), in the Ministry of Foreign Affairs and the ASEAN-Indonesia National Secretariat. The arrangement creates a duality of diplomats' roles in ASEAN: representing a member state in the regional-level ASEAN meetings and simultaneously representing the 'ASEAN Identity' as public relations to the domestic stakeholders and constituents. Hence, some diplomats perform traditional functions at the regional level, and other diplomats work as civil servants that coordinate domestic stakeholders at the national

level. While this situation seems practical and efficient, further research is needed to assess the effectiveness and challenges of the arrangement.

Conclusion

This research examines the internalization of policies mandated by the 2007 ASEAN Charter into the domestic legislation of an ASEAN member state, with a focus on the establishment of the ASEAN National Secretariat in Indonesia. Moreover, this research discusses how the ASEAN-Indonesia National Secretariat, as a coordinated policy network, can play a significant role in the policy transfer of ASEAN issues from the regional to the national level in Indonesia. These arrangements have also facilitated democratic foreign policy making in Indonesia, as the meetings of the ASEAN-Indonesia National Secretariat provide opportunities for other Indonesian domestic institutions to express their thoughts and reservations. The decision-making, however, still retains the norms of 'the ASEAN Way' of consultation and consensus.

The adoption of institutional designs and administrative arrangements in the Indonesian legal system may strengthen its role as a coordinated policy network among Indonesian government institutions and ministries as well as ASEAN bodies and external partners for the domestic implementation of ASEAN targets. The ASEAN-Indonesia National Secretariat maintains a repository of ASEAN cooperation at the national level and serves as the public relations office, promoting ASEAN awareness and regional cohesion. The ASEAN-Indonesia National Secretariat can be a model institution for other ASEAN member states, particularly in enhancing the participation of domestic stakeholders and strengthening democratic foreign policy making on ASEAN issues at the national level.

Since the ASEAN National Secretariats are closely tied to the Ministry of Foreign Affairs, their roles overlap with the traditional functions of diplomats. National laws heavily govern the ASEAN-Indonesia National Secretariat's rules and procedures at the working level. The ASEAN-Indonesia National Secretariat is a consortium of Indonesian institutions that coordinates the implementation of ASEAN policies at the national level, with the Indonesian Ministry of Foreign Affairs serving as its spearhead. The national secretariat is also responsible for harmonizing domestic laws and policies following ASEAN agreements and recommendations.

This research opens several questions for future research regarding the possible challenges of reaching consensus, the varying degrees of veto power between institutions, and the dual roles effectiveness of the diplomats. Close coordination between the organizational structures of ASEAN—the ASEAN Secretariat, the Committee of Permanent Representatives (CPR), and the ASEAN National Secretariats—is instrumental in the implementation of ASEAN regional policies and external cooperation at the national level.

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The Long-Run Impact of Educational Expansion on Income Inequality in ASEAN Countries

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Abstract

Over the past two decades, global income inequality has tended to increase, particularly in developing countries within the ASEAN region. Global, regional, and national efforts to narrow income inequality have been ongoing, as have research endeavours. The correlation between educational expansion and income inequality remains debatable. This research aimed to re-investigate the impact of educational expansion on income inequality across ASEAN countries. The researcher utilized panel data from 11 ASEAN member states for the period 2010 to 2021. Using Panel Fully Modified Least Square (FMOLS) analysis, the research finds that educational expansion, proxied by average years of schooling, significantly contributes to reducing income inequality in the long run. Additionally, the gross enrollment rates in secondary and higher education were found to have a strong effect on narrowing income inequality among the populations of ASEAN countries in the long term, in contrast to the impact of gross enrollment rates in primary education. These findings further reinforce the theory and previous research that education is a key factor in reducing income inequality. Therefore, governments in each country should focus on accelerating the expansion and development of secondary and higher education.

Keywords: educational expansion, enrollment, mean years of schooling, income inequality

Introduction

Income inequality has become a common issue in developing countries (Makhlof, 2023), but not in developed nations. The growing income disparity reflects an increasing gap between high-income and low-income populations. In recent decades, both global and national policymakers have made various efforts to curb the rise of income inequality, particularly in developing countries (Chancel et al., 2022; Mijs, 2021), through programs, financial assistance, empowerment initiatives, mentoring, and regulations. The increase in income inequality has implications for hindering economic growth, exacerbating poverty, affecting public health, education, and overall societal well-being (Adjor & Kebalo, 2018; Alesina & Perotti, 1996; Kuznets, 1963; McGregor et al., 2019; Munir & Kanwal, 2020; Stiglitz et al., 2018) and can even lead to insecurity and political instability (Batuo et al., 2022; Bourguignon, 2004).

Global income inequality has recently shown a tendency to rise (World Bank, 2023), although the gap has become smaller and remains lower than global wealth inequality. This is evidenced by the fact that the poorest half of the global population possesses almost no wealth, holding only 2% of the total global wealth. On the contrary, the wealthiest 10% of the world's population owns 76% of all wealth. The poorest half of the global population has a purchasing power parity (PPP) of €2,900 per adult, or USD 4,100, while the top 10% own an average of € 550,900 or USD 771,300 (Chancel et al., 2022). Meanwhile, income inequality in developing countries has also been on the rise, despite more progress in economic growth (Batuo et al., 2022; Bicaba et al., 2017; Kebalo & Zouri, 2024). In Asia and the Pacific, rapid growth and poverty reduction have been accompanied by a rise in income inequality (Zhuang, 2023). Similarly, the prevalence of income inequality in ASEAN countries reflects comparable conditions, disproportionately affecting low-income populations, low-skilled workers, minorities, immigrants, and women (United Nations Development Programme, 2022). A 1% increase results in an additional 15% of the population, or approximately 152 million people, falling into poverty in the ASEAN region (United Nations Economic and Social Commission for Asia and the Pacific, 2021).

Previous researchers have paid considerable attention to the various determinants of income inequality reduction. One of the key factors determining income inequality is education. Ghosh et al. (2023) argue that economies with lower levels of education and lower degrees of trade openness fail to reduce income distribution inequality. A significant research is conducted by Checchi (2001) which demonstrates that expanding education can increase earning opportunities for the poorest segments of the population, thereby reducing income inequality. Another research also find that income inequality is not solely determined by economic growth; education is one of the most powerful instruments in addressing it (Rodríguez-Pose & Tselios, 2009). Other research works have shown that expanding

education contributes significantly to reducing income inequality (Coady & Dizioli, 2018; Lee & Lee, 2018), with some findings even showing a significant nonlinear pattern (Xu et al., 2023).

Recent research works in Asia and the Pacific indicate that globalization, technological advancements, deregulation, and market-oriented reforms have created new business opportunities. However, it is crucial to note that many companies prioritize capital over skilled labour, which has not contributed to reducing income inequality (Zhuang, 2023). Using a different approach (outer space perspective), earlier research found that regional inequality and economic development in the ASEAN region exhibit an inverted-N relationship (Chen & Zhang, 2023). Overall, regional inequality in this area is primarily driven by uneven development among countries.

Previous research works at the national level in Southeast Asia have demonstrated a correlation between education and income inequality, as seen in Indonesia (Akita & Miyata, 2024; Setyadharma et al., 2021; Siburian, 2023; Thye et al., 2022), in Malaysia (Ismail, 2000; Koh et al., 2022; Mohd et al., 2014; Sulaiman et al., 2017; Tey et al., 2019), in Thailand (Mercado et al., 2024; Paweenawat & Liao, 2023), and in Timor-Leste (Aldar et al., 2021). Education also serves as an instrument for wealth accumulation, as observed in Vietnam (Pham et al., 2024; Vo & Ho, 2022), Philippines (Akita et al., 2023; Akita & Miyata, 2021, 2024; Mercado et al., 2024; Yee, 2024), Vietnam (Ho et al., 2020; Pham et al., 2024; Vu, 2020), and Singapore (Ngoc & Hai, 2024; Widjaya, 2016). Other studies at the national level, including those from Myanmar and Cambodia, have also produced significant findings (Thein & Akita, 2019; Win et al., 2023). A previous research evaluating the impact of education (human capital) on income inequality in three ASEAN countries find that education plays an important role in decreasing the rural-urban divide, with a difference ranging between 30% and 40% (Akita & Miyata, 2021). However, another research has found a strong and nonlinear long-term relationship between education and inequality (Vo et al., 2024).

Hendel et al. (2005) also emphasize that in regions inhabited by individuals with higher levels of education, the quality of life improves more rapidly; however, affordable education tends to exacerbate income inequality. Other studies similarly demonstrate that the role of education, as proxied by increased government spending on education, actually contributes to widening income inequality (Checchi, 2001; Makhlof & Lalley, 2023). Medgyesi (2014) and Muszyńska and Wędrówska (2023) also find that there is a significant income disparity among households with different educational levels of the household head. The findings indicate that the impact of educational differences on income inequality tends to be relatively high and relatively low in most EU-15 countries. Results for developing countries in ASEAN (including other Asian countries) show that an increase in the number of highly educated individuals does not reduce income inequality in the long term (Arshed et al., 2019; Vo et al., 2024), with Malaysia exhibiting similar results (Mohd et al., 2014). In fact, Koh et al. (2022) also report that education significantly widens income inequality in Asia and the Pacific. Policymakers continue to expand access to education for young people in an effort to narrow the income gap, but this has, in effect, widened the inequality (Lui, 2021).

Income inequality has become a persistent issue in developing countries. Despite various efforts by global and national policymakers, as well as research findings, income inequality continues to widen. The expansion of education has been identified as a factor that either reduces or exacerbates income inequality (Akita & Miyata, 2021; Koh et al., 2022; Lui, 2021; Makhlof & Lalley, 2023; Xu et al., 2023). Existing research present mixed findings: some researchers conclude that educational expansion decreases inequality, while others find the opposite. Previous studies focused on the direct correlation between educational expansion and income inequality in a single country or a few countries. This research provides a holistic perspective that integrates recent trends and policy implications. Moreover, this research offers a novel contribution by analyzing the long-run impact of education on income inequality in ASEAN countries and employing a panel dataset covering 2010 to 2021. Additionally, this study aims to strengthen the theoretical consistency regarding the correlation between educational expansion and income inequality. Ultimately, the research seeks to provide empirical insights for policymakers in each country and the ASEAN Secretariat on the importance of expanding secondary and higher education.

Literature Review

In general literature, there is a common belief that education can play an essential role in reducing income inequality. Education produces human capital, which is utilized in the production process. The better the educational outcomes or the quality of human capital, the greater their influence on individual income. However, the formation of socially underdeveloped human capital may be constrained by income inequality, thereby affecting the fairness of income distribution and potentially creating a vicious cycle (Cappelli et al., 2021). Workers with higher levels of education can help reduce income inequality within an economy (Xu et al., 2023). The expansion of education has undoubtedly contributed to bridging the gap in educational opportunities (Desai & Kulkarni, 2008).

The literature further reinforces the role of education in shaping income inequality. Schultz (1961) argues that one way to reduce income inequality is by increasing the educational attainment of the population (as a measure of human capital quality). Higher income levels will subsequently reduce inequality. Other theories suggest that education (human capital) is a key determinant of income disparities (Becker, 1964; Chiswick, 1974; Mincer, 1958, 1974). Moreover, Marin and Psacharopoulos (1976) emphasize a negative nexus between levels and income inequality.

Arshed et al. (2018) apply a cointegration approach using data from 1990 to 2015 and a group of selected SAARC countries, including Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. The findings show that participation in primary and secondary school has a quadratic correlation with income inequality, with higher levels of school participation exacerbating the inequality. Other findings indicate that high levels of educational participation in India, Sri Lanka, the Maldives, and Nepal have a negative effect on income inequality. Also, Lee and Lee (2018) find that a more equitable distribution of education significantly contributes to reducing income inequality in East Asia. Continuing

their research in developing Asian countries from 1960 to 2015, Arshed et al. (2019) conclude through FMOLS analysis that participation in primary, lower secondary, upper secondary, and higher education increased inequality, with a non-linear relationship observed by using a similar cross-country approach (Lee & Vu, 2020).

Shukla and Mishra (2020) confirm a U-shaped relationship between average education levels and per capita income inequality in rural sectors of India, but not in urban areas. Their findings also show no significant relationship between education levels and income inequality in rural sectors, while income inequality is positively associated with the proportion of school graduates in the urban workforce. Vu (2020) conducts a study in Vietnam and supports previous findings that there is also no correlation between education and income inequality. Meanwhile, a study in Indonesia finds that higher education reduces rural income inequality (Setyadharma et al., 2021). Education serves as an important instrument in reducing income disparities in rural areas of Indonesia.

Scripcar and Ciobanu (2021) demonstrate that education plays a crucial role in reducing income inequality within the European Union (2000–2019). Akita & Miyata (2021) found that narrowing the urban-rural education gap in Indonesia and the Philippines can reduce expenditure inequality in both urban and rural areas. Taresh et al. (2021), using the SVAR method for panel data from 33 Indonesian provinces from 2005 to 2018, conclude that income inequality negatively impacts educational growth and human development. In the long-run, education and the human development index can reduce income inequality.

Vo and Ho (2022), using data from the Vietnam Household Living Standards Survey between 2008 and 2018, show that educational attainment has become a key indicator of individuals' success in raising income and wealth, thereby reducing wealth accumulation inequality in Vietnam. Meanwhile, Koh et al. (2022) conduct a study on 19 Asian countries from 1990 to 2019. Their panel GMM method shows that controlling for national income levels, increasing trade openness, and improving institutional quality can reduce income inequality in the Asia-Pacific region. However, educational attainment worsens income inequality. A broader study in Asia and the Pacific by Zhuang (2023) finds that technological advancements, globalization, deregulation, market-oriented reforms, and financialization have created numerous new opportunities. However, these developments tend to benefit capital more than labor, skilled workers more than unskilled workers, and contribute to the expansion spatial inequality, ultimately leading to a greater concentration of wealth among the affluent.

Xu et al. (2023), utilizing the NARDL model, find that positive shocks to secondary and higher education are negatively correlated with the long term Gini coefficient of income in China during 1975–2020. Siburian (2023) estimate a dynamic panel from 2001 to 2018, providing evidence that higher levels of fiscal decentralization weaken the impact of years of schooling on income inequality in Indonesia. Furthermore, Muszyńska and Wędrowska (2023) demonstrate that most countries with a high proportion of educated individuals also exhibit lower levels of inequality at the lower end of the distribution. A study in Myanmar using regression analysis found that educational attainment and labour force participation

significantly impact poverty reduction (Win et al., 2023). Vo et al. (2024) find that human capital reduces income inequality in the short term in ASEAN-7 countries. However, in the long term, human capital can increase income inequality in these countries.

Recent studies also yield diverse findings. Ngoc and Hai (2024) analyze the relationship between three key macroeconomic variables and income inequality, finding that human capital negatively impacts income inequality in Singapore. In addition, Pham et al. (2024) discovered that higher education levels significantly enhance household wealth accumulation in Vietnam for the years 2008 and 2020. Finally, Yee (2024) conduct a research in the Philippines using a multinomial logit model and find that despite sustained expansion in education, disparities in the completion of secondary and higher education increasingly correlate with social background.

The literature review illustrates that research on the relationship between education and income inequality produces varied findings, with education having complex effects across different regions, countries, and internationally. However, it can be stated that educational inequality significantly reduces income inequality, although some findings indicate the opposite or even a non-linear relationship. Therefore, it is crucial to ensure a more equitable distribution of income and to expand access to education from primary through higher education. Findings that suggest education does not reduce inequality often point to other influencing factors such as fiscal decentralization, national income levels, poverty, unemployment, and institutional quality, which are also highly significant.

Studies focusing on various developing countries and regions in Asia, as mentioned by Arshed et al. (2018) and Vo et al. (2024), conclude that there is a quadratic correlation between education and income inequality. In contrast, studies in other developed and developing countries, such as those by Lee and Lee (2018) and Makhlof and Lalley (2023), emphasize the importance of equitable income distribution and educational expansion to reduce income inequality, despite findings indicating long-term relationships. Overall, education is an important instrument for reducing income inequality, and policies should be designed considering this factor, along with other aspects, to effectively narrow income disparities.

Research Methods

This research investigates the impact of educational expansion on income inequality in ASEAN countries in the long-run. The researchers establish a FMOLS panel model and complemented it with a static model. The researchers also apply an Autoregressive Distributed Lag (ARDL) panel data model as a robustness test, utilizing data from World Income Inequality Database (WIID), World Development Indicator (WDI), UNESCO, the ASEAN Secretariat, and annual statistical report of each country. The analysis includes data from 11 ASEAN member countries, covering the period from 2010 to 2021. Accordingly, the panel data utilizes in this research consist of a cross-section dimension (i) of 11 individuals and a time-series dimension (t) of 12 years ($i \times t$). So, the panel data are 132. Given the limitations of the data provided by WIID, it is complemented with data from other sources,

United Nations Development Programme (UNDP), using the same approach. The researchers estimate the analysis model by utilizing EViews 12 software. Meanwhile, the research variables are described in Table 1.

Table 1. Description of Variables and Data Sources

Variables	Codes	Description	Source
Income Inequality [Gini Coefficient] (Goh et al., 2022; Koh et al., 2022; Makhlof & Lalley, 2023; Shukla & Mishra, 2020; Xu et al., 2023; Yee, 2024)	g^c	Measure the difference in income distribution/ (%)	WIID, UNDP, Statistical Years Book, ASEAN Secretariat
Education expansion [means years of schooling] (Khusaini et al., 2023; Makhlof & Lalley, 2023; Setyadharma et al., 2021; Shukla & Mishra, 2020; Siburian, 2023; Vo & Ho, 2022)	mys	The average years of schooling for the population aged 25 and over/(year)	UNESCO, Statistical Year Book
Gross enrollment rate (Batuo et al., 2022; Mohd et al., 2014; Nizar et al., 2023).	$gerpe$	Number of students any groups who enrolled in primary education expressed as a percentage of the official primary school age population/ (%)	WDI, UNDP
	$gersec$	Number of students of any general groups who are enrolled in secondary education expressed as a percentage of the official secondary school age population/ (%)	WDI, UNDP
	$gerter$	Number of students all age groups enrolled in tertiary education expressed as a percentage of the official tertiary education age population/ (%)	WDI, UNDP
Real income per capita (Koh et al., 2022; Makhlof, 2023; Nawaz & Ghulam, 2024; Vo et al., 2024)	$lgdpcap$	US \$ (2015 constant prices)/logarithm	WDI
Gross fixed capital formation (Batuo et al., 2022; Koh et al., 2022; Makhlof & Lalley, 2023; Xu et al., 2023),	$gfcf$	The ratio gross fixed capital formation to GDP (2015 constant price) /%	WDI
Gender development index (Alawin & Sbitany, 2019; Ali et al., 2023; Ashraf et al., 2023)	gdi	It measures the gender gap in human development in the dimensions of health, education and living standards between men and women/ (%)	WDI
Economic openness (Koh et al., 2022; Makhlof & Lalley, 2023; Ridzuan et al., 2021)	$open$	the sum of imports and exports of goods and services as percentage of GDP (2015 constant prices)/(%)	WDI

The FMOLS panel modelling aims to estimate the long-term cointegration correlation between educational expansion and income inequality. Before applying FMOLS, two

conditions must be met to ensure that the equation is suitable for further testing. The model requires stationarity at the first difference and the presence of a long-term relationship. Additionally, FMOLS is effective for addressing endogeneity and autocorrelation issues using a non-parametric approach. The steps involved in using this model include cross-sectional dependence tests, unit root tests, cointegration tests, and asymptotic N and T (Pesaran, 2015). Another advantage of FMOLS is its robust estimation results.

Cross-sectional dependence (CD) tests in the data and first-generation unit root tests (Levin et al., 2002) and Fisher panel unit root tests (Choi, 2001) are conducted. To complement the first-generation stationarity tests, the researcher performs second-generation panel unit root tests, or cross-sectional augmented Im-Pesaran-Shin (CIPS) panel unit root tests (Pesaran, 2007). Cross-sectional dependence (Pesaran, 2004) can be expressed in Equation (1). Then, the CIPS panel unit root test, as developed by Pesaran (2007), can be expressed in Equation (2). The equations refer to N as the number of Southeast Asian countries (11) within panel data set, T as the number of time series data (13, corresponding to the period 2010-2022), and ρ_{ij} as the pairwise residuals correlation. The CD test statistic is assumed to be normally distributed as N and T approach infinity.

$$CD = \sqrt{\frac{2t}{N(N-1)}} \left(\sum_{i=1}^{N-1} \sum_{j=i+1}^N \rho_{ij} \right) \rightarrow N(0,1) \quad (1)$$

$$CIPS(N, T) = \frac{1}{N} \sum_{i=1}^N t_i(N, T) \quad (2)$$

To ensure that all estimated coefficients are homogeneous across all cross-sections, a homogeneity test of the slopes is also required (Pesaran & Yamagata, 2008). The hypothesis for the slope homogeneity test can be stated as follows: $\beta_1 = \beta_2 = \dots = \beta_n$. Then, the equation can be expressed as Equation (3) and Equation (4). Here, S and Δ refer to the test statistic, β_i refers to the estimated coefficient, β_W refers to estimate obtained from the weighted combined estimator, χ_i refers to the matrix of independent variables in deviations from the mean, M_T stands for the identity matrix, ρ_i^2 refers to estimation ρ_i^2 , and x refers to the number of independent variables.

$$S = \sum_{i=1}^N (\beta_i - \beta_W)' \frac{\chi_i' M_T \chi_i}{\rho_i^2} (\beta_i - \beta_W) \quad (3)$$

$$\Delta = \sqrt{N} \left(\frac{\frac{1}{N} S - x}{\sqrt{2x}} \right) \quad (4)$$

The second-generation unit root test is essential to perform using the panel t-statistics for CIPS for each cross-sectional unit (Im et al., 2003), and the cross-sectional augmented Dickey-Fuller (CADF) test for the average individual statistics (Pesaran, 2007). According to Pesaran (2007), the unit-root test can be expressed in Equation (5).

$$x_{it} = \alpha_{it} + \beta_i x_{it-1} + \rho_i t + \sum_{j=1}^n \varphi_{ij} \Delta x_{i,t-j} + \varepsilon_{it} \quad (5)$$

Here, a_{it} refers to constant, t refers to time horizon, Δ refers to the difference operator, x_{it} refers to variables used in the research, and ε_{it} refers to error term. The null hypothesis H_0 states that the time series under investigation is non-stationary, while the alternative hypothesis H_1 states that the time series under investigation is stationary. Therefore, the test results are expected to reject H_0 .

The most commonly used panel cointegration test is based on testing the unit root of the residuals from ordinary least squares (OLS) regressions, commonly known in the literature as the Engle-Granger (EG) t-cointegration test. Pedroni (2004) proposed a framework for developing panel cointegration tests based on the EG procedure. Based on residual estimation, he obtained seven different test statistics. Similar to the panel unit root tests based on Augmented Dickey-Fuller (ADF), Pedroni's seven test statistics can be differentiated into two categories: those assuming a common process, often referred to as 'pooled' or 'within-dimension' tests, and those assuming an individual process, referred to as the test of the 'grouped' or 'between-dimension.'

