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Contents

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From Bandwagoning to Hedging: Domestic Sources of Vietnam's China Policy Since 1990

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Abstract

Although much has been written on Vietnam's China policy, few studies provide a holistic account of *how* and *why* it has evolved since the end of the Cold War. Drawing on a two-level neoclassical realism framework, this paper offers a comprehensive analysis of Vietnam's China policy from 1990 to 2024. It finds that Vietnam's policy evolved from bandwagoning toward China to heavy hedging, a trajectory shaped by the interaction of systemic factors and domestic political dynamics. By conceptualizing hedging, this research provides a clear and operational distinction between light and heavy hedging and derives Vietnam's hedging behavior accordingly. Furthermore, by introducing factional politics as an intervening variable, this research challenges the conventional perception of the Vietnamese Communist Party as a unitary actor. Instead, the Politburo, Vietnam's highest decision-making body, functions as a coalition of factional representatives, with the continual convergence and divergence of interests among competing political factions directly shaping the country's China policy. This research highlights the need for future research to consider the influence of intra-party factional politics on foreign policy. By analyzing the evolution of Vietnam's China policy through the lens of factional politics as an intervening variable in neoclassical realism, this study enriches the theory and provides a new operational perspective for the study of small-state foreign policies.

Keywords: Vietnam's China policy, factional politics, neoclassical realism, light hedging, heavy hedging

Introduction

Vietnam's relationship with China has long been characterized by asymmetry (Womack, 2006). Over two millennia of continuous interaction, China and Vietnam experienced cycles of conquest and resistance, yet neither fully annexed the other. Instead,

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they came to share a broader and overlapping historical legacy. In the three decades since the end of the Cold War, Vietnam's power disparities and geographical proximity *vis-à-vis* China have been repeatedly exposed amid rapid geopolitical transformations. At the same time, China commands far greater economic resources, political influence, and military capabilities, Vietnam-though a smaller state-has been compelled to navigate the challenges posed by this enduringly imbalanced and asymmetric relationship. How to navigate the mixture of challenges and opportunities posed by its northern neighbor, Vietnam's China policy in the post-Cold War has stimulated numerous scholar debates.

Over the past two decades, scholars have highlighted multiple strategic orientations in Vietnam's China policy. Some scholars emphasize Hanoi's efforts to either accommodate China's rise (Ross, 2006) or to balance against it by enhancing military capabilities or deepening engagement with the United States (U.S.) and its allies (Liff, 2016; Aswani, 2024). Others, to a lesser degree, argue that Vietnam and China have reached a *modus vivendi* (Ma & Kang, 2023) or 'normalcy' (Womack, 2006), which enables Vietnam to manage disputes with China. Building on these debates, the concept of hedging has gained prominence in the literature over the last two decades. Tran et al. (2013) describe hedging as a twofold strategy: engaging China to repair and deepen relations while counterbalancing Chinese ambitions through diversification with other regional powers. Dewey (2017) echoes this, portraying hedging as strategic flexibility lying between deference and defiance. Le (2013a) identifies four components—economic pragmatism, direct engagement, hard balancing, and soft balancing—while Tran and Sato (2018) decompose hedging into diplomatic engagement, economic engagement, soft balancing, and hard balancing. More recently, studies of Vietnam's infrastructure cooperation show that partnering with other states, notably Japan, offsets dependence on China while avoiding domestic anti-China backlash (Liao & Dang, 2019). Despite minor definitional variations, the argument that Vietnam has hedged against China since normalization in the 1990s has gained increasing scholarly acceptance.

Nevertheless, this research begins with doubts about treating hedging as a *Panacea*. Was Vietnam truly hedging against China in the late 1990s? If the normalization of relations with the U.S. and joining ASEAN are to be understood as multilateral hedging moves to avoid greater dependence on China (Le, 2013a), then why did Hanoi at that time exercise maximum restraint and silence over its sovereignty claims, and eventually made substantially higher degree of agreement in bilateral negotiations on the land border with China? Such progress stands in sharp contrast to Vietnam's conduct over the past decade, when it has persistently sought to enmesh its maritime border disputes in multilateral negotiation frameworks (Do, 2016a). Is economic hedging truly aimed at safeguarding regime security? If hedging is meant to diversify economic partnerships with regional powers in order to resist dependence on China or to avoid inflaming anti-China sentiment that could erode the elites' political legitimacy (Liao & Dang, 2019), then why did Hanoi still cede bauxite development to China (Marston, 2012) despite facing intensified nationalist petitions at home? Similarly, is military hedging truly aimed at securing national sovereignty? If continuous military modernization constitutes a hard balancing to deter China (Le, 2013a) or an auxiliary revenue to bolster Vietnam Communist Party (VCP) legitimacy (Dung & Ho, 2022), then why did Vietnam's military modernization program stagnate after 2016? (Nguyen, 2021). Moreover, why is the multilateral defense diplomacy so late in arriving in Asia? (Capie, 2013).

Significant gaps and contradictions remain in explaining both *how* and *why* Vietnam hedges. Regarding *how* it hedges, or even whether it is genuine hedging, the existing literature often neglects Hanoi's conspicuous and enthusiastic accommodation of Beijing. Determining whether Vietnam is truly hedging, when this behavior became more pronounced, and how its post–Cold War China policy evolved all require systematic and historically grounded reassessment. On the question of *why*, external, structural, or systemic factors—such as 'mature asymmetry' (Womack, 2006), geographic proximity (Thayer, 2011; Ba & Kuik, 2018) or historical legacies (Yao, 2025) —cannot fully account for Hanoi's policy-decision behavior. Similarly, relying solely on domestic political narratives, such as safeguarding regime security (Liu & Sun, 2015) or VCP's political legitimacy (Dung & Ho, 2022) cannot fully explain for Vietnam's apparently irrational diplomatic practices either. Instances include the bauxite case as well as its voluntary withdrawal from joint oil exploration projects in the South China Sea under Chinese pressure. Such deferential posture further undermines regime stability and potentially erodes the VCP's political legitimacy.

Meanwhile, most studies of Southeast Asian foreign policy assume the state is a unitary rational actor, overlooking how foreign policies often deviate from rationalist expectations (Vuving, 2025). In Vietnam's case, the state—or more precisely, the VCP—is frequently portrayed as a unified, rational decision-maker. Increasingly few international relations scholars examine how internal divergences, interest trade-offs, and the 'push and pull' among different factions within the VCP shape the state foreign policy decisions. Over the past decade, the increasing uniformity, opacity, and officialization of Vietnamese news sources have further sealed the country's domestic politics into the 'black box,' or, as Vuving (2025) puts it, a 'rich tapestry,' where analyses often reflect scholars' own perspectives and preferences. These are producing fundamental misunderstandings because Vietnam's diplomats are polished, erudite, and share many of the concerns that the West has about China, but they are not policymakers (Abuza, 2025).

This research advances a novel argument by incorporating factional politics into the analysis of Vietnam's foreign policy. It seeks to address both *how* and *why* Vietnam's China policy has evolved to its current form. This research differs from most existing research on hedging in two major respects. First, it constructs a two-level analytical framework grounded in Neoclassical Realism (NCR) that integrates both structural factors and domestic political variables. Second, this research covers over three decades of Sino-Vietnamese relations to provide a comprehensive and dynamic account of the evolution of Vietnam's China policy. By reviewing four phases, this research unveils that Vietnam's China policy shifted from bandwagoning toward hedging. Following the introduction, the second section reviews existing literature on hedging and offers a conceptual discussion. It defines hedging in straightforward terms as a form of alignment behavior and further distinguishes between light and heavy hedging by assessing the differential use of economic, political, and military instruments. The third section reviews neoclassical realism (NCR) in foreign policy analysis and develops a two-level NCR framework tailored to Vietnam's specific context. This framework incorporates both systemic factors (historical legacies, asymmetric power, and structural uncertainties) and domestic factors (factional politics), and it is operationalized through qualitative research methods. The fourth section presents the empirical analysis on four phases to elucidate the evolution of Vietnam's foreign policy and its hedging behaviors. The fifth and final section concludes by summarizing the key findings of this paper.