Additionally, the panel cointegration test using FMOLS also applies the Kao cointegration test (Kao, 1999) to complement the limitations of the Pedroni panel cointegration test (Pedroni, 2000, 2004). This method considers the heterogeneity of specific effects, slope coefficients, and individual linear trends across regions/countries. Typically, the cointegration vectors may differ among the panel members. The initial step proposed by Pedroni (2004) on panel cointegration test is the specified cointegration equation (see Eq.6)

$$y_{it} = \alpha_i + \beta_i x_{it} + u_{it} \quad (6)$$

The y_{it} is the dependent variable for i -unit and t -time. Meanwhile, x_{it} is independent variable for i -unit and t -time. The α_i is intercept specific for unit i . The β_i is the cointegration coefficient that measures the long-term relationship between y_{it} and x_{it} .

Then, estimating the parameter β_i by modifying the variables, namely Equation (7) and Equation (8).

$$\tilde{y}_{it} = y_{it} - \hat{\gamma}_{it} \hat{u}_{it} \quad (7)$$

$$\tilde{x}_{it} = x_{it} - \hat{\gamma}_{it} \hat{v}_{it} \quad (8)$$

The \tilde{y}_{it} represents the corrected dependent variable and \tilde{x}_{it} represents the corrected independent variable. The $\hat{\gamma}_{it}$ is the simultaneity bias correction factor, while \hat{u}_{it} and \hat{v}_{it} is the residual from the initial OLS regression. The $\hat{\gamma}_{it}$ is used as a weighting factor for the corrections y_{it} and x_{it} . \tilde{y}_{it} and \tilde{x}_{it} , which are free from bias, are applied in the FMOLS estimator, allowing for consistent and efficient estimation of long-run cointegration parameters.

The $\hat{\gamma}_{it}$ is the simultaneity bias correction, while \hat{u}_{it} and \hat{v}_{it} is the residual from the initial OLS regression. To obtain the long-run cointegration parameter estimate $\hat{\beta}_{FMOLS}$ the panel FMOLS method is Equation 9. In other words, $\hat{\beta}_{FMOLS}$ is the parameter estimation result that bridges the theoretical cointegration model with the empirical model specifications.

Moreover, the empirical model is based on panel cointegration approach of FMOLS by Pedroni (2004) and the equation can be expressed as Equation (10) and Equation (11).

$$\hat{\beta}_{FMOLS} = \left(\sum_{i=1}^N \sum_{t=1}^T \tilde{x}_{it} \tilde{x}'_{it} \right)^{-1} \left(\sum_{i=1}^N \sum_{t=1}^T \tilde{x}_{it} \tilde{y}_{it} \right) \quad (9)$$

$$gc_{it} = \alpha_0 + \alpha_1 mys_{it} + \alpha_2 lgdp_{capit} + \alpha_3 gfc_{fit} + \alpha_4 gdi_{it} + \alpha_5 open_{it} + \varepsilon_{it} \quad (10)$$

$$gc_{it} = \alpha_0 + \alpha_1 gerpe_{it} + \alpha_2 gersec_{it} + \alpha_3 gerter_{it} + \alpha_4 lgdp_{capit} + \alpha_5 gfc_{fit} + \alpha_6 gdi_{it} + \alpha_7 open_{it} + \varepsilon_{it} \quad (11)$$

The gc is the gini coefficient, mys is mean years of schooling, $gerpe$ is gross enrollment rate in primary education, $gersec$ is gross enrollment rate in secondary education, and $gerter$ is gross enrollment rate in higher education. The $lgdp_{cap}$ represents per capita income, while gfc stands for gross domestic fixed capital formation, gdi is gender development index, and $open$ is economic openness. Meanwhile, ε stands for estimation error, i is the country- i , t is the t -year and $\alpha_i = \alpha_0, \alpha_1, \dots, \alpha_7$ (estimated parameters).

Pedroni (1996, 2001) recommends the use of FMOLS in panel cointegration analysis. The FMOLS estimators include 'Pooled,' 'Pooled Weighted,' and 'Group Mean' estimators. The researcher utilizes the 'Pooled' estimation method. Model validation for the panel FMOLS is conducted using the Wald test.

For assessing the robustness of the model, the researcher applies the same variables but with a different model, namely the Panel Autoregressive Distributed Lag (ARDL). This method does not require the data to be stationary at $I(0)$ or $I(1)$, or a combination of both (Pesaran & Shin, 1999). Following previous literature on dynamic panel models, the researcher applies this estimator to test the long-term consistency of the impact of educational expansion on inequality using the Pooled Mean Group (PMG) approach (Pesaran et al., 1999). The PMG model allows for long-term equilibrium to be homogeneous but does not impose homogeneity in the short term, focusing instead on the specific heterogeneity of each country. Each country has distinct characteristics related to policy responses, shocks, external factors, and so forth. The empirical Panel ARDL model can be expressed as Equation (12). By reparameterizing Equation (12), Equation (13) is obtained.

$$gc_{it} = \alpha_i + \sum_{l=1}^p \beta_0 gr_{i,t-1} + \sum_{l=0}^q \beta_1 mys_{i,t-1} + \sum_{l=0}^q \beta_2 x_{i,t-1} + u_{it} \quad (12)$$

$$\Delta gc_{it} = \alpha_i + \vartheta_i (gr_{i,t-1} - \gamma_1 mys_{i,t-1} - \gamma_2 x_{i,t-1}) + \sum_{l=1}^{p-1} \varphi_{il} \Delta gr_{i,t-1} + \sum_{l=0}^{q-1} \varphi'_{il} \Delta mys_{i,t-1} + \sum_{l=0}^{q-1} \varphi''_{il} \Delta x_{i,t-1} + u_{it} \quad (13)$$

The i and t represent each country and time, and x represents the control variables including per capita, gross fixed capital formation to GDP ratio, gender development index, and economic openness. The notations $\varphi, \varphi', \varphi''$ are the coefficients for the lagged variables of independent and control variables in the short-term. In the long term, the coefficients for educational expansion are represented by γ_1 and γ_2 . Meanwhile, the speed of adjustment is denoted by ϑ_i .

Results and Discussion

Statistical Summary and Unit Root Test

Table 2 shows that the average value of the Gini coefficient is 0.383, meaning that the income inequality level in the ASEAN region countries is low (Gini, 1912). The average value of the mean years of schooling is 7.65, which corresponds to the average still in lower secondary education (ISCED 2) (UNESCO Institute for Statistics, 2012). Table 2 also shows that the average gross enrolment rate for primary education is very high, for lower secondary education it is high, and for upper secondary education it remains low.

Table 2. Statistical Summary

Variables, n=132	Mean	Std. Dev.	Max	Min
Gini coefficient (<i>gc</i>) ^a	0.383	0.049	0.496	0.278
Mean years of schooling (<i>mys</i>)	7.655	2.258	12.328	3.598
Gross enrollment rate for primary education (<i>gerpe</i>)	107.980	8.540	131.001	90.610
Gross enrollment rate for secondary education (<i>gersec</i>)	82.715	18.978	130.934	84.506
Gross enrollment rate for tertiary education (<i>gerter</i>)	32.582	20.587	97.098	11.054
Log GDP per capita (<i>lgdpcap</i>)	9.339	1.078	11.572	7.904
Contribution of gross capital formation to GDP (<i>gfcf</i>)	28.577	7.681	70.331	14.445
Gender development index (<i>gdi</i>)	0.962	0.032	1.013	0.893
Open economy (<i>open</i>)	1.172	0.810	3.791	0.239

Note: authors calculation (Timor Leste: 2011-2012 and 2015-2016; Laos: 2013-2016; Myanmar: 2010-2014)

Table 3 presents the CD test, with the null hypothesis being the cross-sectional independence of the error terms across cross-sections. Generally, given that the p-value is < 0.01, the researcher rejects the null hypothesis. This indicates cross-sectional dependence at the 1 percent level. Subsequently, the researcher must employ second-generation panel unit root tests.

Table 3. The Results of the CD Test

Variables	Breusch-Pagan LM	Pesaran Scaled LM	Bias-Corrected Scaled LM	Pesaran CD
<i>gc</i>	188.276***	12.707***	12.207***	2.085**
<i>mys</i>	442.212***	36.919***	36.419***	16.999***
<i>gerpe</i>	396.925***	32.601***	32.101***	6.517***
<i>gersec</i>	255.940***	19.159***	18.659***	4.634***
<i>gerter</i>	235.029***	17.165***	16.665***	4.613***
<i>lgdpcap</i>	389.538***	31.897***	31.397***	14.646***
<i>gfcf</i>	125.830***	6.753***	6.253***	0.645
<i>gdi</i>	263.079***	19.839***	19.339***	11.377***
<i>open</i>	239.797***	17.619***	17.120***	0.538

Note: ***sig.=1%, **sig.=5%, *sig.=10%

Table 4 shows that the results of the second-generation panel unit root tests using various methods, including the Levin, Lin and Chu test; Im, Pesaran, and Shin; Fisher ADF; Phillips and Perron; and Breitung tests. The empirical results from these second-generation unit root tests indicate that the data has become stationary at the first difference, I(1), although some variables are stationary at the level (I(0)). Subsequently, the researcher proceeds with the cointegration test.

Table 4. The Results of the Unit Root Panel Test

Variables	Method	Intercept		Intercept and Trend	
		Level	First difference	Level	First difference
<i>gc</i>	LLC	-5.034***	-8.706***	-6.867***	-8.172***
	IPS	-1.802**	-6.049***	-2.264**	-3.425***
	ADF	37.512**	73.812***	41.974***	61.559***
	PP	32.627*	114.907***	62.059***	111.810***
	Breitung	-	-	-0.903	-1.568**
<i>mys</i>	LLC	-4.998***	-13.697***	-9.163***	-12.633***
	IPS	-1.947***	-4.743***	-3.208***	-3.112***
	ADF	40.589***	50.069***	48.370***	41.263***
	PP	30.578***	57.007***	42.905***	43.005***
	Breitung	-	-	-3.613***	3.732
<i>gerpe</i>	LLC	-1.2231	-6.487***	-5.032***	-5.520***
	IPS	2.001	-3.942***	-1.223	-1.399*
	ADF	11.470	52.357***	30.589	34.243**
	PP	8.688	63.641***	40.967	51.640***
	Breitung	-	-	0.962	-0.393
<i>gersec</i>	LLC	-5.066***	-5.039***	-2.725***	-5.947***
	IPS	0.246	-4.327***	-0.736	-2.795***
	ADF	35.053***	59.809***	32.282*	49.678***
	PP	33.727*	75.499***	32.873*	82.990***
	Breitung	-	-	1.904	-0.856
<i>gerter</i>	LLC	-3.782***	-10.182***	-4.645***	-9.139***
	IPS	-1.815**	-6.273***	-1.231	-2.896***
	ADF	37.045**	76.350***	31.432*	52.437***
	PP	38.662**	100.842***	40.165**	98.427***
	Breitung	-	-	-0.295	-3.543***
<i>lgdpcap</i>	LLC	-1.771**	-4.395***	-1.039	-5.339***
	IPS	0.548	-3.110***	-0.184	-1.338*
	ADF	19.108	51.058***	29.598	35.322**
	PP	56.571***	64.186***	61.839***	55.951***
	Breitung	-	-	5.979	1.564
<i>gfcf</i>	LLC	-1.320*	-7.487***	-6.952***	-6.659***
	IPS	-0.455	-5.283***	-1.987**	-2.634***
	ADF	27.161	66.785***	36.867**	45.908***
	PP	30.670	70.362***	41.438***	58.969***
	Breitung	-	-	0.329	-0.327
<i>gdi</i>	LLC	-7.184***	-10.225***	-13.253***	-7.283***
	IPS	-3.167***	-5.034***	-2.515***	-2.196**
	ADF	47.347***	68.357***	35.949**	51.766***
	PP	3.899***	107.620***	34.902**	132.909***
	Breitung	-	-	1.362	-3.905***
<i>open</i>	LLC	-2.243***	-8.078***	-3.103***	-7.444***
	IPS	0.244	-4.482***	0.195	-1.790**
	ADF	21.612	67.821***	27.250	47.695***
	PP	17.731	80.195***	25.759	74.115***
	Breitung	-	-	0.723	-0.183

Note: ***sig.=1%, **sig.=5%, *sig.=10%. LLC = Levin, Lin & Chu t, IPS = Im, Pesaran and Shin W-stat, ADF = ADF-Fischer Chi-square, PP = PP-Fisher Chi-square

Panel Cointegration Test

To identify the correlation between educational expansion and control variables with income inequality in the long-run, panel cointegration tests proposed by Pedroni and the Kao residual test are required (Kao & Chiang, 2001; Pedroni, 1999, 2004). Table 5 shows that educational expansion has a cointegrating relationship with income inequality among the populations of ASEAN countries.

Table 5. The Results of the Panel Cointegration Test [Assumption: No Deterministic Trend]

Model	Individual AR coefs. (between-dimension)			Individual AR Coefs. (between-dimension)	
	Stat. types	Stat.	Weighted Stat.	Stat. Types	Stat.
FMOLS 1	Panel v - statistic	-2. 610	-3.281	Group rho - statistic	5.134
	Panel rho - statistic	3.665	3.918	Group PP - statistic	-18.706***
	Panel PP - statistic	-11.017***	-12.270***	Group ADF - statistic	-5.372***
	Panel ADF - statistic	-4.862***	-4.143***		
FMOLS 2	Variables > 7, in compatible (see Kao residual test)				
FMOLS 3	Panel v - statistic	-2.142	-2.499	Group rho - statistic	4.181
	Panel rho - statistic	2.943	2.871	Group PP - statistic	-15.302***
	Panel PP - statistic	-10.626***	-11.500***	Group ADF - statistic	-5.522***
	Panel ADF - statistic	-4.865***	-5.149***		

Note: ***sig.=1%, **sig.=5%, *sig.=10%.

Meanwhile, the results are also complemented by the Kao residual cointegration test (see Table 6), which shows identical outcomes. Therefore, the use of the FMOLS panel analysis has met the requirements. Further details are provided in Table 6.

Table 6. The Kao Residual Cointegration Test Results

Panel	ADF stat	Sig.	Conclusion
FMOLS 1	-1.835	0.033	Cointegrated correlation
FMOLS 2	-2.139	0.016	Cointegrated correlation
FMOLS 3	-2.007	0.022	Cointegrated correlation

Regression Results

The researchers apply two analytical models to examine the effect of educational expansion on income inequality in ASEAN countries. The first model is a panel fixed effect GLS model, which is suitable for addressing issues of heteroscedasticity and autocorrelation. The second model is the FMOLS panel model, used to investigate the long-term effects of educational expansion on income inequality.

Table 7. Regression Results (Dependent Variable: Gini coefficient)

Variables, n=132	Fixed effect GLS		FMOLS	
	Model 1	Model 2	Model 1	Model 2
<i>mys</i>	-0.011*** (0.003)	-	-0.012** (0.006)	-
<i>gerpe</i>	- -	-0.0002 (0.0003)	- -	0.0003 (0.004)
<i>gersec</i>	- -	-0.0004** (0.0002)	- -	-0.001* (0.0003)
<i>gerter</i>	- -	-0.001** (0.0003)	- -	-0.002*** (0.001)
<i>lgdpcap</i>	-0.028*** (0.005)	-0.037*** (0.007)	-0.041** (0.018)	-0.051*** (0.017)
<i>gfcf</i>	-0.0004** (0.0002)	-0.001*** (0.0002)	-0.001** (0.0005)	-0.001** (0.0005)
<i>gdi</i>	0.329 (0.136)	0.276* (0.158)	0.612* (0.321)	0.902*** (0.327)
<i>open</i>	0.008 (0.006)	0.011 (0.007)	0.006 (0.017)	0.003 (0.016)
Constant	0.391*** (0.126)	0.509*** (0.152)	- -	- -
R ²	0.950	0.943	0.891	0.898
Adjusted R ²	0.932	0.934	0.876	0.881
F-stat	121.637	111.607	- -	- -
Prob(F-stat)	0.000	0.000	- -	- -
Chi-square	- -	- -	17.228	24.932
Wald test	- -	- -	0.004	0.000
Chow test	Yes	Yes	- -	- -
Hausman test	No	No	- -	- -

Note: ***sig.=1%, **sig.=5%, *sig.=10%.

Table 7 explains that in the static model (Fixed effect GLS - Model 1), the coefficient for educational expansion is -0.011 and significant at the 1% level. This means that each additional year of schooling results in a 0.011% decrease in income inequality among the populations of ASEAN countries, holding other factors constant. In static Model 2, the coefficients for the gross enrollment rates in secondary and higher education are -0.0004 and -0.001, respectively, with a significance level of 5%. This implies that a 1% increase in the gross enrollment rate in secondary education leads to a 0.0004% reduction in income inequality, and a 1% increase in the gross enrollment rate in higher education leads to a 0.001% reduction in income inequality, holding other factors constant.

In the long term (FMOLS Model 1), the coefficient for educational expansion is -0.012 and is significant at the 1% level. This indicates that each additional year of schooling results in a 0.012% decrease in income inequality among the populations of ASEAN countries in the long term, holding other factors remain constant. In Model 2, the coefficients for the gross enrollment rates in secondary and higher education are -0.001 and -0.002, with significance levels of 10% and 5%, respectively. This indicates that each 1% increase in the gross enrollment rate in secondary education results in a 0.001% reduction in income inequality, and each 1% increase in the gross enrollment rate in higher education results in a 0.002% reduction in

income inequality in the long term, holding other factors remain constant. Meanwhile, the control variable that contributes to widening income inequality is gender development. On the other hand, per capita income and gross fixed capital formation (representing investment) make a significant contribution to reducing income inequality, with significance levels of 1%, 5%, and 10% across all models.

Discussion

This research further emphasizes the importance of educational expansion as it effectively reduces income inequality among populations in ASEAN countries. Equitable education can enhance human capacity, promote mobility, create a just society, and foster equality among country's population. As a result, increasing education levels will boost current and future earnings, thereby narrowing income disparities. However, education has a certain lag effect, impacting individuals who are undergoing the educational process, which means that its benefits may not be immediately felt. To achieve equitable education, each country must implement policies to provide educational infrastructure, such as school buildings, raise public awareness, and offer scholarships. The educational conditions of each country show different developments, resulting in different impacts on reducing income inequality. The results of the graphic visualization show that, in general, there is a negative tendency between the average length of schooling and the level of income inequality. This means that countries with higher lengths of schooling tend to have lower income inequality (see Figure 1).

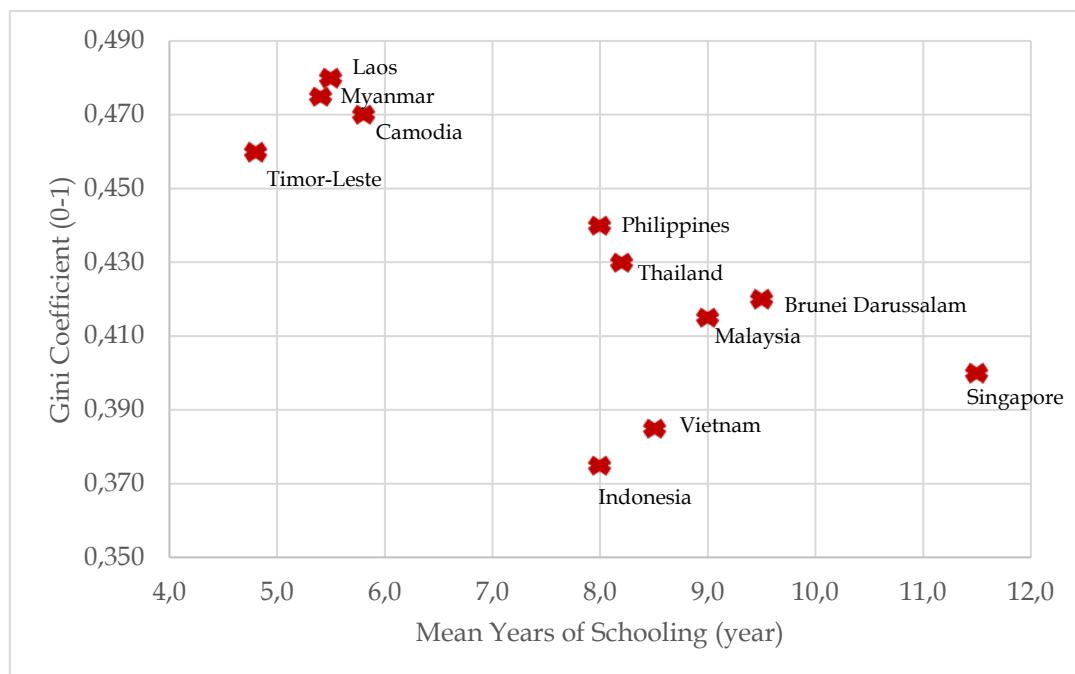


Figure 1. Mean Years of Schooling vs Gini Coefficient (ASEAN 2010-2021)

Based on Figure 1, Singapore and Brunei Darussalam are in a condition where the mean years of schooling is the highest and the Gini coefficient is relatively low (Ngoc & Hai, 2024; Widjaya, 2016). It illustrates that a more even distribution of income is in line with the high average level of education among the population. On the other hand, countries such as Laos, Myanmar, and Cambodia have a lower average length of schooling and tend to show a higher Gini coefficient, reflecting greater inequality (Thein & Akita, 2019; Win et al., 2023). Vietnam, Thailand, the Philippines, and Malaysia are in the middle position, showing a moderate combination of access to education and income distribution (Akita & Miyata, 2024; Koh et al., 2022; Mercado et al., 2023; Paweenawat & Liao, 2023; Pham et al., 2024; Yee, 2024). Meanwhile, Indonesia shows a relatively balanced position. It shows that the level of education among the population is quite good, but it still faces challenges in reducing income inequality (Siburian, 2023; Thye et al., 2022). Therefore, increasing the educational expansion can reduce income inequality among ASEAN countries. This research findings support previous theories regarding the correlation between education and income distribution (Becker, 1964; Chiswick, 1974; Marin & Psacharopoulos, 1976).

The educational levels that have a direct impact on reducing income inequality are secondary and higher education, as represented by the gross enrollment rates. Students who are still enrolled in secondary and higher education have the potential to improve their prospects. There is a necessary time lag for individuals to reach higher education levels and secure suitable employment, leading to a gradual reduction in income inequality among specific groups within ASEAN countries. Once appropriate employment is attained, wages are determined by the terms of employment contracts. This means that equitable education is effective and significant in reducing income inequality through the wages earned from employment resulting from increased education in the long term. Both developing and developed ASEAN countries have seen substantial increases in secondary and higher education participation, although some countries are experiencing slow growth in education participation. This delay is due to high dropout rates, slow responses to technological advancements, and inadequate school infrastructure.

For countries experiencing rapid growth in educational participation, especially in secondary and higher education, this presents a significant advantage. It accelerates the development of a more knowledgeable (educated) and skilled workforce, increasing productivity and income, which in turn narrows income inequality in the long term. This research aligns with previous research, which indicates that expanded education contributes to a decrease in income inequality over the long term (Akita & Miyata, 2024; Siburian, 2023). Enhanced education increases wealth accumulation (Pham et al., 2024; Vo & Ho, 2022), which helps reduce the widening of income disparities. Another research also supports this finding, suggesting that improving educational levels is essential for reducing income inequality (Lee & Lee, 2018; Yee, 2024). However, this research contrasts with previous research that found educational expansion could exacerbate income inequality in ASEAN-7 countries in the long term and have no significant effect in the short term (Makhlof & Lalley, 2023). Additionally, previous research has shown that increasing educational levels could worsen income inequality in the long term (Arshed et al., 2019; Koh et al., 2022; Vo et al., 2024). These

differences in findings are attributed to variations in sample selection and analytical models used.

Robustness Test

The researcher tests robustness using a different model from the previous ones, namely the panel ARDL model. The coefficient value for the Error Correction Term (ECT, cointeq01) is negative and significant at the 5% level, indicating convergence in the long term with an adjustment speed of 49.5% (-0.495). The test results show that educational expansion has a significant long-term impact on reducing income inequality in ASEAN countries (see Table 8). The finding is consistent with previous research conducted on seven ASEAN countries (Vo et al., 2024).

Table 8. Results of Robustness Check

Variable, n=121	Coefficient	Std. Error	Prob.
Long run equation			
<i>mys</i>	-0.043	0.001	0.000
<i>lgdpcap</i>	0.055	0.003	0.000
<i>gfcf</i>	0.0002	0.00004	0.000
<i>gdi</i>	-0.464	0.013	0.000
<i>open</i>	0.028	0.001	0.000
Short run equation			
cointeq01	-0.495	0.198	0.016
d(<i>mys</i>)	-0.018	0.113	0.878
d(<i>lgdpcap</i>)	-0.043	0.018	0.024
d(<i>gfcf</i>)	-0.001	0.001	0.407
d(<i>gdi</i>)	-0.125	0.176	0.481
d(<i>open</i>)	-0.045	0.034	0.189
constant	0.299	0.131	0.026

Furthermore, the short-term estimates for each country show that educational expansion significantly reduces income inequality in Laos, Malaysia, the Philippines, and Singapore. Conversely, in Indonesia and six other ASEAN countries, educational expansion appears to exacerbate income inequality in the short term (see Table 9). These results suggest that educational expansion policies are not yet uniformly implemented across countries, leading to varying outcomes.

Table 9. Short-Term Estimation Results for Each Country

Country/Variable	cointeq01	d(<i>mys</i>)	d(<i>lgdpcap</i>)	d(<i>gfcf</i>)	d(<i>gdi</i>)	d(<i>open</i>)	constant
BRN	(-), (yes)	(+), (yes)	(-), (yes)	(-), (yes)	(-), (yes)	(+), (yes)	(+), (yes)
KHM	(-), (yes)	(+), (yes)	(-), (yes)	(+), (yes)	(+), (no)	(-), (yes)	(+), (yes)
TLS	(-), (yes)	(+), (yes)	(-), (yes)	(+), (yes)	(+), (yes)	(-), (yes)	(+), (yes)
IDN	(-), (yes)	(+), (yes)	(-), (yes)	(+), (yes)	(+), (no)	(+), (yes)	(+), (yes)
LAO	(-), (yes)	(-), (yes)	(-), (yes)	(-), (yes)	(-), (yes)	(-), (yes)	(+), (yes)
MYS	(-), (yes)	(-), (yes)	(-), (no)	(-), (yes)	(-), (no)	(-), (yes)	(+), (yes)
MMR	(-), (yes)	(+), (yes)	(-), (yes)	(-), (yes)	(+), (yes)	(-), (yes)	(-), (yes)

PHL	(-), (yes)	(-), (yes)	(+), (yes)	(-), (yes)	(-), (no)	(+), (yes)	(-), (yes)
SGP	(-), (yes)	(-), (yes)	(+), (yes)	(-), (yes)	(-), (no)	(-), (yes)	(+), (yes)
THA	(-), (yes)	(+), (yes)	(-), (yes)	(+), (yes)	(+), (yes)	(-), (yes)	(+), (yes)
VNM	(+), (yes)	(+), (yes)	(-), (yes)	(-), (yes)	(-), (no)	(+), (yes)	(-), (yes)

Notes: BRN = Brunei Darussalam, KHM = Cambodia, TLS = Timor Leste, IDN = Indonesia, LAO = Laos, MYS = Malaysia, MMR = Myanmar, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Vietnam, (-/+) = direction of relationship, yes = sig. 5%, and no = insignificant

Conclusion

The researchers apply a dynamic panel FMOLS model, using a sample of 11 ASEAN countries from 2010 to 2021, to estimate the long-term impact of educational expansion on income inequality. The estimation results show that, in the long term, educational expansion significantly contributes to reducing income inequality. Education is viewed as a primary tool for addressing income inequality in ASEAN countries. Increased levels of education enhance job opportunities and social mobility across the population, theoretically leading to a reduction in income inequality as access to and consumption of education improve. Although the relationship between educational expansion and income inequality has been hypothesized in the literature, the countries sampled in this study have largely implemented policies that promote educational expansion, thereby contributing to a reduction in income disparities.

This research implies that policymakers should recognize that educational expansion is a viable solution for addressing income inequality among populations in ASEAN countries. The long-term relationship between educational expansion and income inequality is significant. Therefore, policymakers should prioritize accelerating the development of educational infrastructure across all regions, expanding scholarship programs (particularly for low-income populations), making higher education more affordable, and implementing other populist policies related to education expansion. These measures aim to reduce the gap between the rich and the poor within society. The findings also reinforce previous theories about the relationship between educational expansion and income inequality. Despite some differences in findings, the consistency of results strengthens the literature on education as a long-term investment for society. Diversification could include investing in forms of post-secondary education, which often face funding shortages compared to higher education.

This research has a weakness in the aspect of using a relatively short data series due to limited data availability. Future research should consider expanding the panel sample in terms of both years and individuals and conducting cross-country comparisons to identify the sources of income inequality in each country. The use of school years as a variable has overlooked populations not engaged in the production process, as it remains tied to average years of schooling data. Similarly, school participation rates pertain to individuals who are still active in the educational process and may not yet be earning income. The impact on reducing income inequality may not be immediate since income is typically realized only after graduation and employment. Therefore, future research should incorporate proxies for

educational expansion, such as the average years of schooling for both formal and informal workers, to enhance the comprehensiveness and quality of the education-related analysis.

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Evaluating the Impact of ESG Practices on Company Values in ASEAN-5 Region: The Moderating Roles of Financial Flexibility and Capital Structure

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Abstract

This research examined the influence of environmental, social, and governance (ESG), financial flexibility, and capital structure on company value. Company value was measured using Tobin's Q, ESG was evaluated through the ESG score from Thomson Reuters, financial flexibility was assessed through a financial flexibility proxy, and capital structure was measured using the debt-to-equity Ratio (DER). The research also employed control variables, including return on assets, firm size, firm age, growth, inflation, gross domestic product, and COVID-19. The purposive sampling method was employed to analyze secondary data from 101 companies in the ASEAN-5 region (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) from 2016 to 2022. The results indicate that ESG positively impacts a company's value. Financial flexibility and capital structure have a negative effect on company value. The control variables that significantly impact ROA, size, growth, GDP, and COVID-19, while age and inflation do not have a significant effect. The relevance of this research in finance lies in strengthening the relationship between non-financial factors (ESG) and a company's financial performance, as well as in understanding how managing financial flexibility and capital structure can support companies' sustainability and long-term value.

Keywords: company value, ESG, financial flexibility, capital structure.

Introduction

Climate change has become one of the leading global concerns today, primarily due to the direct impacts of rapid industrialization and economic expansion over the past few decades. Southeast Asia, including the ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), is one of the regions most significantly affected by climate change, characterized by extreme weather events and heat waves. Germanwatch has identified three ASEAN countries as the most economically affected and having significant casualties due to climate change. However, research indicates that ASEAN's mitigation efforts still need improvement to address existing climate change issues (Ding & Beh, 2022)

In response to global concerns about climate change, the United Nations developed a framework in 2015 to create peace and prosperity for humanity and the Earth, known as the 17 Sustainable Development Goals (SDGs). These goals require all developing and developed countries to collaborate in addressing challenges such as poverty and hunger, enhancing health and education, reducing inequalities, and promoting sustainable economic growth. These measures also include efforts to tackle climate change by preserving oceans and forests (United Nations, n.d.).

In addition to the ongoing climate change, companies face new challenges characterized by volatility, uncertainty, and complexity. To sustain a company's operations amid these challenges, it is crucial to implement the concept of Corporate Sustainability. This has led to the focus on creating international policies in many countries, as corporate sustainability is considered a long-term goal or vision for companies to meet current needs without compromising the ability to accommodate future needs (Ghardallou, 2022)

Companies can implement sustainability using the ESG concept. This approach assesses a company's performance and impact in three main areas: Environment, Social, and Governance. Applying the ESG concept enables companies to determine the degree to which they integrate ESG factors into their decision-making processes and operations. Consequently, many investors use ESG factors to identify risks and opportunities related to a company's long-term performance (Pohan, 2023)

Since its establishment in 1967, ASEAN has been striving to support economic growth and social and cultural development in its member countries. The adoption rates of the Task Force on Climate-Related Financial Disclosure (TCFD) in the ASEAN-5 countries are as follows: Indonesia, 4%; Thailand, 24%; Malaysia, 28%; Singapore, 38%; and the Philippines, 48%. The ASEAN-5 countries have rapidly adopted investment and ESG strategies compared to other member countries, with Singapore and Thailand leading, with 70% and 59% of companies, respectively, classified as having ESG practices (E-Vahdati et al., 2022)

The research only selected public companies from ASEAN-5 that had a complete ESG score from Thomson Reuters and consistently available financial data from 2016 to 2022. Many companies from other ASEAN countries, such as Laos, Cambodia, Myanmar, Brunei Darussalam, and Vietnam, do not have adequate or consistent ESG data to analyze in the

period. ASEAN-5 are the countries with the largest and most developed economies in the ASEAN region. These countries are also pioneers in the adoption of ESG and disclosure of sustainability practices, as demonstrated by the higher adoption rate of Task Force on Climate-Related Financial Disclosures (TCFD) than other ASEAN countries (ASEAN, 2020; GRI ASEAN & Centre for Governance and Sustainability, 2022; Phang & Chia, 2024; Pimpa, 2025). ASEAN-5 has a relatively more developed and open capital market and follows more uniform financial reporting standards. This allows for more valid and reliable comparisons between companies from these countries (MIA, 2022; Robiyanto et al., 2023).

Implementing ESG practices has increased stock valuation for companies with ESG ratings compared to those without. This is due to stakeholders' satisfaction with the quality of companies' ESG information disclosure, which can build stakeholder trust. The growing trust from stakeholders contributes to increased investment from investors, providing companies with ESG certification an advantage in their funding (Wong et al., 2021).

To ensure a company's sustainability in an uncertain environment, in addition to implementing ESG, it is essential to have financial flexibility when adapting its strategies. Financial flexibility refers to a company's comprehensive ability to minimize financial risks and utilize its financial resources effectively. This concept reflects the company's flexibility in its financial structure, enabling it to adapt to market conditions or changes in business needs. With financial flexibility, a company can be more responsive to opportunities and challenges, giving it a competitive advantage in the capital market. Additionally, it can strengthen capital by incurring more efficient costs, even in times of crisis (Teng et al., 2021)

Another crucial aspect for companies to consider regarding capital is their capital structure. The importance of an optimal capital structure for a company becomes increasingly evident in the complex and imperfect dynamics of the global capital market. In this context, prudent financial policies can serve as a coordinator in identifying and capitalizing on financial opportunities in the international capital market. An optimal capital structure enables the company to maximize shareholder welfare and minimize the cost of capital. Both of these aspects can enhance the company's future cash flow, thereby increasing the fundamental value of the company's stock in the capital market (Mahmood et al., 2023).

During the COVID-19 pandemic in 2020–2021, the application of ESG principles became increasingly important for companies in maintaining operational sustainability and stakeholder trust. Companies are required not only to maintain a commitment to environmental responsibility but also to demonstrate social concern for employees and the surrounding community through health protection, work flexibility, and social assistance. In terms of governance, companies that apply transparent and adaptive governance principles have proven to be more resilient in dealing with crises (Gao & Geng, 2024). Previous studies have shown that companies with good ESG performance tend to have stronger resilience and more stable market value during the pandemic, thus confirming that ESG plays a role as a risk mitigation strategy in situations of extreme uncertainty (Abedifar et al., 2023; Yahya, 2023).

The control variables selected in this research include Return on Asset (ROA), firm size, firm growth, Gross Domestic Product (GDP), and the COVID-19 pandemic. ROA is an

indicator of financial performance that measures a company's ability to generate profit from its assets. ROA is chosen as a control variable because good financial performance can directly impact a company's value. By controlling ROA, this research can more accurately isolate the impact of ESG on company value (Sadiq, 2020). Larger companies tend to have more resources to implement ESG practices and are more likely to be well-known in the market, which can positively impact company value.

Controlling for firm size helps ensure that differences in company size do not distort the impact of ESG. Companies with high growth rates may have better prospects and attract more investors, increasing company value. Therefore, it is essential to control for this variable in the analysis (Niu et al., 2022). GDP changes can impact companies' overall financial performance and, consequently, their value. By controlling for GDP, this research can separate the influence of general economic conditions from the specific impact of ESG. The COVID-19 pandemic has had a profound effect on the global economy and the operations of companies worldwide. A dummy variable for COVID-19 is included to control for the pandemic period, with a value of 1 for the years 2020 and 2021 and 0 for all other years to ensure that the research results are not affected by the economic disruptions caused by the pandemic (Zhang & Liu, 2022).

Recent research on the impact of ESG on company value is deemed necessary due to inconsistencies in previous research. Studies by Sadiq et al. (2020) and Aydoğmuş et al. (2022) indicate that ESG has an impact on company value, contrasting with the findings of Duque-Grisales and Aguilera-Caracuel (2021) who suggest that ESG does not impact company value. The inconsistencies that resulted from previous research has motivated researchers to reexamine the influence of ESG on company value and contributing to the research by considering financial flexibility and capital structure as moderators, the study is focusing on public companies with ESG Scores in the ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) during 2016-2022.

Based on the previously outlined phenomenon, this research poses the following questions: Does ESG influence Company Value? Does ESG influence Company Value with Financial Flexibility as a moderator? Does ESG influence Company Value with Capital Structure as a moderator? This research is expected to strengthen the relationship between non-financial factors (ESG) and a company's financial performance, as well as to understanding how managing financial flexibility and capital structure can support companies' sustainability and long-term value.

This research is based on the research gap related to the relationship between ESG and corporate values, where the results of previous studies show inconsistent findings; some state that ESG has a positive effect on company value (Sadiq et al., 2020; Aydoğmuş et al., 2022), while others found no significant influence (Duque-Grisales & Aguilera-Caracuel, 2021). In addition, most previous research has not considered the role of moderation variables such as financial flexibility and capital structure, even though these two factors have the potential to affect the effectiveness of ESG implementation in increasing company value. Therefore, this research fills this gap by analyzing the influence of ESG on company value more comprehensively, including financial flexibility and capital structure as moderation variables,

and using the context of developing countries in the ASEAN-5 region, which is still rarely explored in similar research.

Literature Review/Analytical Framework

Legitimacy Theory

According to legitimacy theory, an entity strives to create alignment between the values and social norms present in society and the activities conducted by the organization to be accepted within a broader social system. When there is a mismatch between the values and social norms of an organization's activities, threats to its legitimacy arise. The threats can be legal, economic, or other social sanctions (Dowling & Pfeffer, 1975).

Legitimacy theory is considered a social contract between companies and society, where companies are expected to act in accordance with the beliefs, expectations, standards, and values of society to achieve legitimacy and, ultimately, social permission to operate. Legitimacy is an understanding or assumption that the actions of an entity are considered desirable and in line with the prevailing norms and values in its social environment. Consequently, investing in ESG is expected to enhance the acceptance and image of the company in the trading market and society (Rahman et al., 2023).

Pecking Order Theory

Pecking order theory states that the company prioritizes financing from internal sources over external funding. Companies adjust the target dividend payout ratio based on their investment prospects. The established dividend policy, combined with fluctuating profitability and unpredictable investment opportunities, will impact the internally generated cash flow, determining whether it is greater or smaller than investment expenditures.

If external funding is still required, the company's safest securities to be issued first are debts (Arifah, 2024). Companies tend to make decisions regarding funding from internal sources rather than external ones. This is done to achieve higher profits with a lower level of debt. Therefore, the proportion of debt and equity is crucial for companies to maximize their capital structure, ultimately increasing their value (Hannawanti & Naibaho, 2021).

Company Value

Company value is an overall assessment by investors reflected in the company's stock price. The company's value increases when the stock price rises, creating broader shareholder prosperity. One way to enhance a company's value is through its competitive advantage. Competitive advantage can improve a company's competitiveness to achieve its goal of optimizing company value (Hannawanti & Naibaho, 2021). Another definition of company value is the tradable value in the market, interpreted as the growth of value for shareholders.

Signals regarding the company's performance can be obtained from the observed stock prices in the market. The higher the stock price, the higher the company's value. To achieve optimal company value, shareholders typically entrust the company's management to competent professionals in their field (Bawai & Kusumadewi, 2021).

ESG

ESG and Corporate Social Responsibility (CSR) share similar aspects. However, ESG tends to be more extensive in terms of terminology than CSR. The ESG concept encompasses environmental, social, and governance factors that can influence a company's ability to implement effective strategies and enhance its corporate values (Niu et al., 2022). The increased awareness of social responsibility globally has led to activities related to community welfare positively reflecting a company's status, which is closely linked to the company's financial values (Sadiq et al., 2020). Some companies utilize sustainability reporting to gain a competitive advantage, while others view this concept as a standard practice that all companies should adopt. Companies with more ESG practices are expected to receive economic benefits from such practices (Aydoğmuş et al., 2022).

Financial Flexibility

Financial flexibility is not just the company's ability to adapt to financial risks; it is a comprehensive strength that enables it to manage these risks and utilize financial resources effectively. Amid dynamic changes in the financial sector, a reconfiguration of company resources is necessary. This allows for the adjustment and enhancement of financial resources. In this context, financial flexibility becomes crucial to directing and adjusting the company's strategies amid a constantly changing business environment (Teng et al., 2021). Companies with financial flexibility can avoid financial difficulties when facing sudden negative changes and fund investments when profitable opportunities arise. When identifying and deciding on an organizational capital structure, company managers need to prioritize financial flexibility. Applying the concept of financial flexibility is appealing not only because it can provide secure value storage but also because it can preserve valuable options in the face of future uncertainty (Hanasa & Lubis, 2023).

Capital Structure

Capital structure, or the structure of a company's funding, represents the company's financial needs. It is portrayed as the ratio between the company's long-term debt and its equity. Ownership of a significant amount of cash enables the company to enhance its performance and achieve greater profits (Purnamasari & Fauziah, 2022). An optimal capital structure, utilizing various sources of financing (including debt and equity), enables the attainment of goals and enhances the company's value. Therefore, company management should always strive to maintain an optimal capital structure to achieve the company's objectives, namely operating the business at the desired efficiency level (Prekazi et al., 2023).

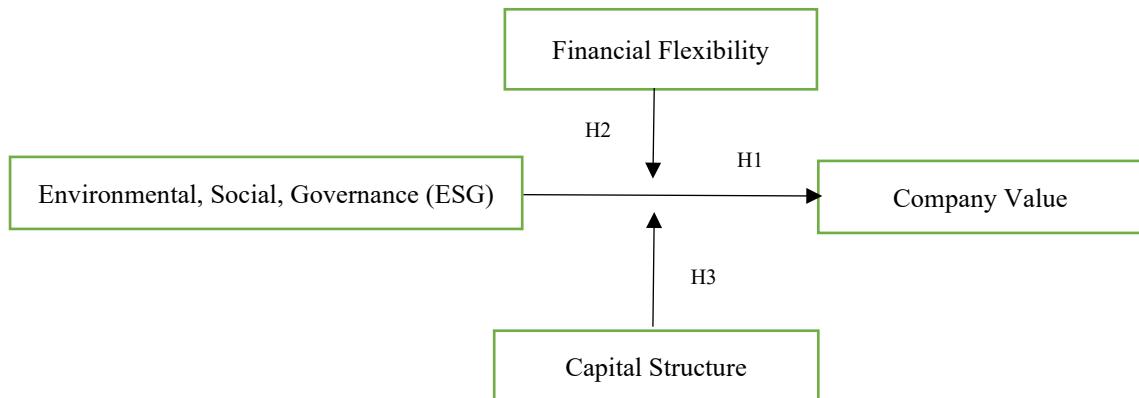


Figure 1. Conceptual Framework

ESG and Company Value

As shown in Figure 1, this research conceptualizes the relationship between ESG and company value, with financial flexibility and capital structure serving as moderating variables. The increasing number of stakeholders is urging companies to consider ESG factors in their business practices. ESG is perceived to provide additional information to stakeholders in the form of non-financial data that can be used to analyze the benefits and risks associated with investments. The current focus of ESG has shifted from prioritizing individual interests to considering the broader impact on society, requiring companies to incorporate various aspects into their operations, such as environmental preservation, social responsibility, and enhancing their business governance (Yunica & Rokhim, 2023).

Previous research on the influence of ESG on company value has shown a positive relationship. A high ESG score not only characterizes excellence in a company's ESG aspects but also contributes to a significant positive impact on the company's value, creating a strong correlation between sustainability practices and increased company value. Investors' growing interest and increasing public awareness of environmental risks and other non-financial factors are prompting companies to compete and intensify their efforts to consider non-financial aspects of their business operations. Companies can utilize the implementation of ESG as a means of social responsibility and a strategy to achieve corporate sustainability, thereby enhancing their competitive advantage (Aydoğmuş et al., 2022).

Wong et al. (2021) indicate that companies obtaining ESG certification will significantly strengthen their company value. Companies with a high ESG score send a positive signal that they can be trusted to conduct their business with a commitment to implementing ESG practices. The research findings demonstrate that firm value increases in companies with a high ESG score. Thus, this research considers and proposes that ESG influences company value, and the Hypothesis 1 (H1) is proposed.

H1: ESG has a positive effect on Company Value.