Conceptualizing Hedging

Hedging has emerged as a prominent concept in addressing key questions in contemporary international relations (Ciorciari & Haacke, 2019). The earliest empirical studies of hedging appeared in the Asia-Pacific, where it was used to analyze how regional or secondary states responded to China's potential rise (Roy, 2005; Goh, 2005). Over time, the concept has been exported to studies of Europe, South Asia, and beyond (Toje, 2010; Boon, 2016; Korolev, 2016), while research on Southeast Asia's hedging has developed most rapidly, producing increasingly multidimensional findings.

Although individual scholars vary in their dimensions of hedging, numerous studies argue that hedging consists of a set of varied and diversified engagements rather than a single policy, which constructs the first dimension of hedging. For instance, hedging is emphasized as a means of securing economic benefits while mitigating security risks (Chung, 2004). In the analysis of Sino-U.S. relations, Mederiros (2005) describes hedging as one hand pursuing stress-engagement and integration mechanisms, while the other hand emphasizing realist-style balancing. Jackson (2014) views hedging as a mix of opposing or contradictory actions. Koga (2018) envisages hedging as combining elements of balancing and bandwagoning, including 'conventional hedging,' which blends 'military balancing' and 'economic bandwagoning.' Le (2013a), on the other hand, proposes hard balancing as a key component of hedging. There is general agreement that risk management is central to hedging behavior (Ciorciari & Haacke, 2022). For instance, hedging is presented as a means of risk management aimed at maximizing policy autonomy and minimizing provocation of great powers (Lim & Cooper, 2015). Hedging has also been interpreted as a way to avoid the risks associated with balancing or bandwagoning (Koga, 2018; Jackson, 2014) and to offset a wide range of risks stemming from high uncertainty (Kuik, 2020; Lai & Kuik, 2020). In the same vein, hedging is also useful to be applied for manage risks (Ciorciari & Haacke, 2019).

The second dimension of hedging is its relation to alignment choices. Hedging has also been treated as a limited and ambiguous alignment choice, or as a trade-off between autonomy and alignment, pursued by small or secondary states in their engagement with one or more major powers (Kuik, 2016; Lim & Cooper, 2015). Hedging has also been regarded as a means to pursue non-alignment (Fiori & Passeri, 2015). A step further, hedging is often debated over whether it constitutes a strategy. Most scholarly accounts explicitly refer to hedging as a strategy (Le, 2013a; Korolev, 2019; Tran & Sato, 2018). However, in his study of trilateral relations between the U.S., Japan, and Australia, John Hemmings, through observations of domestic policy struggles, illustrates that hedging is not a coherent strategy but rather an inefficient outcome produced by contradictory policy impulses (Hemmings, 2017). In a similar vein, Jones and Jenne (2021) argue that hedging presupposes a rationally calculated policy guided by empirical logic, which is not evident in the practice of many secondary states. Instead, they suggest that hedging is merely a contingent adjustment to events, changing domestic and international agendas, essentially an exercise of reactive prudence.

Although hedging concepts have been employed into empirical case studies, analyses that overemphasize structural factors as the primary drivers of hedging—such as in the case of Vietnam—fail to adequately account for contradictions and seemingly irrational actions in state behavior. In contrast, arguments that identify the primary driver of hedging as the ruling elites' desire to secure domestic legitimacy (Kuik, 2008, 2013, 2021a) provide a more nuanced explanation of how and why state hedge. While structural conditions help explain when states hedge, domestic politics elucidate why they do so (Kuik, 2024). Other case studies, including Vietnam's cautious response to China's Belt and Road Initiative (BRI), are due to the interpretation of VCP's domestic authority and legitimacy needs (Pham & Ba, 2021). Hedging bolsters the legitimacy of Singapore's ruling People's Action Party (Lee, 2024) and autocratic rulers in Cambodia and Myanmar could choose to cease hedging and opt for closer alignment with China for their domestic legitimation reasons (Marston, 2023)

Drawing on the rich hedging literature, this research defines hedging as an alignment behavior that fluctuates between bandwagoning and balancing. This definition of hedging is inspired by Kuik's conceptualization of small-state alignment behaviors. Kuik (2016) defines hedging as an insurance-seeking behavior undertaken under conditions of high stakes and high uncertainty. According to Kuik (2016), hedging involves three elements: (a) an insistence on not taking sides among competing powers, (b) the practice of adopting opposite and counteracting measures, and (c) the use of these opposite acts as instruments to pursue the goals of preserving gains while cultivating a fallback position. While Kuik emphasizes the constitute components of hedging—its contradictory and mutually counteracting nature—this research focuses on the behavioral manifestation of hedging. In other words, Kuik explains *what* hedging consists of, whereas this research underscores and operates on *how* hedging is enacted and experienced over time. By integrating these perspectives, this research provides a fuller understanding of hedging as both a set of alignment behaviors and a series of observable action–reaction patterns.

This research's empirical analysis adopts Kuik's (2016) operational framework of small-state alignment behavior to explain *how* Vietnam hedges China. His two-pronged and oppositional approach, with a five-component composition of hedging, provides a clear operational framework for measuring and comparing the constituent elements of different actors' alignment behaviors, including their nuances, limits, and prospects across countries and over time (see Figure 1). Moreover, Kuik's framework is useful for capturing the varying degrees and modes of hedging implementation, distinguishing variations of actors as heavy or light hedgers. According to the degree of emphasis on risk-contingency measures, heavy hedgers are more concerned with potential risks embedded in uncertain great-power relations and thus are more inclined than light hedgers to invest in both political and military hedging (Kuik & Rozman, 2016). Building on Kuik's constitute distinction between heavy and light hedger, this research operationalizes at the behavioral level. Behaviors dominated by political and military hedging, or a mix of different behaviors are defined as heavy hedging, whereas actions that rely on less or simple behaviors are classified as light hedging.