ESG, Company Value, and the Role of Financial Flexibility

Currently, the business environment is significantly more uncertain, leading to increased obstacles for companies in developing sustainability. Companies can utilize the concept of financial flexibility as a systematic and comprehensive ability to adapt to environmental changes actively, address systemic uncertainties, integrate financial resources, and optimize financial decision-making. Companies with financial flexibility are considered more capable of managing risks amid uncertainty and facilitating the achievement of corporate sustainability (Zhang & Liu, 2022).

ESG is closely related to financial flexibility, as companies with good ESG performance will send positive signals that influence the development of corporate sustainability. Establishing a good reputation by providing ESG information to stakeholders will help reduce information asymmetry and decrease the perceived risks expected by stakeholders. It will also increase credit availability from financial institutions, minimize debt financing costs, and enhance the company's ability to secure debt financing. Simultaneously, this will increase free cash flow, thereby improving financial flexibility (Zhang & Liu, 2022).

Financial flexibility refers to a company's capacity to obtain low-cost funding for unanticipated demands. Basic cash holdings (cash and cash equivalents) and anticipated cash inflows are the two most common sources of cash inflow. Because cash holdings are expensive due to agency issues, businesses maintain relatively low cash levels and retain unused lending capacity, allowing them to obtain adequate cash when needed. Firms maintain financial flexibility by making informed decisions regarding current financing, leverage, and cash holdings that will meet their future financial needs. Firms with more substantial borrowing capacity can raise funds from the external capital markets (Wu et al., 2023).

Based on the above explanation, this hypothesis is a conjecture that could make a novel contribution to this research, as previous studies have not extensively investigated financial flexibility as a moderating variable to examine the relationship between ESG and company value. Therefore, the Hypothesis 2 (H2) for this research is proposed.

H2: Financial Flexibility moderates the relationship between ESG and Company Value.

ESG, Company Value, and the Role of Capital Structure

Capital structure plays a significant role in financial management and a company's social reputation. Companies with high levels of social responsibility tend to rely more on equity financing than debt. This demonstrates a commitment to sustainable financial practices. Additionally, the quality of corporate governance is sought to help reduce conflicts and agency costs and potentially decrease the level of debt a company holds (Zahid et al., 2023).

Furthermore, capital structure refers to the arrangement of debt and equity that enterprises use to fund their long-term operations. Capital is seen as a long-term funding source within a business, ascertained by subtracting short-term obligations from total assets.

To get this ideal capital structure, firms must implement suitable modifications. It is achieved when organizations strategically align their funding sources to maximize benefits. Empirical research investigating the influence of capital structure on business value has shown inconclusive results. Specific research on capital structure suggests that companies with higher debt ratios often exhibit improved financial performance (Bui et al., 2023).

To achieve long-term sustainability goals, companies are increasingly incorporating ESG into their strategies. Sustainable practices are implemented to ensure the company's survival by preserving its legitimacy among various stakeholders and maintaining a good reputation. Lenders appreciate companies with strong ESG performance, assigning lower debt costs to those with strong ESG practices compared to companies with weak ESG or those neglecting ESG practices in their business (Adeneye & Kammoun, 2022).

Thus, this hypothesis is a conjecture that could make a novel contribution to this research, as previous studies have not extensively investigated the use of capital structure as a moderating variable to examine the relationship between ESG and company value. Therefore, the Hypothesis 3 (H3) for this research is proposed.

H3: Capital Structure moderates the relationship between ESG and Company Value.

Research Method

The research focuses on public companies that have ESG scores and are listed in the ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) from 2016 to 2022. Moreover, this research employs a non-probability sampling technique using the purposive sampling method. Sample selection is based on predefined criteria, providing a focused and specific approach to the research subject. The researchers established the following criteria to obtain a sample: (1) public companies that have ESG scores and are listed on the stock exchanges of Indonesia, Malaysia, the Philippines, Singapore, and Thailand from 2016 to 2022; (2) companies that have published financial reports as of December 31 for each year from 2016 to 2022; and (3) exclusion of outlier. The dataset comprises a total of 707 observations, representing 101 enterprises over a seven-year period.

This research utilizes quantitative data from secondary sources accessed through paid databases, including S&P Capital IQ and Thomson Reuters. Data sourced from S&P Capital IQ and Thomson Reuters are reliable as they are world-leading providers of financial information services similar to Bloomberg. The secondary data comprises the financial information and ESG scores.

The literature study and documentation technique were employed to gather the data for this study. A variety of journals, articles, financial statement data, and other publications were reviewed as essential to enriching the study during the literature review. The documentation technique involved recording documents during the data collection process for the study. The financial data used is as of the end of the financial year.

Data analysis techniques involve quantitative analysis, including multiple linear regression tests and panel data regression analysis. Multiple linear regression is a statistical method designed to determine the influence of ESG on Company Value, with Financial Flexibility and Capital Structure as moderators, in public companies with an ESG Score in the ASEAN-5 region. There are two research models to test the hypotheses in the study. Model 1 (see Equation 1) serves as the testing model for Hypothesis 1. Model 2 (see Equation 2) is used to test hypotheses 2 and 3.

$$TOBINSQ_{it} = \beta + \beta_1 ESG_{it} + \beta_2 ROA_{it} + \beta_3 SIZE_{it} + \beta_4 AGE_{it} + \beta_5 GROW_{it} + \beta_6 INFL_{it} + \beta_7 GDP_{it} + \beta_8 COV_{it} + e \quad (1)$$

$$TOBINSQ_{it} = \beta + \beta_1 ESG_{it} + \beta_2 (ESG_{it} \times FFLEX_{it}) + \beta_3 (ESG_{it} \times DER_{it}) + \beta_4 ROA_{it} + \beta_5 SIZE_{it} + \beta_6 AGE_{it} + \beta_7 GROW_{it} + \beta_8 INFL_{it} + \beta_9 GDP_{it} + \beta_{10} COV_{it} + e \quad (2)$$

The TOBINSQ is the company value, β is the constant, β_{1-10} are the regression coefficients, ESG is the environment, social, and governance score, $ESG \times FFLEX$ is the interaction between ESG and Financial Flexibility, $ESG \times DER$ is the interaction between ESG and Debt-to-Equity Ratio, ROA is the return on asset, Size is the company size, Age is the company age, GROW is the company growth, INFL is inflation, GDP is gross domestic product, Covid-19 is dummy, i is the company, t is the year of observation, and e is the error. Each variable's measurement is shown in Table 1.

Table 1. Operational definition

Variable	Measurement	Data Source
Company Value	$TOBINSQ = \frac{(MVE+PS+DEBT)}{TA}$ (Guo et al., 2020)	S&P Capital IQ
ESG	$ESG = ESG \text{ Score from Thomson Reuter's}$ (Ghardallou, 2022)	Thomson Reuters
Financial Flexibility	$FFLEX = Cash \text{ Flexibility} + Debt \text{ Flexibility}$ (Teng et al., 2021)	S&P Capital IQ
Capital Structure	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$ (Hannawanti & Naibaho, 2021)	S&P Capital IQ
Return on Asset	$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$ (Bui et al., 2023)	S&P Capital IQ
Firm Size	$Firm \text{ Size} = \ln \text{Total Asset}$ (Bui et al., 2023)	S&P Capital IQ
Firm Age	$Firm \text{ Age} = Year \text{ of Research} - Year \text{ of Company Listed}$ (Ali et al., 2021)	S&P Capital IQ
Growth	$\frac{\text{Total Asset (t)} - \text{Total Asset (t-1)}}{\text{Total Asset (t-1)}} \times 100\%$ (Bag & Mohanty, 2021)	S&P Capital IQ
Inflation	$Inflation \text{ Rate from World Bank's}$ (World Bank, 2024)	World Bank
Gross Domestic Product	$Gross \text{ Domestic Product Rate from World Bank's}$ (World Bank, 2024)	World Bank
COVID-19	The financial reporting period that falls within the COVID-19 period (years 2020-2021) will be assigned a value of 1, while the financial reporting period that does not fall within the COVID-19 period (years 2017-2019) will be assigned a value of 0. (Bag & Mohanty, 2021)	Dummy

Results

Table 2. Results of descriptive statistics

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
TOBINSQ	707	1.226158	1.743508	-0.2112719	22.80219
ESG	707	57.70601	17.03145	2.600429	88.36264
FFLEX	707	0.505967	0.2509291	0.1176758	1.187796
DER	707	0.8190219	0.776744	0.0000327	7.801346
ROA	707	0.0450349	0.0648826	-0.4111904	0.6032196
SIZE	707	18.59226	1.363633	15.06092	21.93533
AGE	707	55.14851	34.76675	5	188
GROW	707	6.185301	11.50305	-63.2492	108.3842
INFL	707	2.263024	1.76752	-1.138702	6.12106
GDP	707	3.470339	4.085233	-9.518295	8.882354
COV	707	0.2857143	0.4520738	0	1

Source: Output STATA 17 (2023)

Based on Table 2, the dataset comprises 707 observations from 101 companies between 2016 and 2022. The table data show that Tobin's Q variable, representing company value, has an average value of 1.226158 with a standard deviation of 1.743508, indicating that company value, as measured by an ESG Score, fluctuates significantly due to a higher deviation from the mean. The lowest Tobin's Q value is -0.2112719, generated by the Malaysian company Sime Darby Bhd in 2017, indicating a low (undervalued) company value when Tobin's Q is below one. On the other hand, the highest Tobin's Q value reaches 22.80219, produced by an Indonesian company in 2017, namely PT Unilever Indonesia Tbk. The result suggests a high (overvalue) company value or the market value of the company is higher than its book value, indicating successful management performance and high investment growth potential.

The independent variable ESG has a mean value of 57.70601, indicating an average ESG Score obtained by public companies in the ASEAN-5 countries of 57.70601 with a standard deviation of 17.03145. The significantly smaller standard deviation compared to the mean in the ESG variable indicates that the ESG score has low fluctuation, maintaining high consistency in assessing ESG factors. The lowest ESG value is 2.600429, generated by a Malaysian company, FGV Holdings Bhd, in 2020. Meanwhile, the highest ESG value is 88.36264, owned by UEM Sunrise Bhd, a Malaysian company, in 2022.

The moderation variable, Financial Flexibility (FFLEX), has a mean value of 0.505967, indicating that, on average, the total value of financial flexibility for companies with ESG Score in the ASEAN-5 countries is 50.5% with a standard deviation of 0.2509291. With a significantly smaller standard deviation than the mean of the FFLEX variable, the financial flexibility level for companies with ESG scores tends to exhibit low fluctuations, indicating high stability in

the face of financial dynamics. The lowest FFLEX value is 0.1176758, attributed to the Thai company TMB Thanachart Bank PCL in 2019. On the other hand, the highest FFLEX value is 1.187796, generated by an Indonesian company, Indo cement Tunggal Prakarsa Tbk PT, in 2016.

The moderation variable, DER, yields an average value of 0.8190219, indicating that the average composition of debt to equity for companies with an ESG Score is 81.90%, with a standard deviation of 0.776744. With a standard deviation surpassing the mean in the DER variable, it can be concluded that the capital structure of companies with ESG scores has high fluctuations, reflecting significant variations in the composition of debt to equity. The lowest DER value was 0.0000327, achieved by an Indonesian company, PT Vale Indonesia Tbk, in 2020. Meanwhile, the highest DER value is 7.801346, generated by a Malaysian company, Astro Malaysia Holdings Bhd, in 2016.

The correlation analysis uses pairwise correlation, with significance levels of 1%, 5%, and 10%. The results can be seen in Table 3.

Table 3. Correlation Analysis

Variable	TOBINSQ	ESG	FFLEX	DER	ROA	SIZE	AGE	GROWTH	INF	GDP	COV
TOBINSQ	1										
ESG	0.0899**	1									
FFLEX	-0.0199	-0.1773***	1								
DER	-0.0062	-0.0102	-0.4427***	1							
ROA	0.7213***	0.0204	0.2212***	-0.0811**	1						
SIZE	-0.2893***	0.2532***	-0.5016***	-0.0400	-0.3651***	1					
AGE	0.0803**	0.1880***	-0.1413***	-0.0966**	0.1207***	0.2427***	1				
GROWTH	-0.0125	0.0048	-0.0545	0.0232	0.1019***	0.1694***	0.0320	1			
INFL	0.0429	-0.0679*	0.0418	-0.0537	0.0948**	0.0020	0.1273***	0.0809**	1		
GDP	0.0226	-0.0750**	0.0331	-0.0412	0.1107***	-0.0518	0.0305	0.0435	0.5340***	1	
COV	-0.0512	0.1038***	-0.0041	0.0334	-0.0759**	0.0409	0.0273	0.0074	-0.3513***	-0.6959***	1

Source: Output STATA 17 (2023)

Notes:

*** : significant at 0.01 (1%)

** : significant at 0.05 (5%)

* : significant at 0.10 (10%)

Table 3 presents the relationship between ESG and company value (Tobin's Q), with a correlation coefficient of 0.0899 at a significance level of less than 5%, indicating a significant positive correlation between ESG and company value. Next, the relationship between FFLEX and company value (Tobin's Q) has a correlation coefficient of -0.0199. In contrast, the DER in relation to company value (Tobin's Q) has a coefficient of -0.0062. Both FFLEX and DER have significance levels above 10%. Meanwhile, the control variables ROA and AGE show a positive correlation with company value (Tobin's Q) at 1% and 5% significance levels. In

comparison, SIZE shows a negative correlation with company value (Tobin's Q) at a significance level of 1%. Other control variables, namely GROWTH and COV, exhibit a negative correlation with company value (Tobin's Q), while INFL and GDP show a positive correlation with company value (Tobin's Q). However, the significance level is above 10%. Based on the correlation analysis using the pairwise correlation method, multicollinearity issues are not indicated, as no values exceed 0.8 between the independent variables.

The model selection test is conducted for this panel data analysis using the Chow and Hausman tests for both models. The Chow test conducted for model 1 yielded a result of $\text{Prob} > F = 0.0000$, and the Hausman test showed a result of $\text{Prob} > \text{Chi2} = 0.0000$, both with a p-value of less than 0.05, indicating statistical significance. Based on this result, the model selected for Model 1 is the Fixed Effect Model. The Chow test conducted for model 1 yields a result of $\text{Prob} > F = 0.0000$, and the Hausman test shows a result of $\text{Prob} > \text{Chi2} = 0.0000$, both with a p-value of less than 0.05, indicating statistical significance. Based on this result, the model selected for Model 1 is the Fixed Effect Model.

This research employs the Shapiro-Wilk test as an analytical tool to assess the extent to which the data distribution in this study follows a regular pattern. Based on this test, the probability values indicate that the data is not normally distributed. After treatment, the generated data remains non-normally distributed, reverting to its original state. However, since the observational data comprises 707 samples, normality can be disregarded, and the data are likely to be normally distributed.

The test for multicollinearity is based on the average values of the the Variance Inflation Factor (VIF). According to the results, Model 1 has an average VIF of 1.58, which is less than the recommended threshold of 10. Thus, Model 1 does not have multicollinearity issues. The VIF value for the ESG variable is 1.12, which is less than 10. Meanwhile, the average VIF in Model 2 is 1.71, which is less than 10. Therefore, it can be concluded that there are no multicollinearity problems overall in Model 2. The VIF values for ESG, ESGFFLEX (ESG \times Financial Flexibility), and ESGDER (ESG \times Debt-to-Equity Ratio) are 2.10, 2.17, and 1.50, respectively.

The heteroscedasticity test used in the Fixed Effects model is the Breusch-Pagan Lagrange Multiplier Test. According to the result of this test, Model 1 is significantly valued, indicating that it contains heteroscedasticity issues. A Box-Cox Treatment is applied to address the heteroscedasticity problem. The results show that Model 1 is not accessible due to heteroscedasticity issues after the treatment. Next, in Model 2, the $\text{Prob} > \text{chi-square}$ value indicates a significant result, meaning that this model contains heteroscedasticity issues. To address the heteroscedasticity problem in Model 2, a Box-Cox Treatment was performed. After the treatment, the heteroscedasticity test results for Model 2 showed a $\text{Prob} > \text{chi-square}$ value that is not significant at the 1% significance level. Therefore, it can be interpreted that Model 2 is free from heteroscedasticity issues.

The autocorrelation test uses the Wooldridge test. Based on the results, the probability value yields a significant figure, indicating that Model 1 exhibits autocorrelation issues. A Cochrane-Orcutt Treatment was performed to address the autocorrelation problem in Model

1. After the treatment, the prob > F result yielded an insignificant value, indicating that Model 1 is free from autocorrelation issues. Next, in Model 2, the value is insignificant, as indicated by the probability value (Prob > F) of 0.0001. This means that Model 2 contains autocorrelation issues. The Cochrane-Orcutt Treatment will address the autocorrelation problem in Model 2. The result of this treatment is a p-value greater than the F-value, indicating that Model 2 is free from autocorrelation issues.

The F-test results for Model 1 yielded a probability value of 0.0000, which is less than the set significance threshold of 0.10%. Therefore, it can be inferred that in Model 1, all independent variables – namely, ESG, ROA, SIZE, AGE, GROWTH, INFL, GDP, and COV – simultaneously influence the dependent variable TOBINSQ. Referring to Table 3 for the results of Model 1, which has a coefficient of determination (adjusted R-square) of 0.5429. It can be interpreted that the variables covering ESG, ROA, SIZE, AGE, GROWTH, INFL, GDP, and COV collectively can explain the dependent variable, TOBINSQ, by 53.99%. In comparison, variables outside the scope of this research model can explain the remaining 46.01%.

Furthermore, Model 2 has a significant p-value of 0.0000, which is below the set significance threshold of 0.10. Hence, it can be inferred that in Model 2, all variables – namely, ESG, ESG*FFLEX, ESG*DER, ROA, SIZE, AGE, GROWTH, INFL, GDP, and COV – simultaneously influence the dependent variable TOBINSQ. Then, Table 4 shows that Model 2 has a coefficient of determination (Adjusted R-square) of 0.5958. It means that the independent variables involved in this research model can explain the dependent variable, Company Value (TOBINSQ), by 59.58%. The remaining 40.42% is attributed to other variables not covered within the framework of this research.

Table 4. Regression Result Model 1

TOBINSQ	Coef.	Std. Err.	t	Prob/2	Conclusion
ESG	0.0089257	0.0027805	3.21	0.0005***	H ₁ supported
ROA	19.34496	0.7836272	24.69	0.0000***	
SIZE	-0.0462121	0.0393305	-1.17	0.1200	
AGE	-0.0004625	0.0013884	-0.33	0.3695	
GROWTH	-0.0115451	0.0040411	-2.86	0.0020***	
INFL	0.0214278	0.0303544	0.71	0.2400	
GDP	0.0475729	0.0169501	-2.81	0.0025***	
COV	-0.02826255	0.1388076	-2.04	0.0210	
_cons	0.9933511	0.7086889	1.40	0.0805*	

Source: Output STATA 17 (2023)

Notes:

- *** : the significance of the influence at the level 1%
- ** : the significance of the influence at the level 5%
- * : the significance of the influence at the level 10%

Table 5. Regression Result Model 2

TOBINSQ	Coef.	Std. Err.	t	Prob/2	Conclusion
ESG	0.0301344	0.0035785	8.42	0.0000***	
ESG*FFLEX	-0.0359862	0.0037283	-9.65	0.0000***	H ₂ supported
ESG*DER	-0.0038673	0.0010946	-3.53	0.0000***	H ₃ supported
ROA	19.12132	0.7383762	25.90	0.0000***	
SIZE	-0.2643272	0.0435695	-6.07	0.0000***	
AGE	-0.0013162	0.0013117	-1.00	0.1580	
GROWTH	-0.0093792	0.0038037	-2.47	0.0070***	
INFL	0.029781	0.0285153	-1.04	0.1485	
GDP	-0.0475636	0.0159112	-2.99	0.0015***	
COV	-0.2426086	0.1303698	-1.86	0.0315**	
_cons	5.043847	0.7935918	6.36	0.000	

Source: Output STATA 17 (2023)

Notes:

*** : the significance of the influence at the level 1%

** : the significance of the influence at the level 5%

* : the significance of the influence at the level 10%

The variable ESG has a coefficient of 0.0089257 with a p-value of 0.001. Since it is a one-tailed hypothesis, the p-value is divided by two, resulting in 0.0005. The result indicates significance at the 1% significance level. Table 5 shows that Hypothesis 1 (H1) is supported, suggesting that ESG has a significant impact on Company Value. The influence of ESG factors, moderated by Financial Flexibility (FFLEX), yields a coefficient value of -0.0359862 with a probability value of 0.000, indicating significance at the 1% significance level. Table 5 also shows that Hypothesis 2 (H2) is supported, suggesting that financial flexibility can mitigate the negative impact of ESG factors on Company Value. The influence of ESG factors, moderated by Capital Structure (DER), yields a coefficient value of -0.0038673 with a probability value of 0.000, indicating significance at the 1% significance level. Table 5 demonstrates that Hypothesis 3 (H3) is supported, suggesting that capital structure can mitigate the negative impact of ESG factors on Company Value.

For the control variable, ROA, the coefficients are 19.34496 in Model 1 and 19.12132 in Model 2. This indicates that both models yield a highly significant ROA, with a p-value of 0.000. As a measure of profitability, ROA is positively correlated with company value. Higher profitability directly enhances company value, making ROA a critical control variable. Firm Size (SIZE) coefficient is -0.0462121 in Model 1 and -0.2643272 in Model 2. Model 1 shows no significance (p-value = 0.240), whereas model 2 shows significance (p-value = 0.000). The negative coefficient suggests that larger firms might have a lower Tobin's Q, indicating that as firms grow, their market value relative to their book value might decrease due to potential inefficiencies or market perceptions. Firm Age (AGE) coefficient is -0.0004625 in Model 1 and -0.0013162 in Model 2. Notably, both models show no significance, with p-values of 0.739 and 0.316, respectively. The firm's age does not significantly affect its value, suggesting that its maturity does not necessarily impact its market valuation.

Firm Growth (GROWTH) coefficient is -0.0115451 in Model 1 and -0.0093792 in Model 2. Both models show significance with p-values of 0.004 and 0.014, respectively. For inflation (INFL), the coefficients are 0.0214278 in Model 1 and 0.029781 in Model 2, both of which show no significance (p-values = 0.480 and 0.297). Inflation does not significantly impact company value, suggesting that inflationary pressures are either effectively managed or do not play a crucial role in the valuation of these firms during the study period, as indicated by the GDP coefficients of 0.0475729 in Model 1 and -0.0475636 in Model 2. Model 1 shows significance (p-value = 0.005), whereas Model 2 shows significance (p-value = 0.003). The positive coefficient in Model 1 and the harmful coefficient in Model 2 indicate varying impacts of economic conditions on company value, potentially reflecting different economic cycles or sector-specific responses to GDP changes. COVID-19 (COV) coefficient is -0.2826255 in Model 1 and -0.2426086 in Model 2. The significance of both models is demonstrated by p-values of 0.042 and 0.063, respectively. The negative coefficient indicates the adverse impact of the COVID-19 pandemic on company value, underscoring the economic disruptions it has caused.

This research contributes to the growing body of literature on sustainability and corporate finance by providing empirical evidence on the positive impact of ESG practices on company value in the context of emerging ASEAN-5 markets. Uniquely, the study integrates two financial moderators—financial flexibility and capital structure—offering a more comprehensive understanding of how internal financial strategies can strengthen or weaken the relationship between ESG and firm value. By focusing on ASEAN-5 countries, this research addresses a geographical gap in ESG-related studies, which have been predominantly concentrated in developed markets. The findings are expected to benefit investors, policymakers, and corporate managers by highlighting the strategic importance of ESG integration and financial readiness in enhancing long-term firm value, particularly in dynamic and vulnerable economic environments.

The novelty of this research lies in its integrated analysis of ESG practices and their influence on company value, introducing financial flexibility and capital structure as moderating variables. This approach remains underexplored in prior studies, especially within the ASEAN-5 context. While most existing research focuses on the direct relationship between ESG and firm performance, this study uniquely examines how internal financial conditions can alter that relationship, offering a more nuanced perspective. Furthermore, by focusing on the ASEAN-5 countries, which are underrepresented in the ESG literature, and covering the period from 2016 to 2022, including the COVID-19 pandemic, this research provides timely and region-specific insights that enhance the understanding of ESG's strategic role in emerging markets.

Discussion

According to Table 4, the research results suggest that ESG factors have a substantial impact on company value. This finding indicates that companies' increasing implementation of ESG practices can positively affect company value. This research aligns with several previous studies by Aydoğmuş et al. (2022) and Wong et al. (2021), which demonstrate that

companies with ESG scores can positively influence their company value. In recent years, investor interest and global community concerns about overall corporate risks have increased, highlighting the profits generated by companies and focusing on environmental and other non-financial factors. This includes the social responsibility of companies to society and good corporate governance. They refer to the legitimacy theory, which posits that companies should act in accordance with society's beliefs, expectations, standards, and values to achieve legitimacy and social permission to operate. Thus, companies will strive to align their business operations with activities related to the environment, social aspects, and good governance to improve their ESG scores and meet stakeholders' expectations. This can signal credibility in conducting business in line with the company's ESG commitments.

Based on Table 5, the research results indicate that ESG, when moderated by financial flexibility, can mitigate the negative impact on company value. This finding is supported by Guo et al. (2020), which suggests that companies with financial flexibility can quickly enter the capital market, thereby meeting more extensive capital requirements. With sufficient capital, companies are better positioned to meet the expectations of various stakeholders. Suppose the company fulfills the stakeholders' expectations, particularly in environmental and social aspects, and engages in suitable corporate governance activities. In that case, the company and stakeholders can establish a positive relationship. This capability can create a positive reputation and contribute to the overall increase in company value.

Based on Table 5, the research results reveal that the moderation of capital structure can weaken the negative impact of ESG on company value. This finding differs from Hannawanti and Naibaho (2021) and Bae et al. (2021), who state that capital structure can harm company value. The results of this research suggest that adopting an optimal capital structure by increasing a company's debt level can help mitigate the negative impact of implementing ESG, which is often considered a costly endeavor and may reduce a company's value. This aligns with the findings of Vo (2021) that states an optimal capital structure creates solid and stable financial conditions, ultimately enhancing company value. Companies with rapid business development require substantial sources of funding. This considers additional funding options from external parties to meet the company's financial needs for business development, including the implementation of ESG concepts. Companies with long-term business growth are likely to provide high returns to investors, ultimately increasing their company value (Vo, 2021).

Furthermore, Table 5 shows that H1 is supported, indicating that ESG has a significant impact on company value. This study found that the adoption of ESG practices has a positive effect on company value. This means companies adopting more ESG practices tend to have higher company value. Exemplary ESG implementation can enhance investor and stakeholder confidence, increasing the company's stock value and overall company value. The implications of these results underscore the importance of companies paying attention to and enhancing their ESG practices. By implementing sustainable and socially responsible policies, companies can increase their value in the eyes of investors and the public. This can also lead to long-term sustainability and competitive advantage.

Table 5 indicates that H2 is supported, suggesting that financial flexibility can weaken the negative impact of ESG on Company Value. The influence of ESG factors, moderated by Capital Structure (DER), yields a coefficient value of -0.0038673 with a probability value of 0.000, indicating significance at the 1% significance level. The research shows that financial flexibility can weaken the negative impact of ESG implementation on company value. Financial flexibility allows companies to more easily adjust their strategies and manage financial risks, which in turn can strengthen the positive impact of ESG on company value. The implication of this finding is that companies must consider their financial flexibility as part of their risk management strategy. By having good financial flexibility, companies can be more responsive to changes in the business environment and better integrate ESG practices without sacrificing company value. This also suggests that investors may be more inclined to invest in companies with high financial flexibility and a strong commitment to ESG.

Table 5 indicates that H3 is supported, suggesting that capital structure can mitigate the negative impact of ESG factors on Company Value. The research findings indicate that a company's capital structure can mitigate the negative impact of ESG implementation on its value. An optimal capital structure, which balances debt and equity, can help companies manage the costs associated with ESG implementation and maintain or increase their company value. Company managers must consider an optimal capital structure to support their ESG initiatives. By effectively managing the composition of debt and equity, companies can reduce the cost of capital and maximize company value. Companies with a healthy capital structure and good ESG practices are more attractive to investors.

The analysis of control variables reveals that ROA has a significantly positive impact on company value, indicating that high profitability can enhance a company's market value. Firm size shows a significantly negative impact in the second model, suggesting that larger companies may face efficiency declines or negative market perceptions. Firm growth exhibits a significantly negative impact, possibly due to high expansion costs or investor skepticism regarding the sustainability of such development. The firm age and inflation variables do not show significant impacts, indicating that these factors do not play an essential role in determining company value in this context. GDP shows significant effects with varying directions in the two models, reflecting the complex influence of economic conditions on company value. The COVID-19 pandemic has had a profoundly negative impact, underscoring the economic disruptions it has caused and the importance of effective crisis management strategies. These findings emphasize the importance of profitability, adequate firm size, effective growth management, and adaptability to economic conditions and crises in determining a company's value.

Conclusion

This research examines the influence of ESG on company value with financial flexibility and capital structure as moderators. The purposive sampling method yielded 101 companies with ESG scores in the ASEAN-5 region, comprising Indonesia, Malaysia, Singapore, the Philippines, and Thailand, from 2016 to 2022, resulting in 707 observations. Based on the conducted research, several conclusions can be drawn. First, ESG has a positive impact on the Company Value of companies with ESG scores in the ASEAN-5 region during the period 2016-2022, consistent with the author's hypothesis development. Second, Financial Flexibility can weaken the negative impact of ESG on the Company Value of companies with ESG scores in the ASEAN-5 region during 2016-2022, aligning with the author's hypothesis development. Third, Capital Structure can weaken the negative impact of ESG on the Company Value of companies with ESG scores in the ASEAN-5 region during the period 2016-2022, consistent with the author's hypothesis development.

Based on the research, the following implications are drawn for various parties. For prospective investors, the higher implementation of ESG practices, which prioritizes financial flexibility and a sound capital structure, can enhance the company's value. Therefore, investors may consider this in planning their investments. Then, for companies to improve financial flexibility and maintain a sound capital structure, active participation in implementing ESG practices is encouraged. This engagement is expected to enhance the company's value.

During this research, the researcher encountered several limitations. Many companies in the ASEAN-5 region needed to meet the research criteria, lacked more ESG scores, and had incomplete data during the 7-year study period, namely from 2016 to 2022. Consequently, only 101 companies, representing 707 observations, are included in the research sample. Additionally, variables outside the scope of this study may influence company value.

The results of the statistical testing indicate that ESG practices have a significant positive impact on company value, while financial flexibility and capital structure serve as important moderating factors. For the industry, this implies that integrating ESG into corporate strategies, supported by strong financial management, can enhance firm value and investor confidence—especially during periods of economic uncertainty. Companies are encouraged to invest in sustainability initiatives while maintaining optimal financial flexibility and capital structures to remain resilient and competitive. For government policymakers, these findings underscore the importance of promoting ESG adoption through regulatory frameworks, incentives, and standardized disclosure requirements, particularly in emerging markets, to foster sustainable economic growth and enhance capital market stability across the ASEAN region.

The primary limitation of this research is the restricted sample size, which comprises only 101 publicly listed companies from the ASEAN-5 region that have complete ESG scores and financial data for the period from 2016 to 2022. This limitation may affect the generalizability of the findings to the broader ASEAN or global context. Additionally, the

study relies solely on secondary data and does not account for qualitative aspects of ESG implementation or differences in industry-specific ESG practices. For future research, it is recommended to expand the sample to include more ASEAN member countries or other emerging markets, incorporate qualitative assessments of ESG strategies, and explore the role of other moderating variables, such as innovation capability, corporate governance mechanisms, or stakeholder engagement, in strengthening the ESG-firm value relationship.

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The Evolving Threat of Narcotics Smuggling: A Non-Traditional Security Challenge in Southeast Asian Border States

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ABSTRACT

Traditional military threats have given way to non-traditional security (NTS) issues, including human security, as the essence of international security has changed. Narcotics smuggling is a major NTS concern that presents a huge burden, especially in border regions. Covering an area of around 4.4 million square kilometers, Southeast Asia is home to the "Golden Triangle," an infamous center for the production of drugs that is situated near the borders of Thailand, Laos, and Myanmar. These locations have facilitated the growth of extensive drug smuggling operations. The dangers of drug smuggling as a NTS concern in border states are examined in this paper. The research examined the effects of drug trafficking on regional security utilizing a qualitative methodology with realism as the theoretical framework. The results show that drug smuggling poses serious security threats to Southeast Asia, especially via marine routes that cross the Malacca Strait between Indonesia and Malaysia. Smugglers mostly operate at night and use advanced techniques, such as GPS-equipped drug packages and using fishermen as couriers. This smuggling route continues to exist due to several factors, such as the close proximity of territorial waters, the existence of unofficial and illegal ports, the lack of surveillance patrols, and the difficulties in maintaining law enforcement professionalism in border areas. Stronger regional collaboration, increased marine security, and better law enforcement strategies are needed to address these problems and lessen the growing menace of drug smuggling in Southeast Asia.

Keywords: non-traditional security, narcotics smuggling, border security, Southeast Asia, maritime security

Introduction

The dynamics of the international political constellation after the Cold War around the 2000s have changed the polarization of relations among countries in the international political arena, both in terms of issues and international actors. During the Cold War, countries around the world prioritized the issue of national security, also known as traditional security. Then, after the Cold War, the issue began to move towards the security of citizens known as NTS. One area that has not escaped the threat of humanitarian security is Southeast Asia. Also, the dynamics of the international political landscape underwent significant transformations. This era marked a transition from a bipolar system (United States vs. Soviet Union) to a multipolar system, in which emerging powers such as China and other nations began to play increasingly influential roles. International organizations have increasingly played a dominant role in global politics. This trend is also evident in Southeast Asia, where shifts in regional dynamics and border disputes have become unavoidable issues due to geographical influences.

Southeast Asia is increasingly confronted by a pressing NTS threat: narcotics smuggling across its porous land and maritime borders. Unlike conventional threats that involve state-to-state conflict or military aggression, the illicit drug trade operates below the threshold of war, yet exerts profound destabilizing effects on governance, human security, and regional cooperation Caballero-Anthony (2008). Border states such as Thailand, Myanmar, Laos, Indonesia, and the Philippines are particularly vulnerable due to a combination of weak institutional capacity, vast unmonitored areas, and proximity to major drug-producing zones such as the Golden Triangle (Windle, 2016). The research argues that narcotics smuggling has evolved into a strategic NTS issue for Southeast Asian border states and requires a shift from traditional national security paradigms to more integrated, regional, and people-centered approaches. It examines the dynamics of drug trafficking in key border zones, analyzes the multidimensional threats posed, and evaluates current policy responses. Ultimately, the research calls for enhanced multilateral cooperation, inclusive development policies, and a rethinking of security governance to address the structural vulnerabilities that enable the drug trade to flourish.

Geographically, territorial borders mark the area of a country, including land, sea, and airspace above it. Legally, the national boundary determines the scope of country's national law, while politically, the state boundary marks the end of a country's highest level of power over its territory and everything within the region (Hanita, 2006). A country's territory is separated by other countries' borders and functions as a boundary for its sovereignty. The introduction and understanding of boundaries are closely related to the implementation of development, welfare, and national defense. As a "front porch" of a country, the border region of Indonesia faces several complex problems, both security-related (illegal smuggling, illegal logging, and terrorism) and socioeconomic, which can threaten Indonesia's sovereignty. This problem is further complicated by the border region's proximity to other countries. In this

case, it is necessary to have an overview of the effective management of border areas to address problems in these areas.

Drug smuggling in Southeast Asia has grown into one of the most pressing and complex NTS issues in the last decade. The region occupies a strategic position in international trade networks, while also forming part of the “Golden Triangle” route, known as one of the world's largest centers of narcotics production and distribution. This phenomenon not only contributes to increased transnational crime and social vulnerability but also has serious implications for the political stability, security, and economic development of border countries such as Thailand, Myanmar, Laos, and Malaysia. The dynamics of narcotics smuggling show an increasingly organized pattern, exploiting weaknesses in border surveillance, advances in communication technology, and disparities in law enforcement policies among countries in the region.

The smuggling of narcotics in the region is facilitated by transnational organized crime networks that exploit jurisdictional gaps, corruption, and underdeveloped infrastructure. These networks have grown increasingly adaptive and decentralized, often overlapping with other forms of illicit activity such as arms trafficking, human smuggling, and terrorism financing (UNODC, 2022). The consequences of such criminal activities include rising domestic addiction rates, community-level violence, environmental degradation from drug production, and the erosion of public trust in law enforcement and the judiciary (Acharya, 2017). Drug trafficking in Southeast Asia is a transnational issue, involving multiple countries from production to distribution. For instance, narcotics often originate in Myanmar, transit through countries like Vietnam, and reach final destinations such as Malaysia (McNicholas & Draughon, 2016). The Golden Triangle, encompassing Myanmar, Laos, and Thailand, remains a notorious hub for opium production, complicating regional narcotics control efforts.

Although ASEAN has established various cooperation mechanisms, such as the ASEAN Ministerial Meeting on Drug Matters (AMMD) and the ASEAN Senior Officials on Drug Matters (ASOD), the effectiveness of their implementation remains limited by differences in national priorities, institutional capacity, and constraints cross-border coordination. This situation confirms that drug trafficking can no longer be viewed solely as a transnational crime, but rather as a NTS threat that requires a multidimensional and collaborative approach. Based on these issues, this research seeks to answer the main question: How has drug smuggling developed as a NTS threat in Southeast Asian border countries, and to what extent have regional cooperation mechanisms responded to these dynamics? This research argues that narcotics smuggling results from interactions between structural factors at the regional level and weaknesses in domestic governance, which weaken collective capacity to address non-traditional threats.

Literature Review

Research on state security in the border region has been carried out by several researchers, mainly focusing on the patterns of social development of communities and

border areas, border area security, and maritime defense in the border region. Research on traditional and NTS threats has already been carried out by other researchers, but the study still focuses on NTS threats in general and on Asian regionalism. Research on NTS threats in the border region, especially in the coastal borders of Riau Province and Malaysia, has not been conducted by other researchers, so this prompts researchers to be interested in researching the forms of NTS threats and the factors that drive the increase of NTS threats in the coastal regions of the provinces of Riau and Malacca.

This study departs from a NTS theoretical framework that views security as a condition determined not only by military factors, but also by threats arising from social, economic, political, and environmental dynamics. In the context of Southeast Asia, drug smuggling is a tangible form of non-traditional threat that transcends national sovereignty and has a direct impact on human security. Based on the ideas of Buzan (1991) and Acharya (2009), such threats require a multidimensional and collaborative response, as their sources of threats and impacts are spread across regions and institutions.

The shift in the international political paradigm from traditional to NTS is now a real security threat at the domestic, regional and global levels (Othman et al., 2016). Elaboration related to climate change, natural disasters, migration, and cross-border issues involving non-state actors currently have an impact on the security of the country and society. This paper argues that, in terms of topography, open geographical area, and strategic position, this region is vulnerable to threats. Conflicts at the domestic level that occurred in Cambodia, Vietnam, the Philippines (Mindanao), Indonesia (Aceh), and Thailand (Pattani) have provided space for these transboundary crimes. Given the geographical conditions in the territorial land and international waters, the Southeast Asian region will become a place where massive non-traditional security activities take place, so coordination efforts between countries are needed to anticipate these threats.

The concept of NTS emerged as a critique of traditional security approaches that focus on military and national defense issues. Buzan (1991) emphasizes that security does not cover only military aspects but also includes political, economic, social, and environmental dimensions. In this context, security threats do not only originate from inter-state conflicts, but also from non-military issues such as transnational crime, climate change, migration, terrorism, and drug trafficking. Acharya (2009) expands on this understanding through the human security and comprehensive security approaches in Southeast Asia, which emphasize the importance of protecting individuals and communities from various forms of non-military vulnerabilities. Within this framework, drug smuggling is understood not only as a crime but also as a threat to human welfare, social order, and political stability. Thus, addressing it requires a multidimensional approach involving cross-border and cross-sectoral cooperation.

Previous research on non-state security threats by Swanström (2010) explains that an in-depth analysis of the differences between hard (physical) and soft (non-physical) threats and security problems in Asian countries is multidimensional due to weak state and government structures. Furthermore, Srikanth (2014) only explains the causes of the emergence of NTS threats in the 21st century, such as the development of non-state actors, environmental

damage, domestic conflicts, and cyberwar. Dabova (2013) analyzes NTS threats in the border region explained that one of the biggest threats of state governments in the Southeast Asia Region is an organized transnational crime group of actors who control communication lines, jeopardize access to the country's strategic resources, control of the country's military defense and damage the environment and the regime's hegemony stability theory have limits and are unable to describe non-traditional threats. Therefore, weak monitoring by the government and regional organizations over territorial and international waters have resulted in the development of terrorist groups, piracy, environmental degradation, and other transnational crimes. Moreover, the non-military threat in Papua is the desire for the disintegration of the Papuan Community driven by economic inequality policies (Indrawan, 2017).

Furthermore, Hikam and Praditya (2015) explain that the Indonesian government must strengthen policies to increase the capacity of maritime defense forces as a means of bargaining positions against changes in the international political environment and to position itself within the world's maritime axis. Maqbool (2014) explains that NTS threats differ from traditional security threats, which typically use weapons and politics. Instead, NTS threats affect human sustainability, such as threats caused by narcotics—ranging from production and processing to trafficking—resulting in many significant loss of life, as happened in Pakistan. Therefore, based on the previous research, many studies focus on the dynamics of transnational crime actors and their development, while others emphasize the efforts to strengthen state defense in maritime area without first explain NTS threats. Particularly, existing research has not clearly explained which types that are most dangerous in the border regions, such as the Indonesia-Malaysia border in Riau as well as the factors that contribute to the increasing of NTS threats.

Transnational organized crime is one of the most pressing NTS threats in Southeast Asia. According to the United Nations Office on Drugs and Crime (UNODC, 2023), drug trafficking networks in the region have established an underground economy worth billions of dollars annually. The structure of these networks is generally adaptive, exploiting weak law enforcement, local corruption, and geographical conditions that enable smuggling by land, sea, and air. In the context of Southeast Asia, the long and open borders between Myanmar, Laos, Thailand, and Malaysia are the most vulnerable to the production and distribution of synthetic drugs. Chouvy (2013) shows that the dynamics of domestic conflict and socio-economic inequality in the region have strengthened the basis for narcotics production and distribution networks. This shows that narcotics smuggling is not only a law enforcement issue, but is also closely related to social, economic, and political structures at the national and regional levels.

Within this framework, drug smuggling is seen as the result of interactions between structural factors at the regional level and institutional factors at the domestic level. Structural factors include regional geopolitical and economic conditions, such as Southeast Asia's strategic location along international trade routes and weak border controls. Meanwhile, institutional factors include the effectiveness of national law enforcement, inter-agency coordination, and policy integration between countries. Both contribute to the formation of a

governance gap, a security governance gap, which is then exploited by transnational criminal networks to expand their activities.

This framework also utilizes ASEAN's concept of comprehensive security, which emphasizes balancing state and human security. Thus, the research's analysis focuses not only on the state's ability to crack down on criminals, but also on the region's capacity to build a sustainable system of collaboration. This includes three main dimensions of analysis. First, the structural dimension, which explains the geopolitical conditions, trade networks, and regional dynamics that influence patterns of drug smuggling. Second, the institutional dimension, which examines the effectiveness of national policies and inter-state cooperation in countering the threat of drugs. Third, the normative dimension, which examines how ASEAN's principles of non-interference and national sovereignty influence the effectiveness of regional security cooperation.

Through this approach, the research seeks to identify the extent to which drug smuggling in Southeast Asia can be understood as a NTS threat and how regional governance can be strengthened to overcome these challenges. Thus, this framework not only serves as a conceptual analysis map but also as a basis for formulating relevant policy recommendations for strengthening regional security.

Research Methods

The research applies a descriptive qualitative approach with a descriptive comparative analysis design, aiming to gain an in-depth understanding of the dynamics of narcotics smuggling as a transnational socio-political phenomenon in the Southeast Asia, particularly in Indonesia's border zones. This approach is chosen based on the nature of the issue being studied, namely NTS issues that are multidimensional, complex, and cannot be measured solely by quantitative indicators. A qualitative approach allows researchers to interpret social reality holistically by considering political, economic, and cultural aspects (Flick, 2018). In this context, the research not only seeks to answer the question of the scale of drug trafficking but also to explain how and why these smuggling networks have developed and survived within the regional security structure.

Thus, the method allows researchers to explore the links between national policies, ASEAN regional norms, and smuggling practices in the field. The data are mainly sourced from secondary literature such as official UNODC reports, ASEAN publications, scientific journal articles, and national policy documents, which are then analyzed interpretively to identify patterns, dynamics, and policy implications.

Methodologically, the descriptive-comparative qualitative approach has the strength of producing rich contextual understanding and allowing for interpretation of socio-political dynamics that are difficult to measure statistically. This approach aligns with the constructivist security studies paradigm, which emphasizes the importance of norms,

perceptions, and interactions among actors in shaping the regional security agenda (Acharya, 2009).

However, the research also has limitations. First, the limited availability of direct empirical data from conflict and border areas makes the analysis highly dependent on secondary sources. Second, due to its interpretive nature, the findings of this study are not intended to be generalized, but rather to provide an in-depth understanding of specific phenomena. Third, the complexity of inter-state coordination in the ASEAN region means that evaluating the effectiveness of policies requires further field-based studies or policy impact assessments. This methodological reflection shows that although the descriptive-comparative qualitative approach has limitations in quantification and empirical verification (Yin, 2014). It remains the most appropriate for explaining drug smuggling as a multidimensional and cross-border NTS threat (Patton, 2015). Thus, selecting this method aligns with the research objective, which is to understand the relationship between regional structural dynamics and the institutional capacity of states to address the threat of narcotics in Southeast Asia.