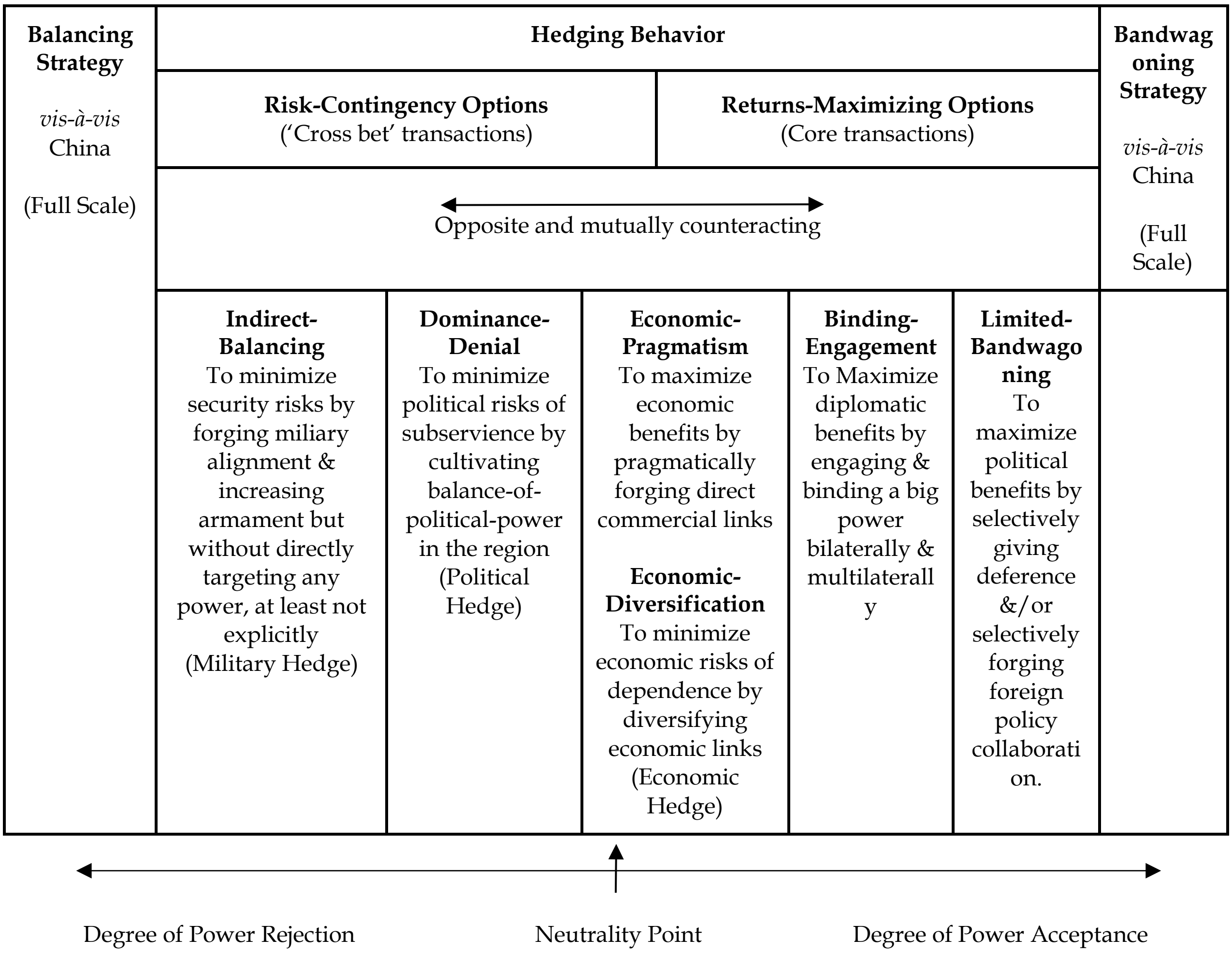

Figure 1. Power-Response Spectrum (Kuik, 2016)

A Neoclassical Realism Framework: Factional Politics as an Intervening Variable

This research builds on a two-level analytical framework grounded in neoclassical realism (NCR) to explain *why* Vietnam's China policy has evolved to its current form. As mentioned in the first section, to address the conundrum and puzzle of hedging or non-hedging behaviors—and to avoid relying solely on either structural or domestic narratives in explaining foreign policy—this research tackles both the enduring structural constraints facing Vietnam and the dynamic evolving domestic politics, which together inform the country's decision making preference. In this regard, the NCR framework serves as an ideal theoretical lens to fill these explanatory gaps.

NCR bridges systemic-level and domestic-level analyses of foreign policy, refining Waltz's (1979) structural realism by emphasizing the mediating role of domestic factors. Rose (1998) first articulated NCR as an approach that acknowledges the primacy of systemic pressures—particularly relative material power capabilities—while recognizing that the translation of these pressures into policy is filtered through domestic contexts. From a methodological perspective, Rose (1998) identifies systemic incentives and internal factors as independent and intervening variables, respectively, thereby establishing a preliminary operational analytical framework that has guided subsequent research. A key feature of NCR theory lies in its exploration of domestic factors. As NCR theory and related studies have developed, unit-level variables—such as domestic political institutions, individual leaders, strategic cultures, public pressures on decision-makers, bureaucratic processes, and socio-human factors, nationalism—have been increasingly identified and analyzed. Following Ripsman et al.'s (2016) comprehensive development of NCR theory and methodology, the theoretical framework became more operational, encompassing systemic factors as independent variables, domestic factors as intervening variables, and foreign policy as the dependent variable. Accordingly, applying NCR to the study of Vietnam's foreign policy requires identifying and operationalizing of corresponding variables.

Before constructing the NCR analytical framework for Vietnam scenario, a more in-depth assessment of existing Vietnam's China policy literature is essential. Building on the guiding discussion of research contradictions and gaps presented in the introduction section, the review in this part will move further to illustrate the limitations of existing studies. Existing scholarship on Vietnam's China policy can be broadly categorized into three main strands. The first strand consists of historical-legacy and event-interpretation accounts. These studies emphasize the millennium of Chinese imperial control (Kang, 2003; Vuving, 2009), the Cold War experience (Womack, 2006), anti-Chinese nationalist sentiments (Vu, 2014b), and detailed episodes in bilateral relations (Ross, 2021; Thayer, 2016; Chapman, 2017). While primarily descriptive rather than anchored in theoretical international relations analysis, these works nonetheless provide rich secondary data and valuable insights into Vietnam's China policy. The second strand highlights systemic, structural, or regional narratives shaping Vietnam's approach to China. Such studies typically stress "China factors" including geographical proximity (Thayer, 2011; Do, 2016b; Hoang & Do, 2016), China's rise, assertiveness, and coercion (Thayer, 2008; Trinh, 2025), economic investments (Vu et al., 2020), and wedge strategies (Vu, 2023). Collectively, these external dynamics compel Vietnam to adopt a range of responses, such as balancing, hedging, bandwagoning, engagement, and omni-enmeshment. However, this body of research tends to overstate the role of external determinants while neglecting—or, at times, deliberately sidestepping—Vietnam's domestic political narratives. Last, several studies have drawn attention to Vietnam's domestic factors, including domestic agenda (Le, 2013b), nationalism (Hoang, 2019), the political legitimacy of the authoritarian state (Thayer, 2009; Pham & Ba, 2021; Dung & Ho, 2022), and regime security (Liu & Sun, 2015). However, as noted earlier, these works fall short in underlining the irrational acts of domestic politics. Besides, much of the literature treats the VCP and the state as a unitary actor, thereby overlooking the fragmented and contested nature of foreign policy decision-making. As a result, these studies are unable to convincingly account for the fluctuations, nor are they willing to acknowledge the inherent inconsistency in Vietnam's decision making.

Building on the gaps identified and leveraging the strengths of NCR, this paper defines an NCR analytical framework to explain why Vietnam has adopted its China policy. In this framework, the independent variables include three factors: historical legacies, asymmetric power capabilities, and structural uncertainties; the intervening variable is factional politics, and the dependent variable is Vietnam's China policy outcome (see Figure 2).

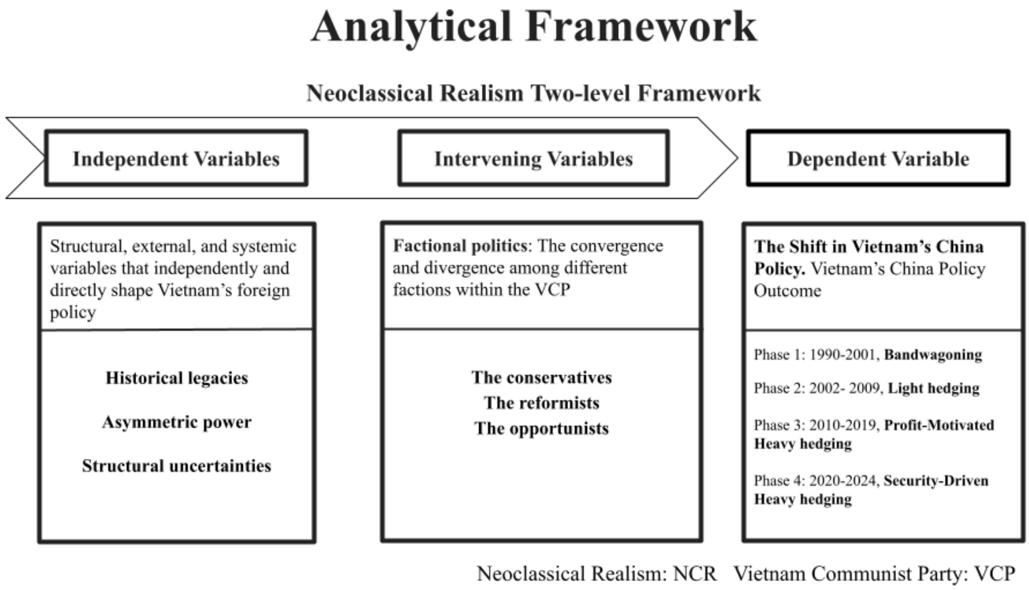

Figure 2: Analytical Framework

(Source: author)

As for the independent variables, historical legacies are a crucial factor shaping Vietnam's strategic worldview and foreign policy orientation. As Womack (2006) notes, 'there is no country more similar to China than Vietnam, and there is no country more similar to Vietnam than China.' Centuries of Chinese imperial domination, interspersed with conflict and uneasy coexistence, have left a profound imprint on Vietnam's perception of China as both a potential threat and partner. Meanwhile, the 1979 war launched by China against Vietnam during the Cold War provided a harsh lesson, deeply influencing Vietnam's shift from an alliance-oriented to a non-alignment policy (Zhang, 2015). This collective memory of invasions, coupled with enduring cultural and ideological exchanges, informs Hanoi's complicated approach toward Beijing, shaping both threat perception and diplomatic strategy. Within the NCR framework, historical legacies function as an independent variable, representing an enduring systemic pressure on Vietnam's foreign policy decisions.

Asymmetric power capabilities with China constitute another critical structural certainty. China's overwhelming economic and military capabilities, combined with its pervasive political and cultural influence, place Vietnam in a vulnerable and difficult-to-counter position. This asymmetry is enduring and resistant to change, representing a structural reality. From a neoclassical realist perspective, asymmetric capabilities function as independent variables by generating direct systemic pressures that compel state responses.

Structural uncertainty is not a static condition but rather a dynamic one that evolves across different periods, profoundly shaping Vietnam's threat and opportunity perceptions of surrounding international environment. Structural uncertainty is not a static but a dynamic variable defined in terms of three distinct phases. The first phase, roughly from 1990 to 2000, was characterized by uncertainty over whether the collapse of the Cold War bipolar order would threaten the survival of communist regimes. The second phase, spanning approximately 2002 to 2009, reflected uncertainties over whether confrontation with the capitalist camp was unwinnable and whether economic development through global integration was more important than adherence to class struggle. The third phase, beginning in 2010 and continuing to the present, has been marked by uncertainty arising from China's rapid rise and the intensification of great power rivalry. These rapid transformations in international politics may either constrain Vietnam's strategic space as a small state (Korolev, 2019) or, conversely, provide it with greater room for maneuver (Kuik, 2021b). Given the critical importance of such shifting external dynamics, this paper treats great power rivalry as another independent variable, as it constitutes the fundamental external environment within which Vietnam must secure its survival.

As an intervening variable, factional politics has been significantly underestimated—or almost entirely overlooked—in studies of Vietnam's relations with China. Political science scholars on Vietnam topic have consistently emphasized that Vietnam is governed by an authoritarian communist regime in which the VCP exercises direct control over all policy areas (Vu, 2014a), representing the fundamental political reality in the country. However, most political science studies focus primarily on domestic politics and rarely examine foreign policy. In the realm of international relations study, perhaps Pham and Ba's (2021) study of Vietnam's response to China's BRI, which draw on Kuik's (2021a) framework of political legitimacy, is a notable attempt to link Vietnam's domestic politics to its foreign policy. However, their BRI analysis typically overlooks a crucial insight from political scientists and historians: the VCP is not monolithic—factions exist, and they have been present since the Party's founding (Trinh, 2020).

If insights from political science regarding internal factional struggles within the VCP are more closely integrated into analyses of Vietnam's foreign policy decision-making, scholars could more accurately identify the underlying factors driving Vietnam's policy shifts. In other words, while the VCP's pursuit of legitimacy might shape its policy-making (both domestic and foreign), the critical question is: who determines how this legitimacy is constructed? This research argues that the convergence and divergence of interests among party factions directly influence how legitimacy is framed and, consequently, intervene in the process of Vietnam's foreign policy choices. Therefore, factional struggles provide a deeper explanation for how the VCP establishes and maintains its legitimacy, which in turn affects both domestic and foreign policy formulation. In short, political legitimacy is the surface, while factional struggle lies beneath. Historical studies of pro-Soviet versus pro-Chinese factions within the VCP illuminate, from a historical perspective, the factors driving Hanoi's approach during the Vietnam War era (Nguyen, 2012; You, 2023). These findings underscore the importance of factional analysis for interpreting Vietnam's policy behavior. Unfortunately, after the Cold War, these internal factional struggles have received little scholarly attention; incorporating factional politics into international relations analysis remains rare, often treated as a "black box" due to its obscurity, lack of sources, and absence of standardized definitions.

Thus, one of the innovations of this paper is to treat factional politics as an intervening variable, bringing it back to the analytical table and allowing for more detailed observation of the deeper nature of Vietnamese decision-making processes.

Further, this research defines the nature and characteristics of Vietnam's factional politics to render its analysis as an intervening variable more operational. Factional politics in Vietnam refers to the dynamic interplay of competing and cooperating interests among different party factions within the VCP. The convergence and divergence of these interests determine how the party's legitimacy is framed and exercised, which, in turn, influences foreign policy outcomes. VCP factions are not static; they continuously evolve, negotiate, converge, or diverge depending on specific policies, ideological positions, personal interests, and bureaucratic affiliations. During a given period, multiple factions may coexist, be divided, or, alternatively, a single faction may dominate. This research argues that over the past three decades of Vietnam's politics, the conservatives, reformists, and opportunists have constituted the three most prominent factions, whose interactions have profoundly influenced VCP decision-making. Simply, the conservatives prioritize regime security and the preservation of ideological orthodoxy to some extent, the reformists emphasize market-oriented economy and social modernization, and the opportunists prioritize the pursuit of personal interests above all else. It is also worth noting that, although some recent scholarship suggests that the Central Committee of the Communist Party of Vietnam has gradually moved from the periphery to the center of Vietnamese politics, functioning as a shadow parliament that shapes and influences policy-making (Nguyen & Nguyen, 2022), this research does not adopt that view. Instead, it agrees with Vuving (2006) and argues that the core decision-making body within the VCP resides in a tiny circle: the Politburo, and in some cases, the General Secretary himself. The Politburo brings together leaders from different factions and serves as a crucial locus for observing the dynamics of factional politics in this research. With all these critical definitions and distinctions, the analysis of the intervening variable becomes more operationally precise.

This research employs a qualitative research methodology, as it is best suited for examining the complex and nuanced dynamics of each structural and domestic factor and their impact on foreign policy. The process-tracing method is applied to analyze sequences of events, key turning points, and decision-making episodes related to policy formulation. Most of the data is drawn from secondary sources, including scholarly monographs, peer-reviewed journal articles, policy reports, and archival records. Where possible, the research also incorporates primary materials, such as defense white papers and government statistical reports.

Explaining Vietnam's Changing China Policy: Phases and Factors

In this section, this research revisits Vietnam's policy toward China from 1990 to 2024. By applying the NCR analytical framework developed in the previous section, it examines *how* and *why* Vietnam's China policy has evolved into its current form.

Phase 1 (1990-2000): Bandwagoning Towards China

The period from 1990 to 2001 was critical for VCP's choice to the future. Within the VCP Politburo, it has historically been divided into two main factions seeking regime survival: the conservatives and the reformists, each representing contrasting worldviews. Led by the Party General Secretary (Do Muoi) and President (Le Duc Anh) and their successors, the conservatives inherit the tenets of communism and define national security primarily in terms of ideology, geostrategy, and military strength. They uphold the superiority of socialism over capitalism and maintain a steadfast belief that socialism will ultimately prevail. For the conservatives, preserving the party's dominant leadership role is paramount (Abuza, 1998). In contrast, the reformists, represented by the Foreign Minister (Nguyen Co Thach), Prime Minister (Vo Van Kiet), and his successors, prioritize economic cooperation and opportunities (Porter, 1990). They place less emphasis on ideological concerns, advocating for proactive engagement with global economic interdependence while largely avoiding the rhetoric of class struggle between socialism and capitalism.

The two factions engaged in fierce debates over nearly all policy areas, leading to slow progress and indecisiveness in reforms throughout the 1990s. Scholars have observed and described this condition as social immobilism and Parkinsonism (Womack, 1997; Thayer, 2000; Koh, 2001) and have attributed it to factional struggles between the party's conservatives and reformists (Abuza, 2001). During the 8th Party Congress of the Communist Party of Vietnam and the 10th National Assembly, the so-called 'big three', the General Secretary, the President, and the Prime Minister retained their respective positions due to lack of ideal successors. However, by 1997 they had finally identified their *protégés*, the new *troika* of General Secretary Le Kha Phieu, President Tran Duc Luong, and the Prime Minister Phan Van Khai, the old 'big three' remained active in the core politics in advisory roles, symbolizing the elder statesmen politics and fierce factional struggles of the 1990s (Duc, 2012).