The research relied on both primary and secondary data. Primary data are gathered through field observations, focus group discussions (FGDs), and in-depth interviews with stakeholders directly involved in coastal security and community resilience (Creswell & Poth, 2018). Secondary data comprised official reports, academic literature, policy documents, and regulatory frameworks related to NTS threats in Indonesia's coastal border areas (Caballero-Anthony & Cook, 2017).

The research uses two primary data collection techniques, field observations and in-depth interviews. Field observations are conducted by the research team in selected sites to capture real-time conditions and document physical and social indicators of insecurity, including drug trafficking routes, illegal fishing zones, and maritime surveillance infrastructure (Neuman, 2014). These observations enriched the contextual understanding of how threats manifest at the community level. In addition, in-depth interviews apply semi-structured interviews. The interview is conducted with the following key informants: officers from Lanal Dumai (Indonesian Navy Base), officials from the Riau Regional Police Narcotics Directorate, representatives from the National Narcotics Agency (BNN) of Riau Province, local authorities from North Rupat Subdistrict, and community members and traditional leaders in Rupat Island and Dumai City.

Results and Discussion

The state border is a geographical space that, from the beginning is a territory for power struggles between countries, mainly marked by efforts to expand the borders. As part of a country's history and existence, the history of border areas cannot be separated from the history of birth and the end of various countries (Tirtosudarmo, 2002). A country's border region is the main manifestation of its territorial sovereignty. The border region of a country plays an important role in determining the territorial boundaries of sovereignty, the use of

natural resources, and the region's security and integrity. Border issues have complex dimensions. There are several crucial factors involved, such as state jurisdiction and sovereignty, politics, social economy, and defense and security.

One form of the real threat in border areas is non-traditional threat activities or humanitarian threats. Non-traditional threats are threats that use non-military factors that are deemed capable endangering state sovereignty, country's territorial integrity, and the safety of the whole nation (Indrawan, 2015). Non-military threats can have ideological, political, economic, socio-cultural, technological, and information dimensions, as well as public safety implication. Therefore, serious government attention is needed to anticipate non-traditional threats because the perpetrators of these crimes are non-state actors.

The concept of NTS emerges as a response to the limitations of traditional security frameworks, which primarily focused on military threats and the protection of state sovereignty. In contrast, NTS broadens the understanding of security by including a diverse range of challenges that threaten the survival, well-being, and dignity of individuals and communities, often across national boundaries and outside military domains (Caballero-Anthony, 2015). NTS threats encompass issues such as transnational crime, climate change, environmental degradation, pandemics, food and water insecurity, terrorism, and irregular migration (Acharya, 2009). These threats are "non-traditional" not because they are new, but because they do not originate from inter-state conflict and often undermine human security and development in less visible or indirect ways. As such, NTS challenges typically require multilateral cooperation, non-coercive approaches, and multi-sectoral responses (Buzan et al., 1998).

A key feature of NTS is its focus on the individual or community as the referent object of security, rather than the state. This human-centric perspective highlights the vulnerabilities of marginalized groups who may be disproportionately affected by threats such as illegal drug trade, maritime piracy, or environmental collapse – particularly in border and coastal regions Caballero-Anthony (2016). In the Southeast Asian context, NTS has been further institutionalized through the Association of Southeast Asian Nations (ASEAN), which recognizes non-traditional threats such as drug trafficking, illegal fishing, and human trafficking as priority areas for regional security cooperation (Emmers, 2004). This necessitates cooperative frameworks, not only among governments but also with civil society, local communities, and international organizations (Floyd, 2019). Collectively, these issues illustrate the shift from traditional to multi-dimensional threats affecting coastal communities in the Malacca Strait. These threats require integrated governance, regional maritime cooperation, and a broader understanding of human security. These issues have evolved into a continuous cycle with no clear resolution, further complicating the socio-economic and security landscape in the region.

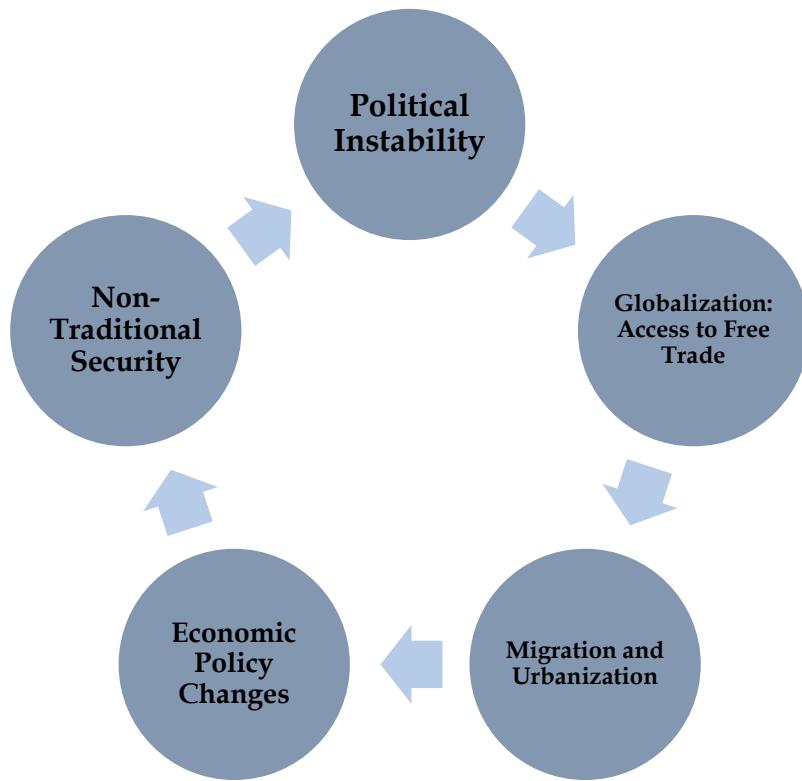


Figure 1. The Cycle of Political Instability and Its Impact on NTS in Border Areas
 (Caballero-Anthony, 2015).

In summary, the concept of NTS challenges the narrow definitions of traditional state-centric security and opens up a broader, more inclusive approach to understanding and responding to contemporary threats. It is relevant in Southeast Asia's border regions, where non-military threats intersect with governance challenges, economic vulnerabilities, and environmental pressures. Based on researchers' observations in the field, research findings show that non-traditional threats in the border regions of Riau and Malacca are forms of illegal economic activities such as smuggling of imported food staples (shallots and garlic from Malaysia), narcotics smuggling, secondhand clothing smuggling, and human trafficking.

The Dynamics of Drug Smuggling in the Southeast Asian Border Region

Research findings indicate that drug trafficking in the Southeast Asian border region is becoming increasingly organized and adaptive to changes in national and regional policies. The Golden Triangle region—which encompasses the borders of Thailand, Myanmar, and Laos—remains a major hub for the production and distribution of synthetic drugs, particularly methamphetamine. According to a UNODC (2023), methamphetamine production in this region has reached its highest level in five years, with the main distribution routes flowing to Thailand, Malaysia, and the Philippines. The complex geographical conditions, weak border surveillance, and the involvement of non-state actors such as armed

groups in Myanmar's conflict zones are the main factors driving the high level of smuggling activity. In addition, the development of digital communication technology and the use of online platforms for cross-border transactions have further strengthened the criminal networks' capacity to evade detection by law enforcement agencies. This situation shows that drug smuggling in Southeast Asia is not merely a matter of criminality, but a non traditional security issue that simultaneously involves economic, social, and political dimensions.

The coastal border region between Indonesia and Malaysia, particularly in Riau Province, has increasingly been recognized as a hotspot for illicit economic activities, including smuggling and transnational crime. Smuggling operations exploit the porous nature of this border, involving various contraband goods such as narcotics, alcohol, and human trafficking, often facilitated by organized crime networks thriving in this unstable environment. While informal trade dynamics provide economic opportunities for local communities, they also contribute to regulatory and enforcement challenges, as seen in cross-border agricultural trade, where Indonesian farmers engage in informal transactions due to better market prices in Malaysia. The post-Cold War geopolitical landscape has exacerbated political tensions among countries in the region, further complicating maritime security along borders. Political conditions that support free trade can intensify commercial activity in the Malacca Strait, thereby heightening maritime security threats such as smuggling and piracy. Ultimately, these political dynamics have significantly shifted traditional security concerns to non-traditional issues, as experienced by coastal border communities between Indonesia and Malaysia.

Political instability or shifts in economic policies can directly impact the livelihoods of border communities. Additionally, political and economic conflicts may drive migration and urbanization, leading to social and cultural transformations in coastal societies. As individuals relocate to urban areas or foreign countries in search of better economic opportunities, traditional lifestyles may undergo significant changes. Local economic conditions play a crucial role in fueling smuggling and illegal trade in Riau's coastal areas, particularly through factors such as poverty, unemployment, and weak law enforcement. High levels of poverty and unemployment create an environment where individuals may resort to illicit activities, including narcotics smuggling, as a means of survival. Riau serves as a key entry point for narcotics into Indonesia, primarily from Malaysia, facilitated by numerous unofficial ports and limited surveillance along its coastline (Prayuda et al., 2020). Furthermore, ineffective resource management and weak infrastructure exacerbate the situation, allowing smuggling operations to thrive with minimal oversight. The accessibility of illegal vessels and the lack of coordinated surveillance among bordering nations, such as Indonesia, Malaysia, and Singapore, further aggravate the situation, enabling widespread drug trafficking and piracy.

Narcotics Smuggling in the Malacca Straits Border Area, Geographically, Riau Province has a very strategic position, which is directly adjacent to Malaysia, Singapore, and Thailand; face to face with the Malacca Strait which is the crossing point of world trade. In addition, in the regional region of Sumatra, Riau Province is located in the middle of Sumatra Island on a cross-regional movement trajectory that provides opportunities to build high access for goods, people, information and capital traffic. Riau Province is bordered directly by several regions.

To the north, it is bordered by the Malacca Strait, which also serves as a boundary with Malaysia. The south is Jambi and West Sumatra Provinces. On the east, it shares border with the Riau Islands Province. To the west, Riau Province is bordered by North Sumatra Province.

Riau Province has a long coastline that stretches from the Panipahan region of Rokan Hilir Regency to the Kijang Island region of Indragiri Hilir Regency around 370 miles or equal to 685.24 km with the number of islands in Riau Province as many as 139 islands with the details there are islands named 73 islands and nameless island 66 islands. In addition, Riau Province also has several regions or islands with leading island status. Jemur Island is within the Batu Kuching area of about 45 miles (83.34 km) Malaysia. Tokong Island is bordered by Batu Kuching, Malaysia. Sinaboi Island is bordered by Port Dickson, Malaysia. Tanjung Medang is bordered by Tanjung Tuan/Cape Rachado, Malaysia. Tanjung Parit is bordered by Tanjung Tohor, Malaysia. Tanjung Kedabu is bordered by Pisang Island.

With this position, the Riau Province is one of the gateways of international trade, especially from Malaysia and Singapore. Some areas of Riau Province which are the entry points for goods from Malaysia are the Port of Tanjung Buton, the Port of the Straits of Long, the Port of Rupat Bengkalis Island, the Port of Dumai, the Port of Sinaboy Rokan Hilir and the Port of Bagan Siapi-api. The rapid trade relations between Indonesia, especially Riau Province and Malaysia, on the one hand, provide economic benefits for the community. However, on the other hand the trade relations between these two regions are often also misused by irresponsible parties by carrying out transactions for narcotics smuggling from Malaysia to Indonesia through Riau Province as a transit route for narcotics smuggling. Figure 2 shows a route for drug entry from Malaysia through ports along the coast in Riau Province.

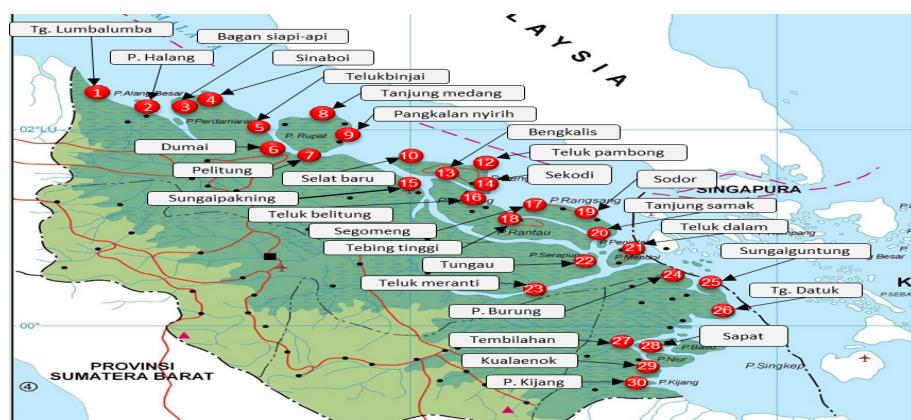


Figure 2. Entrance Map of in Border Area Indonesia and Malaysia
(Riau Provincial Police Narcotics Directorate, 2023)

Riau Province has a very strategic position, which is directly adjacent to Malaysia, Singapore, and Thailand. Also, it is face-to-face with the Malacca Strait, which is the crossing point of global trade. Within the region of Sumatra, Riau Province is located in the middle of

Sumatra Island on a cross-regional movement trajectory that provides opportunities to build high access for goods, people, information and capital traffic.

Limitations of the National Approach and Challenges of Regional Coordination

Analysis of national policies in the region shows that repressive approaches—such as military operations or large-scale law enforcement—have not significantly deterred smuggling networks. For example, the “war on drugs” policies in Thailand and the Philippines tend to be controversial because they focus on enforcement without strengthening prevention and rehabilitation aspects. Meanwhile, in Myanmar, the weak central government authority in conflict areas has rendered supervision of drug production almost ineffective.

The implications of maritime routes used for narcotics trade on regional security are profound and multifaceted, influencing political, economic, and social stability. In regions such as the Pacific, countries like Ecuador, Colombia, Costa Rica, and Panama face significant challenges in establishing an effective multilateral security framework to combat drug trafficking, despite bilateral cooperation (Armijos & Medina, 2019). Similarly, the Indian Ocean serves as a key route for the heroin trade, complicating maritime law enforcement due to jurisdictional ambiguities and the need for integrated counter-terrorism strategies (McLaughlin, 2016). The use of advanced smuggling techniques, including drug submarines and front companies, exacerbates detection difficulties, thus increasing the volume of narcotics reaching consumer markets (Khan & Singh, 2014).

The criminalization of governance not only facilitates the strengthening of human trafficking networks but also diverts resources from essential public services, deepening poverty and underdevelopment. Consequently, without a comprehensive strategy addressing both the symptoms and root causes of this issue, such as enhancing state capacity and political accountability, the region is likely to continue facing severe governance challenges and economic instability (Minteh, 2010). Narcotics smuggling undermines state security by fostering organized crime, corruption, and the development of illegal economies.

Regarding regional cooperation, ASEAN has established various mechanisms such as the ASEAN Work Plan on Securing Communities Against Illicit Drugs (2016–2025) and the ASEAN Narcotics Cooperation Center (ASEAN-NARCO). However, research shows that these mechanisms are still coordinative in nature and have not yet reached an effective operational stage. The principle of non-interference inherent in ASEAN norms hinders efforts to enforce more rigorous cross-border law enforcement. In addition, disparities in law enforcement capacities among member countries have led to imbalances in policy implementation, allowing smuggling networks to exploit these gaps to expand their operations.

Economic Dependency and Social Inequality as Structural Factors

Economic and social factors have also proven to be important drivers in the continuation of drug smuggling. Many communities in border areas depend on the informal economy for

their livelihoods, including the production and distribution of drug raw materials. In northern Myanmar and Laos, these activities are often the only source of income due to limited access to education, infrastructure, and legitimate economic opportunities. As a result, efforts to eradicate narcotics cannot be separated from the socio-economic development agenda at the local level.

Malacca Straits geographic characteristics that make it a strategic area for narcotics trafficking. Located on the eastern edge of Indonesia and bordering the Strait of Malacca, one of the busiest international trade routes, Riau is a vulnerable transit point for smuggling. The region's extensive coastline and numerous small islands further complicate surveillance and maritime patrols, for smuggling networks to exploit maritime routes for drug distribution. Diverse capabilities and commitment among ASEAN member states pose significant challenges to unified action. Geographical, cultural, and social factors influence the effectiveness of narcotics control measures (Wulandari & Kirana, 2023).

With this strategic position, Riau Province serves as one of the gates of international trade through ports, such as Dumai, Artificial, Tanjung Buton, Pakning River, Perawang, Pekanbaru, Selat Panjang, and Kuala Enok. However, the strategic location of this region also poses threats to the side of state security, especially in the context of human security. One real threat are transnational crimes in the form of narcotics smuggling in Southeast Asia. The distribution and drug trafficking is a transnational crime issues that are developing in the Southeast Asian. The weak factor of law enforcement and government institutional oversight is a factor why the drug trafficking business in the Southeast Asian region is very easy to develop (Cipto, 2007).

Several factors drive the development of the narcotics business in Southeast Asia, especially Indonesia. First, significant differences in selling prices across Southeast Asia countries. Second, very high unemployment rates in several Southeast Asian countries, especially Indonesia. Third, poverty conditions in several Southeast Asian countries cause the process of recruiting and courier recruitment costs are quite low. Fourth, the current number of drug users, especially in Indonesia, exceeds 5 million people (Riau Police Narcotics Director, personal communication, March 21, 2024).

Therefore, these factors certainly have an impact on the increasing circulation of narcotics in the territory of Indonesia. Based on observations, it is found that the circulation or smuggling of narcotics from Malaysia to Indonesia, especially in Riau Province, is carried out using a specific modus operandi. According to the Director of the Riau Police Narcotics Detective, narcotics enter the region through the official port by disguising the contents of the cargo, or through small or illegal ports using ships. In addition, another modus operandi involves concealing narcotics by swallowing them in the stomach, inserting them into the anus, hiding them in suitcases, travel bags, or food packaging, and then distributing them through delivery service company or a ship-to-ship transfer.

Additionally, the presence of a large fishing community plays a significant role in facilitating the movement of illicit goods. Fishing vessels and small boats are often used to transport narcotics due to their ability to move freely without attracting attention, particularly

when entering coastal and border areas that lack adequate oversight. The local fishing community in Riau is often involved in narcotics smuggling activities due to a range of interconnected factors. Fishing boats are also frequently repurposed to transport narcotics. The ability of these vessels to navigate freely along coastal and border regions makes them an effective tool for smuggling operations.

Furthermore, many fishermen are linked to broader smuggling networks, acting as couriers or facilitators who move narcotics from one location to another. Economic constraints and limited employment opportunities in the fishing sector serve as primary factor of their involvement in illegal activities, as the promise of substantial profits from smuggling providing a solution to their financial difficulties. Additionally, the geographic conditions of Riau, with its long coastline and weak oversight in certain areas, further increase the likelihood of local fishermen becoming involved in criminal activities. Law enforcement agencies often struggle to monitor the movement of fishing vessels, allowing smuggling networks to exploit security gaps and carry out their operations more freely.

Economic pressures and limited resources compel some fishermen to participate in illicit activities, as they can earn significant income by collaborating with traffickers. This situation is further exacerbated by the socio-economic challenges faced by local fishing communities, including pollution and climate change, which are diminishing their traditional livelihoods (Siregar, 2009). Thus, the intersection of economic needs and geographic vulnerabilities has made local fishermen an integral part of the narcotics trade networks operating in the region (Muhamad, 2016). The situation reinforces the argument that narcotics smuggling is a form of NTS threat rooted in structural inequality. A security approach that emphasizes law enforcement without considering the socio-economic context risks expanding the support base for illegal activities (Pulungan, 2021). Therefore, integrating security policies, economic development, and strengthening community welfare is a must for building regional resilience against the threat of narcotics.

The Urgency of Adaptive Regional Security Governance

The discussion of the research results confirms that ASEAN's effectiveness in tackling drug smuggling depends heavily on its ability to build a more adaptive regional security governance system. The concept of comprehensive ASEAN security has provided a strong normative foundation, but its implementation is still limited to information exchange and technical coordination. More binding mechanisms are needed, such as the formation of joint task forces, harmonization of legal systems, and capacity building for law enforcement agencies at the national and regional levels.

In addition, the involvement of civil society, non-governmental organizations, and the private sector needs to be strengthened within multi-stakeholder framework. This is in line with the principle of human security, which places the welfare and safety of individuals at the center of security policy. Thus, drug trafficking is not only addressed as a criminal or political issue, but as a multidimensional threat that requires comprehensive collaboration at the national, regional, and global levels.

Conclusion

The research demonstrates that narcotics smuggling in Southeast Asia's borderlands has evolved into a complex and multidimensional NTS challenge with significant social, economic, political, and security implications. The region's porous geography and vulnerable border economies—particularly in the Golden Triangle—facilitate the persistence of transnational trafficking networks that continuously adapt to national countermeasures and regional initiatives. The findings indicate that fragmented, state-centric responses are insufficient; punitive law-enforcement approaches that are not complemented by socio-economic interventions risk exacerbating vulnerabilities within border communities. At the regional level, ASEAN frameworks—such as the ASEAN Work Plan on Securing Communities Against Illicit Drugs—continue to face implementation barriers, including divergent national priorities, limited institutional capacity, and the constraining effect of the non-interference norm.

The analysis reaffirms the relevance of non-traditional and comprehensive security perspectives in explaining this issue, highlighting the need for adaptive, collaborative, and human-security-oriented governance. Effectively addressing narcotics smuggling requires not only robust enforcement mechanisms but also deeper regional trust, enhanced cross-border coordination, and sustained community empowerment. From a policy standpoint, the study emphasizes the necessity of integrating security and development approaches through strengthened law-enforcement capacity, regulatory harmonization, and the provision of alternative livelihoods in border areas. By advancing cooperative regional mechanisms and embracing broader NTS frameworks, Southeast Asia can cultivate more resilient and cohesive strategies to mitigate the evolving threat of narcotics trafficking.

This research recognizes several limitations that may affect the breadth and generalizability of its findings. The analysis relies predominantly on secondary sources—government reports, academic literature, and media accounts—that may contain gaps due to underreported cases and incomplete enforcement data. The focus on selected Southeast Asian border states also means that smuggling dynamics in other regions are not fully captured. Limited access to primary field data, restricted government information, and the covert nature of trafficking networks further constrain the analysis. In addition, differences in national legal systems and enforcement capacities across the region complicate cross-country comparison and may reduce the wider applicability of the conclusions. The study also does not examine in detail the financial infrastructures of narcotics networks, including money-laundering mechanisms and the growing use of digital currencies.