However, the conservatives maintained the upper hand (Abuza, 1998; Womack, 1997), which fundamentally influenced Vietnam's decision to bandwagoning China. A series of cases demonstrated Vietnam's bandwagon with China. On the eve of Sino–Vietnamese normalization in 1990, which also coincided with a critical period of leadership transition within the VCP, the Party ousted Nguyen Co Thach—well known for his hardline stance toward China—from both the Politburo and the Central Committee, the military also argued that Vietnam should be more conciliatory and adopt a less anti-China stance (Thayer, 1994a) after the prolonged Sino-Vietnam was in the 1980s. At the same time, General Secretary Nguyen Van Linh adopted a more conciliatory posture by acknowledging China's contributions to the Vietnamese revolution. His successor, General Secretary Do Muoi, actively advanced the process of normalization with Beijing (Thayer, 1994b). Following normalization, according to Thayer, Vietnam even sought to expand bilateral ties to include security guarantees or the establishment of a military alliance, but these overtures are rejected by China.

On the contentious South China Sea issue, the conservatives consistently counseled conciliation and pursued a 'quiet diplomacy' aimed at accommodating China, chose a low-key response, sending only a diplomatic note for peaceful negotiation to avoid confrontation, refraining from publicly criticizing China's actions over the Spratly and Paracel Islands, and establishing high-level working groups with China to allay suspicions and continue peaceful negotiations on maritime territories. In late 1992, the VCP Central Committee confidentially redefined Vietnam's foreign policy through a resolution that stratified the nation's foreign relations into a hierarchy of priorities, with China at the top of the first category (Thayer, 1994a). Another illustrative case is General Secretary Le Kha Phieu's tenure, during which the conservatives stalled the completion of a Bilateral Trade Agreement (BTA) with the U.S. in 1999. Moreover, in negotiations over Vietnam's accession to the World Trade Organization (WTO), Hanoi displayed a clear reluctance to move ahead of China in joining the organization. On the land border issue, Le Kha Phieu reportedly made deliberate concessions to Beijing by acceding to China's demarcation plan, which accelerated negotiations and led to the signing of the Vietnam–China Land Border Treaty in 1999 and the Gulf of Tonkin Delimitation Agreement in 2000 during his term. The draft political report repeatedly emphasized that Vietnam's foreign policy orientation would remain centered on socialist solidarity and relations with neighboring states (Thayer, 2001; Abuza, 2002).

During the 1990's, Vietnam was bandwagoning rather than hedging against China. Using the conceptual framework outlined in the previous section, this paper finds that politically, the VCP's emphasis on safeguarding communist orthodoxy and one-party rule pushed Hanoi to lean ideologically toward Beijing. Economically, the VCP's concerns about economic liberalization led Vietnam to follow and accommodate China closely. This is also evident in Hanoi's decision to build a 'socialist market economy' model that closely mirrored China's trajectory. On territorial disputes, Vietnam adopted a posture of complete deference, relying on 'quiet diplomacy' to accommodate China rather than openly contest its actions. From the hedging conception, one might argue that Vietnam's simultaneous accession to ASEAN and its resumption of relations with the U.S. reflected elements of political or military hedging. However, in sharp contrast to the dominance-denial or limited bandwagoning found in the conceptual framework, Vietnam explicitly recognized China's dominance within the communist world and placed bilateral relations with Beijing at the top of its foreign policy priorities, a joint statement for Comprehensive Cooperation was issued in 2000. By comparison, U.S.–Vietnam defense relations developed only very slowly, and as Lohman et al. (2012) note, both sides continued to harbor deep suspicions about each other's long-term strategic intentions. This mutual mistrust precluded any serious attempt by Vietnam to use the U.S. as a counterbalance or to hedge against China militarily —an option Hanoi deliberately avoided.

Vietnam's bandwagoning with China can be explained through the NCR analytical framework. At the systemic level, structural uncertainty played a critical role; the transition of the world from the bipolar Cold War order profoundly shaped the VCP's foreign policy choices. Specifically, the global landscape shifted with the end of the Cold War, the collapse of communist regimes in Eastern Europe, the dissolution of the Soviet Union, and the sustained blockade and embargo imposed by Western countries. At the same time, China's overwhelming political influence as one of the few remaining communist states, combined with the success of its economic reforms, and its good neighbor foreign policy, structurally shaped Vietnam’s strategic orientation, while the positive historical legacies, particular those China’s assist towards Vietnam during its war of independence also exerted certain influence, providing important political rhetoric narratives to justify the normalization of relations and maintain frequent topic on high-level exchanges. At the domestic level, Vietnam’s leadership is deeply concerned about and threatened in terms of the survival of their communist regime. The conservatives within Vietnam’s factional struggles held the relative dominance. Their steadfast commitment to ideological orthodoxy, the preservation of socialist rule, and their skepticism toward liberalism, democracy, and civil society drove Hanoi’s eyes on China. By the late 1990s, the VCP’s core leadership had gradually evolved into a system of elder statesman politics, which to some extent perpetuated the pro-China foreign policy and continued to influence Vietnam’s diplomatic posture into the early 21st century.

Phase 2 (2001-2009): A Shift to Light Hedging

At the beginning of 2001, Vietnam’s political landscape underwent significant changes. The era of the party strongman had long ended, and the position of General Secretary no longer held the centralized power it once had (Thayer, 2003). Within the core of the VCP, factional struggle reached a relative balance. The Central Committee overturned the recommendation to reappoint Le Kha Phieu as General Secretary and ultimately elected Nong Duc Manh as the new General Secretary. Having ascended from Chairman of the National Assembly to General Secretary, Nong Duc Manh successfully strengthened the role of the National Assembly in Vietnam’s political life. At the top of the political hierarchy, power gradually evolved into a ‘four-pillar’ structure: General Secretary Nong Duc Manh, President Tran Duc Luong, Prime Minister Phan Van Khai, and Chairman of the National Assembly Nguyen Phu Trong. Prime Minister Phan Văn Khai, as a *protégé* and successor of Vo Van Kiet, exhibited clear reformist factional traits, whereas Nguyen Phu Trong, who had long served as editor of the party’s ideological journal Communist Review (*Tap Chi Cong San*), displayed strong conservative characteristics. President Tran Duc Luong appeared to serve as a compromise figure between conservatives and reformists, reflecting Vietnam’s geographical and political balance, without strong alignment with any particular faction (Abuza, 1998). General Secretary Nong Duc Manh, this research argues, acted primarily as an intra-party mediator. As Thayer (2003) notes, Nong Duc Manh attracted support from various factions within the party and maintained ideological friction at manageable levels.

A collective leadership accelerated Vietnam's significant global integration and market reforms. Vietnam's foreign policy also has subtly changed, with pragmatism supplanting ideology as the guiding principle. In July 2003, the Resolution 9, which passed on the Eighth Plenum of the Ninth Central Committee, was identified by scholars as a watershed in Vietnam’s foreign policy (Vuving, 2006; Pham, 2011). This resolution downgraded the socialist ideology but adopted the concepts of 'partner' (*Doi Tac*) and 'opponent' (*Doi Tuong*) to determine friends and foes as the prime basis for conducting foreign relations. Specifically, countries that advocate respect for Vietnam’s independence and sovereignty, and that promote relationships based on friendship, equality, and mutual interests are considered as partners. Conversely, states that conspire or act against Vietnam are deemed opponents. This identification also emphasiz that convergence and divergence of interests can coexist within relationships, and that cooperation or struggle should be based on the country's attitudes towards Vietnam, not their ideological affiliations.