Future research can build on these findings in several ways. Field-based or participatory studies involving border communities and law-enforcement actors could deepen understanding of the social dimensions of narcotics smuggling. Comparative work across other strategic border zones—such as the Mekong, Sabah-Southern Philippines, or the Thai-Myanmar frontier—would provide a more complete regional picture. Methodological approaches like network analysis or geospatial intelligence (GEOINT) could help trace emerging trafficking routes and criminal collaborations. Further studies may also explore the

technological evolution of narcotics trade, including encrypted communication, drone transport, dark-web markets, and digital financial systems. Interdisciplinary perspectives combining security, public health, and socio-economic analysis could illuminate broader community impacts. Finally, research on regional governance—particularly ASEAN mechanisms, intelligence sharing, and legal harmonization—would help assess the potential for stronger collective responses to narcotics challenges in Southeast Asia.

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New Evidence of Green Initiatives on Firm Values in ASEAN

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Abstract

This research examined the roles of green building, green revenue percentage, and emission-reduction performance in firm value. This research analysed crucial yet less-explored issues of environmental research in five ASEAN countries, along with providing proof regarding the impact of environmental performance on a firm's value, highlighting variation across nations and years. This research operated weighted least squares (WLS) to analyse a total of 3,193 firm's years from 2015 to 2023. The findings reveal that investors value companies that invest in green buildings as a sign of commitment to sustainability and energy efficiency, thereby reducing operating costs. They also appreciate companies generating green revenue and promoting environmentally friendly products. Investors respond positively to companies that reduce emissions, recognizing potential benefits for financial performance and long-term sustainability. This research has significant implications for practice and policy, as governments and policymakers play a paramount role in the implementation of environmental performance. The green initiatives continue to improve; thus, future studies can expand the green performance indicators.

Keywords: green building, green revenues, emission performance, firm value, ASEAN countries

Introduction

The escalating consequences of the climate crisis pose a grave danger to both humanity and the environment, making it one of the most vital global issues of this era (Deng et al., 2023; Bagh et al., 2024; Naseer et al., 2024). With the earth's climate currently undergoing a swift transformation, the surging level of pollution from industrial activities may significantly increase levels of hazardous air and water pollutants (Helmina et al., 2022). The lack of environmental consciousness among firms is the primary driver of environmental degradation (Agustia et al., 2019; Wang et al., 2021; Li et al., 2024). Moreover, it has been discovered that companies are among the main contributors to this change (Yuniarti et al., 2022).

Unlike developed countries, developing nations often lack a concrete regulatory framework and legal enforcement to address environmental challenges, making companies operating in emerging markets face fewer direct regulatory imperatives to address climate change (Desai et al., 2022). Despite these challenges, environmental problems have raised public awareness of the need for sustainable business practices (Kurnia et al., 2021; Cormier & Beauchamp, 2021). There has been a growing action to counteract the prevailing belief which views a company's sole responsibility is to maximise shareholder wealth (DiSegni et al., 2015). The modern goal of maximising wealth extends beyond economic considerations. To endure success, businesses must focus on both social and environmental perspectives to guarantee prolonged sustainability (Khunkaew et al., 2023).

Stakeholders are advocating for firms to assess their triple bottom line policies and invest in sustainable ideas to address climate change (Alvarez, 2012; Husnaini & Tjahjadi, 2021; Li et al., 2024). Sustainability reporting is essential, and organisations must exhibit transparency and a commitment to corporate responsibility (Lundgren & Zhou, 2017; Novitasari & Agustia, 2021). Eco-friendly enterprises can yield strategic advantages for stakeholders (Ardianto et al., 2023). However, corporations are less inclined to use these practices if they do not yield financial benefits, which are essential for a firm's longevity (Devie et al., 2020; Kurnia et al., 2021).

The ASEAN region faces challenges in standardizing reporting and mandatory environmental practices due to voluntary regulations (Desai et al., 2022; Kurnia et al., 2021). The implementation of green actions varies across firms, making it difficult to establish a common benchmark for comparison. The region's diverse economic, institutional, and cultural backgrounds create unique investor and consumer characteristics, resulting in varying research results. The connection between environmental performance and firm value may evolve due to investor preferences and regulatory changes. The valuation of green initiatives may strengthen due to increased awareness and demand for sustainable practices (Ghose et al., 2023). This research aims to address this gap by comparing environmental performance across diverse institutional, regulatory, and cultural contexts.

This research provides novelty as the first empirical study within the ASEAN context to simultaneously investigate the impact of green building adoption, green revenue percentage

and emission-reduction performance on firm value. The previous research attests that investors in ASEAN appreciate companies with green innovation (Asni & Agustia, 2022). Unlike prior studies that often focus on singular environmental indicators, this research introduces a multidimensional operational framework that captures tangible sustainability efforts and their direct financial implications. The research questions are (1) Does the existence of green building have positive impact to the firm value in the short and long-terms?; (2) Do green revenues have positive impact to the firm value in the short and long-terms?; and (3) Does firm performance in reducing emission have positive impact to the firm value in the short and long-terms?

Theoretically, this research contributes to stakeholder theory, legitimacy theory, and signalling theory. It supports stakeholder theory by showing that firms proactively addressing environmental concerns can better meet stakeholders' expectations. It contributes to legitimacy theory by demonstrating how environmental actions, particularly in emerging ASEAN markets, help firms gain or maintain social legitimacy amid growing environmental scrutiny. Moreover, this research enriches signalling theory by providing evidence that concrete sustainability practices, such as green building and green revenue, act as credible signals of a firm's long-term vision, strategic orientation, and commitment to environmental stewardship. These actions reduce information asymmetry, strengthen market perception, and lead to improve firm valuation.

The research finds that green building, green revenues, and emission reduction performance significantly enhance firm value in the ASEAN context, offering key contributions to multiple stakeholders while aligning with the United Nations Sustainable Development Goals (SDGs). For governments, the results support the design of stronger environmental regulation and incentives, such as tax benefits, green financing, and sustainable public procurement. It can encourage corporate action towards SDG targets, particularly SDG 9 (Industry, Innovation, and Infrastructure), SDG 12 (Responsible Consumption and Production), and SDG 13 (Climate Action). For accounting standard setters, the findings highlight the need for integrating, standardized, quantifiable environmental metrics into sustainability disclosure frameworks, such as IFRS S1/S2, to improve transparency and support SDG-aligned reporting. For investors, this research provides robust evidence that these green initiatives signal lower risk and long-term value creation, reinforcing ESG-aligned investment strategies. For companies, the results demonstrate that sustainability is not merely a compliance issue but a strategic lever for enhancing reputation, attracting capital, and achieving profitability, while actively contributing to global sustainability efforts.

Literature Review/Analytical Framework

The Impact of Green Building on Firm Value

Green buildings are eco-friendly, sustainable, and energy-efficient structures that reduce environmental impact, improve occupant health, and increase financial returns for

developers and society (Liu et al., 2022; Samad et al., 2020). They contribute to 30-40% of total energy consumption, greenhouse gas emissions, and waste regeneration (Ho et al., 2013). Green buildings offer economic benefits by minimizing pollution control, improving construction quality, reducing energy consumption, and promoting healthier living conditions (Abdullah et al., 2018; Cao et al., 2022; Zhu et al., 2021). The economic value of green buildings extends beyond operational costs, as green building certification allows flexibility and does not require specific technological requirements (Fuerst et al., 2017). Tangible benefits include lower energy, water, and waste disposal costs, reduced operational and maintenance expenses, and lower environmental impacts (Ho et al., 2013; Fuerst et al., 2017; Hopkins & Mullekom, 2019; Abdullah et al., 2018). Additionally, green buildings offer improved productivity, reduced staff turnover, higher output, lower obsolescence, reduced regulatory risk, and a positive reputation (Fuerst et al., 2017; Zhao & Pan, 2022).

Research on green building projects has shown mixed results. Samad et al. (2020) suggest that the upfront costs can temporarily reduce return on equity, while Delmas et al. (2015) find that environmental initiatives can lead to lower financial performance and firm value. These findings suggest that companies prioritize shareholder wealth over environmental concerns, potentially jeopardizing sustainability and human well-being. Hopkins and Mullekom (2019) also suggest that policy restrictions and marketing challenges can reduce the appeal of green buildings if not properly addressed. Green buildings offer greater economic value, including longer lifespans, higher investor profits, increased stock returns, and lower operating costs (Hsieh et al., 2020; Verma et al., 2021). They outperform conventional buildings in financial returns, contributing to higher firm value (Abdullah et al., 2018; Hsieh et al., 2020). Stakeholder theory suggests that fulfilling stakeholder demands drives competitive edge, while signalling theory suggests that companies pursue green certifications as a signal of environmental responsibility, leading to performance benefits and marketing advantages (Hsieh et al., 2020; Verma et al., 2021).

Investors also appear to show interest in office assets with green certifications, as eco-certified assets may be above average quality assets within their class (Fuerst et al., 2017). Studies show that socially conscious investors are attracted to green building and recognise the initial costs can be offset by long-term savings along with enhanced firm performance (Hsieh et al., 2020). Abdullah et al. (2018) argue that while green buildings may require higher upfront costs compared to conventional buildings, they can ultimately save money over their lifespan. Given the previous studies and theoretical frameworks, the following hypothesis are proposed.

Hypothesis 1 (H1a): The higher the green building score, the higher the firm value

Hypothesis 1 (H1b): The higher the green building score, the higher the firm value in the long-term

Green Revenues and Firm Value

Green revenues are a portion of a company's profit generated from environmentally friendly and sustainable business activities. They allow investors to assess a company's

environmental sustainability beyond traditional physical measures like carbon emissions and fossil fuel reserves (Kruse et al., 2024; Quaye et al., 2024). Environmental management goes beyond compliance with environmental laws and involves integrating environmental activities into the company's operations, including supply chain processes (Abu-Ghunmi et al., 2023). Green strategies can elevate green revenues by improving environmental quality and accelerating the transition to environmentally friendly practices (Huang et al., 2024). As financial markets focus on new green opportunities, firms are expanding their operations to seek these revenue streams (Kruse et al., 2024). Green revenue signals a company's commitment to intensifying its green efforts (Quaye et al., 2024) and can be integrated into investor decision-making (Bassen et al., 2023). Green operations involve cost reduction, environmentally friendly products, and waste minimization, which in turn improve marketing and sales, stronger firm performance, and greater resilience to stakeholder pressure (Novitasari & Agustia, 2021).

Firms that implement environmentally friendly technologies, innovate environmentally, and optimise resource usage are often valued higher because these practices can reduce risk associated with fluctuating commodity prices and stricter environmental regulations (Barko et al., 2022; Bolton & Kacperczyk, 2021). Yuniarti et al. (2022) confirm that companies involved in reducing environmental damage have a competitive advantage, improved performance, and higher firm value. Additionally, it can enhance a firm's social and environmental reputation, positively impacting its stock market value (Chouaibi & Chouaibi, 2021; Husnaini & Tjahjadi, 2021), especially when it takes the lead as a first mover (Khan et al., 2022).

Green revenue is a relatively new topic in research, with inconsistent results from previous studies. Low-ESG-performing firms may outperform high-ESG firms, potentially leading to lower returns for investors (Luo, 2022). Improving environmental performance without enhancing resource efficiency may not provide sufficient economic benefits (Xie et al., 2022). Increased environmental improvement can limit a firm's financial flexibility, hinder profit maximisation, and negatively impact firm value (Luo, 2022; Pedersen et al., 2021). Investors prioritise financial returns as a desire to invest ethically while avoiding guilt. Firms with strong environmental commitments are attractive to investors and stakeholders (Agustia et al., 2019; Asni & Agustia, 2022; Kruse et al., 2024). Green revenues serve as a transparent indicator of a firm's environmental actions, reducing information asymmetry with stakeholders (Bassen et al., 2023). Environmental initiatives can reduce long-term costs and improve a firm's risk perception, leading to higher stock prices (Abu-Ghunmi et al., 2023). Green revenues can be seen as a risk management tool, helping firms enhance market competitiveness and attract institutional investors who favour environmental values (Pekovic et al., 2018). This research expects that green revenues in the presence of environmentally friendly firms will increase firm value.

Hypothesis 2 (H2a): The increase of green revenues elevates the firm value

Hypothesis 2 (H2b): The increase of green revenues elevates the firm value in the long-term

Emission Reduction Performance to Firm Value

Environmental emissions have significant negative impacts on society and individual emitters, leading to financial consequences. Excessive emissions can result in environmental liabilities and costs, with no long-term economic gains. This can reduce future cash flows and stock prices, negatively impacting firm value (Choi & Luo, 2021; Matsumura et al., 2014). Corporate carbon emissions have gained attention, and the market now considers these costs when determining stock prices (Widagdo et al., 2023). However, companies are more likely to adopt a responsive strategy than an initiative-taking to reduce environmental harm (Chen et al., 2018). Studies have examined the relationship between carbon emissions and corporate performance metrics (Matsumura et al., 2014; Choi & Luo, 2021; Benkraiem et al., 2022; Perdichizzi et al., 2024), with two opposing viewpoints on the effect of environmental actions (Benkraiem et al., 2022; Bose et al., 2024). Environmental initiatives can negatively impact a company's competitiveness due to resource misallocation and increased costs, potentially reducing firm value. However, environmental initiatives can also enhance a company's competitive advantage by reducing emissions. Further research is needed to draw definitive conclusions.

Previous studies (Wang et al., 2014; Griffin et al., 2021; Lee & Cho, 2021) find a positive relationship between carbon emissions and firm value. This finding supports the theory that firms should prioritise profit maximisation for shareholders, who can then donate to environmental causes. Firm managers should refrain from unprofitable behaviour that may reduce returns to shareholders. High carbon emissions could also indicate lower costs associated with less environmentally friendly practices, which can increase firm value. Therefore, they suggest that investing in carbon reduction can lead to higher operating costs and lower profitability.

Research studies show that higher levels of direct carbon emissions negatively impact firm value (Matsumura et al., 2014; Ganda & Milondzo, 2018; Choi & Luo, 2021; Gregory, 2022; Desai et al., 2022; Han et al., 2023; Perdichizzi et al., 2024), leading to stock market penalties (Lee et al., 2015; Choi & Luo, 2021). Low carbon intensity can provide firms with a competitive advantage, as successful reductions in emissions lead to greater long-term market financial performance and market value (Clarkson et al., 2015; Delmas et al., 2015; Benkraiem et al., 2022). Reducing carbon emissions helps firms maintain their legitimacy and address stakeholder concerns (Perdichizzi et al., 2024; Pitrakkos & Maroun, 2020), ultimately leading to value creation. The signalling theory suggests that investors view high carbon emissions as a negative signal, leading to lower market value for polluting firms (Desai et al., 2022). This study posits that reducing carbon emissions can help firms maintain their legitimacy and create value by addressing stakeholder concerns.

Hypothesis 3 (H3a): The firm value increases as the emission reduction performance improves

Hypothesis 3 (H3b): The firm value in the long-term increases as the emission reduction performance improves

Research Method

Data and Sample

The ASEAN region, a group of emerging economies with unique cultural and social developments, is attracting global attention due to its potential and growing influence. These countries are actively working together to address environmental challenges through regional cooperation initiatives, such as the adoption of ASEAN Vision 2025. Indonesia, Malaysia, Singapore, Thailand, and the Philippines are major economic powerhouses in ASEAN, positioning them as key players in addressing climate change and sustainability. These countries offer diverse challenges and opportunities related to these issues, making them valuable case studies. First, these countries face pressing and diverse environmental issues, ranging from deforestation and land management (in Indonesia and Malaysia) to high vulnerability to physical climate risks such as sea-level rise (in Singapore, the Philippines, and Thailand). Second, their economies are highly integrated into global supply chains and are major recipients of FDI, so local companies face strong pressure from investors and international partners to adhere to stringent sustainability standards. Third, these countries are leading the development of green finance mechanisms in ASEAN, with Singapore serving as a regional hub, Malaysia's dominance in the global green sukuk market, and the presence of ESG indices on major stock exchanges, including those of Indonesia, the Philippines, and Thailand. The time period of this study also includes major milestones in the global struggle against climate change, such as the Paris Agreement and the growing focus on sustainable investment from the ASEAN community.

Data in this research are from Thomson Reuters Refinitiv, which offers a standardised and globally recognised measure of a company's environmental performance. This environmental score covers emission-reduction performance, the green building score, and total green revenue score. This research selects registered companies from 5 ASEAN countries from 2015 to 2023. To construct the sample, this research uses purposive sampling with the following criteria: companies that did initial public offering (IPO) before 2015, companies that have complete data on green building, green revenues, emission-reduction performance, and financial data to calculate dependent and control variables within the 2015-2023. The total observation consists of 3,193 firm years, as presented in Table 1.

Table 1. Total Observations

Description	Year								
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Indonesia	36	38	39	41	43	47	54	84	88
Malaysia	40	46	51	53	55	67	168	307	340
Singapore	35	35	37	38	54	80	83	87	88
Thailand	30	33	36	38	58	108	146	172	178
Philippines	24	25	25	25	26	27	32	37	39
Total Observation	165	177	188	195	236	329	483	687	733

Model

Given the preceding literature cited above, this research posits the following equation to illustrate the relationship between environmental performance and firm value.

Hypotheses 1a, 2a, and 3a are described in Model 1 (see Equation 1):

$$FV_{i,t} = \alpha_0 + \beta_1 GB_{i,t} + \beta_2 GR_{i,t} + \beta_3 EP_{i,t} + \beta_4 FA_{i,t} + \beta_5 FS_{i,t} + \beta_6 LEV_{i,t} + \beta_7 GRW_{i,t} + \beta_8 GDP_{i,t} + \varepsilon_{i,t} \quad (1)$$

Hypotheses 1b, 2b, and 3b are presented in model 2 for 1 year lag (see Equation 2) and model 3 for 2 years lag (see Equation 3).

Model 2:

$$FV_{i,t} = \alpha_0 + \beta_1 GB_{i,t-1} + \beta_2 GR_{i,t-1} + \beta_3 EP_{i,t-1} + \beta_4 FA_{i,t-1} + \beta_5 FS_{i,t-1} + \beta_6 LEV_{i,t-1} + \beta_7 GRW_{i,t-1} + \beta_8 GDP_{i,t-1} + \varepsilon_{i,t} \quad (2)$$

Model 3:

$$FV_{i,t} = \alpha_0 + \beta_1 GB_{i,t-2} + \beta_2 GR_{i,t-2} + \beta_3 EP_{i,t-2} + \beta_4 FA_{i,t-2} + \beta_5 FS_{i,t-2} + \beta_6 LEV_{i,t-2} + \beta_7 GRW_{i,t-2} + \beta_8 GDP_{i,t-2} + \varepsilon_{i,t} \quad (3)$$

Where:

α_0	: Constant Value	FS	: Firm Size
$\beta_1 - \beta_9$: Coefficient Value	LEV	: Leverage
FV	: Firm Value	FA	: Firm Age
GB	: Green building Score	GRW	: Growth
GR	: Green Revenue Percentage	GDP	: GDP Growth
EP	: Emission Reduction Performance	$\varepsilon_{i,t}$: Standard error of company i in year t

For all models, the firm value observation period as the dependent variable is 2015–2023. The observation period in model 1 is 2015–2023 for the independent variables. In model 2, the observation period for the independent variable is 2014–2022. Meanwhile, in model 3, the independent variable is observed in the 2013–2021 period.

Dependent Variable

Tobin's Q serves as the key dependent variable in this research, representing firm value (FV). Tobin's Q is a commonly used proxy for firm value (Agustia et al., 2019), as it reflects a company's market value based on its stock price and is generally difficult for management to manipulate (Xie et al., 2022). Climate change risk can significantly affect both tangible and intangible resources. For example, climate change can damage both physical assets like buildings and equipment, as well as intangible assets like brand reputation and customer relationships (Naseer et al., 2024). Tobin's Q incorporates the market value of firms and thus

captures intangible assets that TOA misses (Delmas et al., 2015). Additionally, this ratio provides a measure of whether a company is fairly valued, overvalued, or undervalued relative to its assets. To calculate Tobin's Q, this research uses the following formula (see Equation 4).

$$\frac{(Market\ Value\ Equity=Stock\ Price\ \times\ Share\ Outstanding)+Total\ Debt}{Total\ Assets} \quad (4)$$

Independent Variable

A green building (GB) score is based on a company's reporting on how environmentally friendly its company's facilities are. A green building score can also be assessed through green building certification like the USA's leadership in energy and environmental design (LEED) and the UK's British Research Establishment Environmental Assessment Method (BREEAM), or by tracking ongoing sustainability initiatives through major refurbishments to improve their sites/buildings/offices. The assessment of green buildings typically revolves around energy-related requirements and other green requirements such as energy efficiency, water efficiency, environmental protection, indoor environmental quality, as well as other green features and innovation (Ho et al., 2013). Data for this variable are from the Refenitiv Eikon data set.

Green revenue percentage (GR) indicates the revenue gained from products and services that are assessed as green from their benefit and impact on the environment. The proportion of green revenue to total revenue is calculated for each firm and year (Kruse et al., 2024). This score measures a firm's commercial involvement in climate-related green products and services. Data for this variable are from the Refenitiv Eikon data set.

The emission reduction score (EP) measures a company's effectiveness towards reducing environmental emissions in the production and operational processes. This score increases as a company implements an emission reduction policy. Data for this variable are from the Refenitiv Eikon data set.

Control Variable

Firm age (FA) is measured by the difference between the current year and its IPO. Longstanding firms may indulge in green activities more vigorously. However, a longstanding legacy may lead firms to be resistant and conservative in embracing changes and green initiatives (Deng et al., 2023). Data for this variable are from the Refenitiv Eikon data set and calculated using the formula in Equation 5.

$$Firm\ Age = Log\ (current\ year - IPO\ year) \quad (5)$$

Firm Size (FS) - Larger firms often possess greater competitive advantage due to their larger economies of scale opportunities. They have more market experience, a higher advantage for research and development, a greater financial base, and market power than

smaller firms (Ganda & Milondzo, 2018; Ghose & Kabra, 2023). Bigger companies tend to be more visible (Ganda & Milondzo, 2018) and therefore face greater pressure to improve their environmental records. However, excessive size may increase a firm's inefficiencies due to waste from excessive resources overriding the benefits (Ghose et al., 2023). Data for this variable are obtained from the Refinitiv Eikon data set and calculated using the formula in Equation 6.

$$\text{Firm size} = \text{Log} (\text{total asset}) \quad (6)$$

Leverage (LEV) limits the potential for managerial agency problems by mandating debt service, thereby disciplining managers through external monitoring (Ghose et al., 2023). It estimates the company's total assets that are financed by liabilities and debt. Corporate shareholders analyse leverage to determine whether the firm has adequate funds to pay its current debt and evaluate if the company can acquire viable financial benefits from its investments (Ganda & Milondzo, 2018). Debt-related obligations may help discourage potential overinvestment, and agency theory projects a positive association between leverage and CSR activities (Hsieh et al., 2020). Data for this variable are from the Refinitiv Eikon data set and calculated using the formula in Equation 7.

$$\text{Leverage} = \frac{\text{Total Debt}}{\text{Total Assets}} \quad (7)$$

Growth (GRW) is expected to impact firm performance positively. Growing firms can achieve both short-term financial goals and long-term growth objectives, fulfilling the expectations of various stakeholders. This research uses a company's ability to grow through investment in fixed assets or capital expenditure as one of the control variables. Growth is included to account for the talent of a firm's management and its ability to maintain strong environmental performance (Bose et al., 2024). Data for this variable are from the Refinitiv Eikon data set and calculated using the formula in Equation 8.

$$\text{Capex} = \text{Total investment towards plants property \& equipment from cash flow} \quad (8)$$

To control country effects, this research used the GDP growth index. This research incorporates GDP in the equation because it captures a country's economic development (Li et al., 2024). As GDP per capita increases, pollution discharges may initially rise before eventually declining (Deng et al., 2023). Data for this variable are from the Refinitiv Eikon data set.