Within this context, Vietnam demonstrated accelerated omnidirectional foreign relations with major powers, including China, while actively integrating into the international economic system. Between 2001 and 2009, Sino-Vietnamese relations generally trended upward. The two countries completed land border demarcation and monument construction and elevated their ties to a comprehensive strategic cooperative partnership, with China consistently remaining Vietnam's largest trading partner. Concurrently, Vietnam expanded its relations with other major powers by establishing strategic partnerships with Russia and comprehensive partnerships with South Korea in 2001, Japan in 2002, and India in 2003. Vietnam-U.S. relations also accelerated during this period. From 2003, high-level Vietnamese officials—including the Ministers of Trade, Planning and Investment, Defense, and the Deputy Prime Minister—visited the U.S. In June 2005, Prime Minister Phan Van Khai became the first Vietnamese leader to visit the U.S., followed by a reciprocal visit by President George W. Bush in 2006. That same year, Vietnam joined the WTO, and the second Vietnam-U.S. summit in 2008 further strengthened bilateral ties through multiple agreements. At the multilateral level, Vietnam actively engaged regional and international institutions by hosting the 8th ASEAN Regional Forum (ARF) in 2001, participating in ASEAN Ministerial Meetings (AMM) and ASEAN Plus Three (APT) Summits, joining the inaugural ASEAN Defense Ministers' Meeting (ADMM) and East Asia Summit (EAS), and hosting the 2006 APEC Economic Leaders' Meeting in Hanoi. These bilateral and multilateral engagements provided Vietnam with a stable and peaceful external environment while accelerating its integration into global economic structures.

Apparently, Vietnam hedged rather than bandwagoned with China during the 2000s, but only lightly in the political domain. The hedging conceptual framework helps clarify how this happened. Vietnam's active integration into the world and concerted efforts to build multilateral diplomatic relations and join international organizations were initially intended to remedy international isolation during the Cold War, and even in the 1990s, to create favorable conditions for its economic development. After 2003, when Vietnam formally elevated shared interests over ideology, its multidirectional diplomacy can be rationally interpreted as a political hedge to partially reduce its overdependence on China. However, the symbolic meaning arguably outweighed the substantive one, as Vietnam continued to view China as its primary model and partner.

Dosch and Vuving (2028) find that at critical junctures, Vietnamese leaders typically actively sought Chinese advice and guidance, particularly on economic matters and questioned their Chinese counterparts about how to reform a socialist economy without losing party control. Bilateral trade between Vietnam and China increased dramatically in the 2000s (Amer, 2012), and many major Vietnamese projects in mining, thermal power plant construction, and chemicals were contracted to China between 2000 and 2015 (Ngo, 2017). Regarding the territorial disputes, Vietnam continued to pursue quiet diplomacy, typically limiting its responses to oral protests and passing diplomatic notes against Chinese assertive actions. Between 2004 and 2008, Hanoi and Beijing intensified high-level meetings on the South China Sea, achieving some progress in conflict management and a noticeable decrease in tensions (Amer, 2009). During the same period, the two countries completed land border demarcation, erected boundary markers, and elevated their bilateral ties to comprehensive strategic corporative partnership—all reflecting Vietnam's ongoing prioritization of and reliance on China. While Vietnam's foreign policy in this phase might unintended displayed certain rudimental political hedging characteristics, but it continued to fluctuate between light hedging and bandwagoning.

The NCR analytical framework works well in answering two puzzles. First is why Vietnam chose to hedge. At the systemic level, the world has been steadily advancing toward multipolarity and economic globalization. For Vietnam, actively integrating into the international system is essential to improving its economy and, by extension, safeguarding regime stability—a goal that requires the pursuit of multilateral diplomacy. At the same time, Vuving (2006) notes that the Vietnamese leadership is shocked by U.S.-Iraq War and has come to recognize the unbeatable power of the U.S. Then, they are gradually abandoning the traditional notion of the irreconcilability between socialism and capitalism and instead accepting the need to promote deeper engagement with Washington. Moreover, Vietnam's profound asymmetry of power with China, the lingering negative historical sentiments in Sino-Vietnamese relations, and China's 'creeping assertiveness' in the South China Sea have been magnified domestically by the rapid expansion of Vietnam's market economy, mass media, and the nascent development of civil society (Thayer, 2009). These dynamics have fueled waves of anti-China protest within the country. However, this paper argues, that while such domestic narratives could post pressures, but they have not produced substantial impacts on Vietnam's foreign policy choices. At the domestic level, the relative balance of factions means that the reformists are no longer as heavily constrained by the conservatives as in the past, enabling them to advance and implement deeper international integration. Consequently, Vietnam's foreign policy began to exhibit light and rudimentary hedging, primarily characterized by diplomatic diversification and omnidirectional partnerships.

Second is why Vietnam's hedging is rudimentary and fluctuating—or, in other words, why it has been confined primarily to the political realm while exhibiting little economic hedging towards China. This paper seeks to offer an alternative explanation from the perspective of factional politics, an angle that has received scant attention from most scholars. Corruption and abuse of power remain the VCP most serious problem (Dosch, 2009). As Vietnam transitioning to a market-oriented economy, the reforms unleashed new opportunities for rent-seeking and the misuse of power, leading to increasingly severe corruption. Individuals who used money to manipulate politics and then leveraged political power to accumulate money gradually formed a distinct faction within the VCP, which this research terms as opportunists. These actors could emerge from either the conservative or reformist camps, but their only purpose was to gain money. The opportunists were led by Prime Minister Nguyen Tan Dung, who leveraged his vast network of allies and access to key resources to emerge as the most powerful figure within the party. By the mid-to-late 2000s, the opportunists' rapid rise positioned them as the largest faction within the party.

The Chinese bauxite mining in Vietnam's Central Highlands (Marston, 2012; Jason, 2015) is the case that exemplifies how the opportunist faction intervened Vietnam's foreign policy. In this bauxite mining case, Prime Minister Nguyen Tan Dung received substantial economic assistance from China (Vuving, 2010). Consequently, despite strong domestic opposition and petitions over environmental risks, economic dependence, and national security concerns *vis-à-vis* China, Nguyen Tan Dung persisted in allowing Chinese companies to exploit bauxite in the Central Highlands. As head of the opportunist faction, his support for these projects was primarily motivated by the pursuit of personal benefits. Vietnam's deepening economic ties with China, coupled with Beijing's good-neighbor and going-out diplomacy, created further opportunities for the VCP's opportunists to extract money through political power. This explains why, at the economic level, Vietnam tended to bandwagoning with China rather than hedging. Moreover, the bauxite mining case demonstrates that systemic historical legacies—including anti-China sentiments—did not determine or even influence Vietnam's foreign policy. Instead, the country's diplomatic decisions were ultimately made by the small circle of Politburo core members.

Phase 3 (2010-2016): Towards Profit-Motivated Heavy Hedging

Vietnam's leadership transition in 2011 had restructured the 'four pillars' with the newly appointed General Secretary Nguyen Phu Trong, President Truong Tan Sang, Chairman of the National Assembly Nguyen Sinh Hung, and the reappointed Prime Minister Nguyen Tan Dung. By the 2010s, entrenched corruption, nepotism (*Con Ong Chau Cha*) and government inefficiency had pushed the VCP's legitimacy to the brink of crisis (Vuving, 2013). Factional struggles within the party quickly evolved into open confrontation between the conservatives, led by General Secretary Nguyen Phu Trong, and the opportunists, headed by Prime Minister Nguyen Tan Dung. As Fforde (2012) observes, the role of the General Secretary increasingly appeared to be subordinate to that of the Prime Minister. Since 2009, Vietnam's approach to the South China Sea disputes with China has gradually shifted from its earlier quiet diplomacy to a more open and active stance. The nearly two-month-long confrontation between China and Vietnam in 2014 over South China Sea brought bilateral relations to their lowest point since normalization.

Vietnam's foreign policy during this period exhibited a clear hedging characteristic, with heavy degree. The hedging conceptual framework explains how Vietnam was heavy hedging China. Particularly, in defense and security, Vietnam proactively sought to counterbalance China's growing assertiveness in the South China Sea. Beginning in 2010, Vietnam and the U.S. institutionalized a set of mechanisms, including U.S.–Vietnam Political, Security, and Defense Dialogue (PSDD) and the U.S.-Vietnam Defense Policy Dialogue (DPD), as well as regular naval exchange activities, all of which have continued to the present. In 2011, the two sides signed the Memorandum of Understanding on Advancing Bilateral Defense Cooperation. Then, in 2015, they signed the U.S.-Vietnam Joint Vision Statement on Defense Relations, which significantly upgraded defense cooperation (Dung & Vu, 2024). In parallel, Vietnam accelerated arms procurement and deployment, including some designated for maritime defense. At the same time, its land reclamation projects in the South China Sea, as reached their peak in 2015 (Chen, 2021).

Diplomatically, Vietnam moved even further from rigid ideological constraints and steadily broadened and elevated its multilateral relations. Notable developments included Vietnam elevating its relations with Russia to a Comprehensive Strategic Partnership in 2012 and with India to the same level in 2016, the establishment of a Comprehensive Partnership with the U.S. in 2013, and the historic visit of General Secretary Nguyen Phu Trong to Washington in 2015—the first ever by a VCP General Secretary. As ASEAN Chair in 2010, Vietnam lobbied with ASEAN countries to frame the bilateral territorial disputes with China as a regional issue for multilateral discussion, aimed to enmesh China in the web of multilateral institutional framework. Economically, Vietnam sought to hedge against overdependence on China by further diversifying its trade relations, accelerating the conclusion of bilateral trade agreements, and actively pursuing entry into broader free trade frameworks, such as the Korea–Vietnam FTA, the Trans-Pacific Partnership (TPP), and the Europe Union–Vietnam FTA (EVFTA).

However, these moves did not amount to outright balancing against China, as Vietnam continued to maintain close political engagement with Beijing. For instance, following the major confrontation over China's Haiyang 981 oil rig in 2014— a crisis sparked by China's deployment of a massive deep-water drilling platform into disputed waters of the South China Sea-both sides dispatched high-level delegations to manage disputes diplomatically. Moreover, Hanoi remained cautious in its dialogues with Washington, often briefing Beijing afterwards to deny any anti-China intent and avoid provoking China. The 2011 U.S.–Vietnam naval exchanges, for example, were limited to non-traditional security cooperation, explicitly excluding combat training and officially declared unrelated to South China Sea tensions (NBC News, 2011). Similarly, before his historic U.S. visit, General Secretary Nguyen Phu Trong first traveled to China, and later that year hosted Xi Jinping's visit to Hanoi, signaling a high-level political trust.

Meanwhile, Sino–Vietnamese defense cooperation was not suspended but instead expanded, with joint patrols in the Gulf of Tonkin and along the land border becoming increasingly institutionalized. Thus, even as Vietnam pursued more intensive hedging measures, it simultaneously sought to avoid creating the impression of a complete tilt toward the U.S. The series of contradictions and mutually counteracting behaviors collectively constitute Vietnam's heavy hedging, a mixed alignment choice of political, economic, and military hedging, as well as the limited political bandwagoning measures and using the web of multilateral institutional framework to have China's assertiveness in check, which have fully met the concept of heavy hedging. Therefore, Vietnam's China policy during this period should be classified as heavy hedging.

More crucially, why was Vietnam hedging against China heavily during 2010–2015? At the systemic level, uncertainty primarily arose from shifts in U.S. strategy. In July 2010, during the ASEAN Regional Forum held in Hanoi, Secretary of State Hillary Clinton explicitly declared that freedom of navigation in the South China Sea was a U.S. national interest

(Landler, 2010). The U.S. pivot to Asia created maneuver for South China Sea claimants, particularly Vietnam, which constituted a crucial precondition for its hedging behavior. At the same time, the negative historical legacies of Sino–Vietnamese relations, China's growing military power, and its increasingly assertive behaviors in the South China Sea placed additional systemic pressures on Vietnam's foreign policy. However, systemic opportunities and pressures must be filtered through domestic political dynamics before shaping concrete foreign policy outcomes. In this regard, Vietnam's factional politics profoundly influenced how the country managed and exploited external opportunities and constraints.

As the opportunist camp becomes the most powerful faction within the VCP, corruption pervades society as a dominant phenomenon, and national interests are subordinated to personal gain; this research argues that rationalist explanations alone are insufficient to account for Vietnam's foreign policy behavior. Instead, human nature, particularly the opportunistic pursuit of wealth, influence, and power by political elites, play a decisive role. In other words, Vietnam's foreign policy is often designed to prioritize the interests of the corrupted ruling elite, as evidenced by its military hedging. The involvement of the People's Army of Vietnam (PAVN) in economic activities has long been commonplace (Thayer, 2017). By securitizing and amplifying disputes in the South China Sea, the military establishment was able to capture greater resources and benefits. During Prime Minister Nguyen Tan Dung's tenure, his Minister of Defense Phung Quang Thanh emerged as the head of the military rent-seeking network (Vuving, 2023a), repeatedly accused of corruption (Chân dung Quyền Lực, 2014). This corresponds to a decade of rapid military procurement and large-scale land reclamation projects, where state approval of contracts and acquisitions facilitates profit extraction—an all-too-familiar pattern in Vietnam's corruption-prone political economy. This also helps explain the seemingly illogical phenomenon that, after Phung's retirement in 2016, Vietnam's military procurement slowed significantly despite China's continued investment in military capabilities in maritime domains.

From another perspective, rather than viewing China's assertiveness as dramatically intensifying after 2009, it may be more accurate to argue that Vietnam deliberately adopted a tougher stance. By exposing Chinese actions through the media and online platforms and by selectively tolerating anti-China protests, Hanoi sought to portray itself as a vulnerable yet deserving actor, thereby legitimizing its push for rapid military modernization and more joint civil–military projects. For example, the 2014 confrontation over China's Haiyang 981 oil rig in the South China Sea was not the first maritime clash. In fact, as early as the 1990s, Beijing had engaged in actions towards Vietnam described as 'rubbing salt into the wound' (Thayer, 1994a). However, over relatively a long period from the 1990s to the 2000s, Vietnam opted for muted responses. The same logic extended into the economic realm. Under Nguyen Tan Dung's cabinet, economic diversification was not only a developmental imperative but also a vehicle for rent-seeking. Expanding bilateral trade agreements and pursuing multilateral trade frameworks often served as channels for profit extraction by Dung and his *protégés*.

Factional politics further illuminates Vietnam's limited bandwagoning with China in the political sphere. For the conservative faction, maintaining symbolic alignment with Beijing is a way to preserve internal power balance and counteract the growing influence of opportunist elites. Taken together, Vietnam's heavy hedging behaviors after 2009 was the product of systemic and domestic interactions. While external dynamics created pressures and opportunities, it was domestic politics—particularly factional struggles and the interests of opportunist elites—that determined the form, intensity, and objectives of hedging. Ultimately, hedging was not only a rational response to external uncertainties but also a practice aimed at consolidating wealth, power, and influence by the party's large opportunists' network.

Phase 4 (2017-2024): Towards Security-Driven Heavy Hedging

During the intense factional struggles of the 12th Party Congress, Nguyen Phu Trong broke the age norm to secure an over-age reappointment as General Secretary. At the same time Nguyen Tan Dung gradually retired from the political stage. Trong was regarded as an ideologist and a conservative whose ambition was to rescue the VCP from decay, yet he was also extremely risk-averse (Vuving, 2019). In his second term, Trong assumed complete control of the anti-corruption drive known as the Blazing Furnace (*Dot Lo*). Trong's anti-corruption drive involved disciplinary measures and prosecutions against corrupt officials, tighter control over civil society and the information space, and a large-scale crackdown on powerful businesspeople in private sector (Vuving, 2023b). By the end of his second term, Trong had become the most senior, powerful, and dominant leader within the Party, surpassing the Prime Minister, the Chairman of the National Assembly, and even the President—a post he concurrently held for over two years from 2018 to 2021. At the 13th Party Congress, he once again broke the age limit to secure a third term as General Secretary. His strong General Secretary period lasted through that term until his death in July 2024.

During Trong's second term, he appointed and retained numerous technocrats in key positions. For example, Pham Binh Minh's elevation to the Politburo indicated that the Ministry of Foreign Affairs had returned to the power center and had a representative in the Politburo, Vu Duc Dam's continuation as Deputy Prime Minister meant that this reformist, who began his career as secretary to former Prime Minister Vo Van Kiet and possessed professional expertise in economics and theory, had the opportunity to continue exerting influence, and Vuong Dinh Hue, an economic expert and Trong's *protégé*, was appointed Deputy Prime Minister. These personnel choices weakened networks of opportunistic rent-seeking and helped strike a balance between reformist and conservative forces. Nevertheless, in Nguyen Phu Trong's third term, the anti-corruption campaign showed signs of overreach. Many officials, fearing political fallout, became hesitant to implement policies. High-profile technocrats such as Pham Binh Minh and Vu Duc Dam were dismissed at the end of 2023, and a wave of reshuffling within the Politburo followed quickly in early 2024. The public security bloc led by To Lam gained more seats in the party's power central. Following Trong's death and To Lam's succession as General Secretary, most Politburo members come from security and military backgrounds, with a notable lack of experience in economic governance and multilateral diplomacy. The VCP leadership appeared to be shifting rapidly toward a more centralized and personalized form of strongman politics under To Lam.