Methodology

This research employs panel data and multiple regression analysis. The testing begins with a basic Ordinary Least Squares (OLS) model and continues with testing panel regression models: (1) the Chow test to determine whether the research model is a common effect model or a fixed effect model; (2) the Breusch-Pagan test to determine whether the research model is

a common effect model or a random effect model; and (3) the Hausman test to identify whether the research model is a Fixed Effect model or a Random Effect Model.

Additional tests performed include multicollinearity, which assesses the correlation between independent variables and the model's residuals. The standard used is a variance inflation factor (VIF) of no more than 10. This research also tests for heteroscedasticity, which examines the homogeneity of the residuals generated by the research model. A Chi-square value exceeding 0.05 indicates a heteroskedasticity problem. If heteroscedasticity is present in the fixed-effect model, the WLS panel data method is applied.

Table 2. Heteroskedasticity and Panel Effect Model Tests

Regression Model	Chow Test	Breusch-Pagan Test	Hausman Test	White Heteroskedasticity
p-value of Model 1	0.0000	0.0000	7.58E-32	0.0000
p-value of Model 2	0.0000	0.0000	1.95E-29	0.0000
p-value of Model 3	0.0000	0.0000	2.64E-18	0.0000

Table 2 indicates that a fixed effect panel model is the most suitable estimation method for all three models under consideration. However, the results also reveal that each of these models has a heteroscedasticity problem, suggesting that the variance of the error term is not constant across observations. Hence, to address this issue and obtain a more efficient and robust parameter estimates, this research proposes employing WLS panel regression for models 1, 2, and 3.

Analysis

Descriptive statistics and correlation analysis

The descriptive statistics in Table 3 reveal that the average FV in this research is higher than its asset value. This suggests that the average market value of firms is higher than their asset value, meaning that the market places a premium on these firms. The average GB of 18.460 signifies a significant investment in green building. The average GR of 4.768 demonstrates a relatively high level of green revenue generation. Finally, the average EP of 44.120 suggests that the companies in the sample have made substantial efforts to reduce their emissions. The descriptive statistics for the control variables show that most firms in the sample are relatively older, with an average FA of 22.000. Additionally, these firms tend to be larger in scale, as evidenced by the average FS of 9.338. Furthermore, the sample firms also have low debt financing usage, with an average LEV of 0.260. Finally, the firms exhibit a relatively low growth rate through investments in fixed assets, with an average GRW of 0.059.

Table 3. Descriptive Statistics

Variables	Mean	Median	Standard Deviation	Minimum	Maximum
FV	1.490	0.913	2.690	0.074	89.700
FV (log)	-0.020	-0.040	0.385	-1.130	1.950
GB	18.500	0.001	35.600	0.001	96.600
GB (log)	0.413	0.000	0.795	0.000	1.990
GR	4.770	0.001	15.900	0.001	100.000
GR (Log)	0.222	0.000	0.501	0.000	2.000
EP	44.100	43.100	29.200	0.001	99.900
EP (Log)	1.450	1.640	0.562	0.000	2.000
FS	9.340	9.370	0.834	7.080	11.700
LEV	0.260	0.249	0.192	0.000	1.710
GRW	0.060	0.024	1.270	-0.143	71.400
FA	22.000	20.000	14.100	0.000	118.000
FA (log)	1.270	1.320	0.314	0.000	2.080
GDP	3.450	3.680	3.660	-9.520	9.690

Table 4. Correlation Matrix

Variables	1	2	3	4	5	6	7	8
GB (1)	1							
GR (2)	0.04364**	1						
EP (3)	0.1982***	0.1557***	1					
FS (4)	0.3548***	0.1729***	0.3437***	1				
LEV (5)	-0.0131	0.2132***	0.0698***	0.1252***	1			
GRW (6)	-0.0105	-0.0075	-0.0454**	-0.0139	-0.0144	1		
FA (7)	0.1454***	-0.0054	0.0765***	0.2122***	-0.1171***	0.0206	1	
GDP (8)	-0.028	-0.0604***	-0.0533	-0.084**	-0.1172***	0.0257	0.0656***	1
VIF	1.164	1.085	1.158	1.343	1.091	1.003	1.082	1.026

*Notes: *** sig at 1%; ** sig 5%; * sig 10%

Table 4 explains VIF values for all three independent variables (GB, GR, EP) are all below 10, suggesting that there is no multicollinearity problem between these three independent variables.

Results of Hypothesis Testing

Table 5. Hypothesis Testing

Variables	Model 1	Model 2	Model 3
const	1.8904*** (0.0279)	2.0491*** (0.0260)	2.411*** (0.0270)
GB	0.0151*** (0.003)	0.0179*** (0.0034)	0.0317*** (0.0025)
GR	0.0159*** (0.004)	0.0177*** (0.0044)	0.0215*** (0.0037)
EP	0.0433*** (0.0043)	0.0486*** (0.0026)	0.0465*** (0.0039)
FS	-0.2049*** (0.0030)	-0.2249*** (0.0033)	-0.2821*** (0.0031)
LEV	0.3184*** (0.0109)	0.2916*** (0.0115)	0.2566*** (0.0120)
GRW	-0.0006 (0.0078)	-0.0104*** (0.0022)	1.959*** (0.0699)
FA	-0.1139*** (0.0067)	-0.0781*** (0.0061)	0.0059 (0.0048)
GDP	-0.0024*** (0.0006)	0.005*** (0.0004)	0.0019*** (0.0004)
F-test	665.9819	1156.22	5273.788
P-Value of F-Test	0	0	0
Adjusted R-Squared	0.6255	0.791263	0.959882

Notes: *** sig at 1%; ** sig 5%; * sig 10%. The standard error is written in parentheses

The test shows that H1a can be accepted because GB has a significant positive impact on FV. H1b can also be accepted as GB has a significant positive impact on FV. This explains that the greater the green building score is, the greater the firm value will be. A significant positive impact of GR on FV concludes that H2a and H2b are accepted. The greater the green revenue of a company is, the greater the firm value will be. H3a and H3b are also accepted, as proved by the significant positive impact of EP on FV. It shows that when the score for EP is high, the FV is also high.

The adjusted R-square of 62.55% in model 1 indicates that 62.55% of the variation in firm value can be elucidated by the independent and control variables included in the model. The remaining 37.45% of the variation is likely due to other factors not considered in this testing.

The research result, green building has a significant positive impact on firm value, aligns with the results of previous research (Abdullah et al., 2018; Hsieh et al., 2020; Verma et al., 2021). Investors view green and environmentally friendly buildings favourably, recognising that while there may be higher upfront costs, the benefits gained likely outweigh these initial costs. Green buildings often lead to significant energy and water savings, extending their lifespan and reducing operational costs. Aside from that, green building practices can also enhance indoor air quality, leading to increased productivity and reduced absenteeism. A forward-thinking manager who anticipates the growing importance of proactive environmental behaviour may acquire a competitive edge over the long term by investing in the necessary resources and capabilities. Moreover, such investments will enhance a

company's reputation that attracts various stakeholders. Hence, green buildings offer a combination of both short- and long-term advantages that are well perceived by investors in both the short run and long run.

The research result shows that green revenue has a significant positive impact on firm value. The results are consistent with earlier studies (Agustia et al., 2019; Asni & Agustia, 2022; Bassen et al., 2023; Kruse et al., 2024; Quaye et al., 2024), which demonstrate that investors do value companies that adopt green practices. Firms are becoming more aware of the potential benefits of investing in environmentally friendly production processes. With rising environmental awareness, consumers are willing to pay a premium for sustainable options. This led to growing demand for green products, which can help minimise the environmental damage caused by traditional business processes. By investing in green products, firms can be positioned at the forefront of technological advancements and follow the growing trend of sustainability. Despite the potential for higher costs of products, the growing demand for sustainable products presents opportunities for firms to differentiate themselves in the marketplace. By offering environmentally friendly options, firms can appeal to a specific group of consumers who favour sustainable products. This differentiation strategy may lead to a higher profitability than a low-cost leadership approach. Hence, resulting in investors to perceive firms with green revenue positively in short and long term.

Emission reduction performance has a significant positive impact on firm value. The research findings are consistent with the previous research (Clarkson et al., 2015; Delmas et al., 2015; Benkraiem et al., 2022; Perdichizzi et al., 2024). While reducing emissions may result in a higher operational costs, the benefits often outweigh these costs. Investors increasingly value firms that prioritise environmental sustainability, as demonstrated by their positive response to emission-reduction efforts. These efforts can help mitigate the risks of fines and penalties while attracting environmentally conscious investors. Although regulatory focus on environmental issues may vary, the increasing global awareness of the climate crisis has made sustainability a more important consideration for investors. By reducing their emission performance, firms can also enhance their image as a sustainable company, which can lead to a variety of benefits, such as attracting environmentally conscious customers and investors, boosting revenue and market shares. As a result, by investing in emission reduction, investors perceive firms positively both in the short-term and long-term.

The research result shows that the lagged effect of green buildings, green revenues and reduction performance on firm value. Previous research have not specifically addressed the long-term impact of green buildings, green revenues, and emission reduction. However, there is a theoretical explanation that could underpin this research's long-term findings. The significant positive impacts in periods lag1 and lag2 confirm that the benefits of sustainability investments are lagged. This finding strongly supports stakeholder theory and the Resource-Based View (RBV).

Green investments take time to transform from costs to competitive advantages. Within one to two years, companies begin to realize financial benefits, such as operational cost savings from green buildings, particularly from energy efficiency, as well as increased market

share from green revenues as consumer awareness grows (Devine & Yönder, 2023; Mingyi et al., 2024). Furthermore, it takes time to build reputation and trust with stakeholders (Bodhanwala & Bodhanwala, 2019); consistent commitment demonstrates that a company's actions are not greenwashing, but rather part of its core strategy.

Specifically, the stronger impact of emission reduction in future periods indicates that the market is beginning to reward companies that are proactive in risk management (Homroy, 2023). In the ASEAN region, where environmental regulations and potential carbon taxes are evolving, today's emission reduction efforts signal a company's future preparedness. Companies that invest in emission reduction effectively future-proof themselves from regulatory and energy transition risks, a move appreciated by long-term investors (Bolton & Kacperczyk, 2021).

Robustness Test

Table 6. Robustness Test Model 1 (DV = FVt)

Variables	Indonesia	Malaysia	Singapore	Philippines	Thailand
const	2.0971*** (0.1375)	1.9170*** (0.0553)	2.7412*** (0.0631)	2.9040*** (0.2518)	1.8524*** (0.0679)
GB	-0.0108 (0.0123)	0.0232*** (0.0068)	0.0150*** (0.0034)	0.0008 (0.0080)	0.0749*** (0.0077)
GR	-0.0214 (0.0188)	0.0392*** (0.0104)	0.0125** (0.0052)	-0.0585*** (0.0155)	0.0419*** (0.0048)
EP	0.0145 (0.0196)	0.1322*** (0.0088)	0.0145 (0.0093)	0.0174 (0.0167)	-0.0159*** (0.0059)
FS	-0.2382*** (0.0139)	-0.2422*** (0.0069)	-0.2980*** (0.0057)	-0.3177*** (0.0270)	-0.1884*** (0.0074)
LEV	0.0129 (0.0453)	0.3576*** (0.0248)	0.2284*** (0.0271)	0.8833*** (0.0464)	0.2415*** (0.0221)
GRW	1.9583*** (0.1811)	-0.0061 (0.0060)	1.2263*** (0.1154)	0.7464*** (0.2180)	1.8130*** (0.1237)
FA	0.0640** (0.0298)	-0.0430*** (0.0146)	-0.0600*** (0.0100)	-0.1230*** (0.0363)	-0.1758*** (0.0100)
GDP	-0.0049 (0.0033)	-0.0054*** (0.0014)	0.0006 (0.0007)	0.0020 (0.0013)	0.0024** (0.0012)
F-test	68.62274	197.0004	482.4422	185.8049	200.7781
P-Value of F-Test	0.0000	0.0000	0.0000	0.0000	0.0000
Adjusted R-Squared	0.535635	0.582035	0.877836	0.850930	0.668930

Notes: *** sig at 1%; ** sig 5%; * sig 10%. The standard error is written in the parentheses

Table 7. Robustness Test Model 2 (DV = FV_{t+1})

Variables	Indonesia	Malaysia	Singapore	Philippines	Thailand
const	2.1456*** (0.1134)	1.9982*** (0.0521)	2.7483*** (0.0578)	2.7069*** (0.2708)	2.0509*** (0.0657)
GB	-0.0074 (0.0126)	0.0104 (0.0067)	0.0146*** (0.0039)	0.0006 (0.0082)	0.0837*** (0.0090)
GR	-0.0032 (0.0203)	0.0145* (0.0079)	0.0183*** (0.0049)	-0.0554*** (0.0156)	0.0379*** (0.0060)
EP	0.0166 (0.0187)	0.1791*** (0.0050)	0.0113 (0.0096)	0.0278* (0.0158)	-0.0133** (0.0058)
FS	-0.2484*** (0.0125)	-0.2567*** (0.0056)	-0.2970*** (0.0063)	-0.3045*** (0.0289)	-0.2145*** (0.0074)
LEV	-0.0511 (0.0446)	0.3927*** (0.0226)	0.2177*** (0.0273)	0.8400*** (0.0487)	0.2357*** (0.0193)
GRW	1.6677*** (0.1609)	-0.0072*** (0.0009)	1.0899*** (0.1064)	0.6796*** (0.2041)	1.989*** (0.1323)
FA	0.0945*** (0.0236)	-0.0195 (0.0152)	-0.0658*** (0.0161)	-0.0797** (0.0368)	-0.1417*** (0.0085)
GDP	0.0012 (0.0031)	-0.0092*** (0.0011)	-0.0008 (0.0006)	0.0012 (0.0012)	-5.1923 (0.0011)
F-test	75.05761	720.9814	474.2790	129.5338	226.3558
P-Value of F-Test	0.0000	0.0000	0.0000	0.0000	0.0000
Adjusted R-Squared	0.608613	0.881945	0.894196	0.823756	0.745950

Notes: *** sig at 1%; ** sig 5%; * sig 10%. The standard error is written in the parentheses

To gain a deeper understanding and more precise results, this research also tested each model individually for each country, as presented in Table 6, 7, and 8. The findings suggest that there are variations in the impact of environmental performance on firm value across the five nations. Interesting results are found in the Philippines, where GB are not well perceived by investors, even in the long term. It suggests that the initial cost and misconceptions about the lack of immediate financial returns are a deal-breaker for investors. Investors in Thailand seem to appreciate GB and GR, but they do not appear to value EP. In contrast, GB and GR are not valued as much as EP in Indonesia. However, the findings in Malaysia and Singapore align with their commitment to sustainability and climate change.

Table 8. Robustness Test Model 3 (DV = FVt+2)

Variables	Indonesia	Malaysia	Singapore	Philippines	Thailand
const	2.5537*** (0.1344)	1.8906*** (0.0669)	2.6093*** (0.0624)	2.8991*** (0.2083)	2.5761*** (0.0883)
GB	0.0176 (0.0142)	0.0043 (0.0084)	0.0169*** (0.0047)	-0.0078 (0.0093)	0.0882*** (0.0088)
GR	0.0193 (0.0235)	0.0363** (0.0148)	0.0117 (0.0073)	-0.0721*** (0.0145)	0.0418*** (0.0078)
EP	0.0391** (0.0181)	0.1789*** (0.0114)	0.0114 (0.0108)	0.0293** (0.0127)	0.0013 (0.0063)
FS	-0.3017*** (0.0138)	-0.2692*** (0.0078)	-0.2876*** (0.0066)	-0.3297*** (0.0212)	-0.2750*** (0.0102)
LEV	-0.1401*** (0.0422)	0.2543*** (0.0420)	0.2472*** (0.0319)	0.8371*** (0.0415)	0.2018*** (0.0258)
GRW	1.1825*** (0.1829)	3.2504*** (0.1825)	0.8725*** (0.0757)	0.5542*** (0.2047)	2.1666*** (0.1234)
FA	0.1546*** (0.0416)	0.0705*** (0.0168)	-0.0386** (0.0176)	-0.0294 (0.0311)	-0.1148*** (0.0126)
GDP	0.0067** (0.0028)	0.0071*** (0.0015)	0.0006 (0.0007)	0.0019 (0.0012)	0.0025** (0.0010)
F-test	77.59853	288.7201	505.5895	150.1796	275.9197
P-Value of F-Test	0.0000	0.0000	0.0000	0.0000	0.0000
Adjusted R-Squared	0.673550	0.829236	0.917912	0.867048	0.832032

Notes: *** sig at 1%; ** sig 5%; * sig 10%. The standard error is written in parentheses

The ASEAN context reinforces the significance of these findings. In a region comprised of many emerging economies, the historical focus has often been on rapid economic growth. ASEAN markets have proven capable of identifying and rewarding companies that integrate sustainability as long-term value creators. The finding aligns with the argument that the true impact of environmental practices on financial performance often only materializes over the long term. This research confirms that for managers in ASEAN, green investments are not merely costs, but strategic investments whose value creation will be fully realized over a medium-to-long term horizon.

Several factors can explain why results across countries differ. Each country has its own economic development pace, regulations, culture, preferences, and technological development. Moreover, each country differs in the availability, affordability, and advancement of technological development. As a result, developing countries will focus on achieving stability rather than trying to achieve sustainable practices. Values and beliefs held by the society in each country will also affect the expectations of their stakeholders. Hence, the demand for environmental performance is also influenced by whether buyers are open to paying more for green products and services. A crucial factor to highlight is the role of regulation in implementing environmental practices. The degree to which green practices are

mandatory or voluntary varies significantly across countries. Moreover, the incentives offered for rewarding sustainability depend on the regulatory environment and the importance placed on these issues.

The findings regarding the significant time lag between the implementation of green initiatives (green buildings, green revenues, and emission reduction) and their realization in terms of company value, provide insights that can motivate further research. The ability to generate green revenues reflects a company's innovation capabilities and in-depth market understanding of consumer demand for green products. Research on consumer demand for green products and on corporate innovation to increase green revenues could be the subject of further research. Furthermore, the adoption of IFRS S1 (General Requirements for Sustainability-Related Financial Disclosures) and IFRS S2 (Climate-Related Disclosures) in the ASEAN region is crucial. This research covers elements of S2, namely: Greenhouse Gas Emissions (directly related to the emission reduction variable); Capital Deployment (investment in green buildings); and Climate-Related Opportunities (explicitly requiring disclosure of revenue from low-carbon products or services, which is equivalent to the green revenue variable). The findings predict that the adoption of IFRS S1 and S2 in ASEAN could act as a catalyst. This standard force companies to articulate how investments in emission reduction, green buildings, and green revenue innovations today will generate cost savings and increased company value in the future. When this information is transparent and credible, information asymmetry will be reduced. As a result, the market can assess these long-term benefits earlier.

Conclusions

Tackling climate change is becoming increasingly urgent, yet the understanding of how green investments affect firm value remains understudied. This research investigates the impact of corporate investment in green building, a company's green revenue percentage, and emission reduction performance on firm value in five ASEAN countries, namely, Indonesia, Malaysia, Singapore, Thailand, and the Philippines, during the period of 2015-2023. The analysis suggests that investors value companies adopting green and environmental practices. Green buildings are valued by investors for their potential to save costs through energy efficiency and for their enhanced reputation. While firms investing in environmentally friendly production processes to make green products can benefit from increased demand, enhanced reputation, and long-term sustainability. Reducing emissions can also show that firms are committed to environmental sustainability. This is beneficial for attracting stakeholders and mitigating risks, despite potential increases in trade-offs.

This research contributes by providing empirical evidence supporting the applicability of legitimacy, signalling, and stakeholder theory. Investment in environmental conservation is shown to enhance stakeholders' trust, including buyers, supporters, the general public, and regulators. The legitimacy from these stakeholders has been proven to gain positive reactions from stock market investors, thereby increasing the company's market value. Aligning with

the signalling theory, investing in and enhancing environmental performance can also send a positive signal to stakeholders, potentially leading to increased firm value.

This research provides insights for management and business practitioners regarding the benefits of green investments. The findings raise awareness and justify environmentally friendly business investments as long-term investments. This research also provides evidence that environmental efforts offer advantages over both short and long-term horizons. Investment in environmentally friendly business operations will enhance companies' future competitive advantage. In realising this, the role of government support is a crucial factor for businesses to appreciate companies that have committed to environmental stewardship. Management should strategically prioritise green activities rather than treating them as token efforts. Given the time required to increase awareness of green activities, empirical research, and continuous professional development programs in sustainability and firm valuation are essential.

It is important to note that green revenues and non-green revenues are not currently disclosed separately in the financial statements. Governors and professional bodies can play an important role in establishing guidelines and standards for disclosing green elements on financial statements. These standards ensure consistency, transparency, and compatibility by providing a framework that can be used globally. As the ISSB does not have the authority to mandate the application of IFRS S1 and S2, the responsibility of regulators is to determine the mandatory adoption of these guidelines into financial reporting frameworks and regulatory requirements. This research highlights the importance of government policies in promoting green activities, supporting climate change mitigation, and developing plans. It also emphasizes their role in carrying out the "10-Year Sustainable Consumption and Production" framework, which involves all nations, with developed countries leading the way, acknowledging the development and capabilities of developing nations. It further calls for companies, particularly large and multinational ones, to embrace sustainable practices and incorporate sustainability information into their reporting processes. Even if green initiatives are not currently mandatory, governments can still play a critical role in supporting and incentivising these efforts, as well as prioritising and strengthening the implementation of carbon taxes to penalise high-emitting firms, particularly in developing countries. By addressing these research gaps and implementing effective policies, this study can gain a more comprehensive understanding of the relationship between green performance and firm value.

Despite having immense policy implications, this research is limited in its focus on green activity indicators. Additional indicators could be incorporated to provide a more comprehensive assessment of environmental performance. This research also focuses on five ASEAN countries. Future research could delve deeper into individual countries and incorporate additional variables specific to each country's characteristics. Moreover, expanding the research to include different countries would provide a broader perspective on this topic.

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