Throughout this period, Vietnam's China policy exhibited heavy hedging. Economically, driven by deep concerns over a potential debt trap, Vietnam offered only rhetorical support for China's BRI without substantive participation (Vuving, 2019). Vietnam excluded Huawei from its domestic 5G network construction and instead concluded agreements with European and South Korean partners. In 2017, Vietnam joined the multilateral trade agreement – the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a revised version of the original TPP. At the same time, Hanoi stepped up lobbying the European Union for the EVFTA, which was eventually signed in 2019. These moves illustrate Vietnam's efforts to diversify trade partners and reduce its structural economic dependence on China. Diplomatically, Vietnam significantly upgraded its relations with major powers. In 2022, it elevated relations with South Korea to a Comprehensive Strategic Partnership, followed by similar upgrades with the U.S. and Japan in 2023, and with Australia and France in 2024 (see Table 1). Notably, Vietnam was the only Southeast Asian country to participate in the 'Quad Plus' meeting at the onset of the COVID-19 pandemic in 2020, an informal U.S.-led grouping that discussed restructuring global supply chains away from China (U.S. Department of State, 2020). These diplomatic moves underscore Hanoi's omnidirectional foreign relations with major powers. In the defense and security domain, Vietnam's cooperation with the U.S. deepened considerably. American aircraft carriers made port calls to Vietnam in 2018, 2020, and 2023, accompanied by exchange activities, and Vietnam joined U.S.-led multilateral maritime exercises. Since the U.S. fully lifted its lethal arms embargo in 2016, permanent defense exports to Vietnam exceeded US$29.8 million from 2016 to 2021, while cumulative military sales surpassed US$118 million. Vietnam also received two Hamilton-class cutters from the U.S. (Dung & Vu, 2024), twelve high-speed guard boats, and a missile corvette from India. These developments indicate that Vietnam is proactively building itsmilitary and defense capacity.

At the same time, Sino-Vietnamese relations evolved in a relatively stable and upward trajectory. Regarding the South China Sea disputes, Vietnam adopted a restrained, head-down approach. In 2017, Hanoi cancelled a drilling project with a Spanish company under Chinese pressure. Then, in 2019, when a Chinese oil-survey ship entered disputed waters, Vietnam responded with diplomatic protests but deliberately avoided escalation (Zeberlein, 2024). Similar restrained responses characterized most subsequent maritime confrontations, which, despite becoming more frequent, were managed within a relatively stable *modus vivendi* (Vuving, 2019). Regarding political rhetoric, General Secretary Nguyen Phu Trong demonstrated a discernible pro-China orientation, as reflected in his public remarks describing China–Vietnam relations as being at their 'best period in history' (Xinhua News, 2018). Regarding diplomatic posture, Trong partially distanced Vietnam from Western democracies. Notably, between 2020 and 2022, Vietnam made almost no upgrades in its bilateral relations with Western countries. Even after upgrading relations with Washington, Hanoi hosted Chinese President Xi Jinping in the same year and agreed to join China's Community of Shared Future. This diplomatic gesture symbolically reaffirmed the special status of Sino-Vietnamese relations and rhetorically elevated it above Vietnam's other bilateral partnerships.

Table 1. List of Partnership

Country	Level of Partnership
China	Long-term stable, future-oriented, comprehensive cooperation, good-neighborliness (1999) Good neighbors, good friends, good comrades and good partners (2003) Comprehensive Strategic Cooperative Partnership (2008) Building a Vietnam-China Community with a Shared Future (2023)
Russia	Strategic Partnership (2001) Comprehensive Strategic Partnership (2012)
India	Strategic Partnership (2007) Comprehensive Strategic Partnership (2016)
Korea	Strategic Partnership (2009) Comprehensive Strategic Partnership (2022)
U.S.	Comprehensive Partnership (2013) Comprehensive Strategic Partnership (2023)
Japan	Strategic Partnership (2006) Extensive Strategic Partnership (2014) Comprehensive Strategic Partnership (2023)
Australia	Comprehensive Partnership (2009) Strategic Partnership (2018) Comprehensive Strategic Partnership (2024)
New Zealand	Comprehensive Partnership (2009) Strategic Partnership (2020) Comprehensive Strategic Partnership (2025)
France	Strategic Partnership (2013) Comprehensive Strategic Partnership (2024)
U.K.	Strategic Partnership (2010)
Germany	Strategic Partnership (2011)
Canada	Comprehensive Partnership (2017)
Malaysia	Comprehensive Partnership (2004) Strategic Partnership (2015) Comprehensive Strategic Partnership (2024)
Singapore	Strategic Partnership (2013) Comprehensive Strategic Partnership (2025)
Indonesia	Strategic Partnership (2013) Comprehensive Strategic Partnership (2025)

(Source: Compiled by the author, as of April 2025)

Meanwhile, in its 2019 Defense White Paper, Vietnam formally expanded its previous "Three Nos" policy—namely, no joining of military alliances, no aligning with one country against another, and no foreign bases on Vietnamese territory—into a "Four Nos" policy (Vietnam Ministry of National Defense, 2009). The additional principle explicitly stipulates no use or threat of force in international relations (Vietnam Ministry of National Defense, 2019). This articulation signaled, at least implicitly, that Vietnam would not align itself with the Western camp against China. Overall, Vietnam's diversification in trade, expansion of strategic partnerships, and defense cooperation with external powers, alongside its restrained yet symbolically deferential approach toward China, are consistent with the logic of the heavy hedging conceptual framework.

To explain Vietnam's adoption of a heavy hedging stance during this period, it is essential to examine both the structural dynamics and the internal politics. From a systemic perspective, the uncertainties play a large role. Since the mid-2010s, China has exhibited greater confidence and assertiveness both regionally and globally. At the same time, the U.S. aimed to counter China's rising global influence by implementing a comprehensive, multidimensional strategy to counter and decouple China across almost every domain. Southeast Asian countries are living in the shadow of uncertainty amid an era of comprehensive great-power rivalry, where risks are always accompanied by opportunities. For Vietnam, however, the risks outweigh the opportunities mainly due to systemic historical legacies and the significant asymmetry in power capabilities between Vietnam and China. Negative sentiments rooted in Vietnam's long history of Chinese domination, combined with the vast disparity in economic and military capabilities, have intensified Vietnam's threat perception of China in the era of great-power rivalry. Then, systemic factors consistently exert pressure rather than providing incentives on Vietnam.

At the domestic level, this research argues that the anti-corruption drive, as a manifestation of intraparty factional struggles, generated a series of 'butterfly effects' that profoundly shaped the specific orientation and implementation of Vietnam's foreign policy. Under Nguyen Phu Trong's leadership, the anti-corruption drives effectively curtailed the web of opportunists and partially restored the balance between reformist and conservative factions. However, the campaign also elevated Trong to the position of the most powerful leader within the VCP since Le Duan in the Cold War era. Trong's profound concern for communist regime security, including internal decay and external pressure, combined with his cautious and conservative risk assessment, largely shaped Vietnam's China policy during this period. Specifically, Vietnam proactively adopted heavy hedging in the diplomatic and economic domains to mitigate systemic risks associated with uncertainties and overreliance on China, while simultaneously sustaining political trust with Beijing and consistent muted and restrained to displayed deference to China over its South China Sea disputes. All these behaviors constituted Trong's flexible yet resilient bamboo diplomacy (*Ngoai Giao Cay Tre*).

Conclusion

This paper addresses *how* and *why* Vietnam's China policy evolved from 1990 to 2024. By dividing this period into four phases, the analysis demonstrates that Vietnam's China policy transitioned from bandwagoning in the 1990s to light hedging in the early 2000s and gradually developed into a pattern of heavy hedging after 2010, which has persisted to the present. While Vietnam's foreign policy evolution was shaped by both systemic pressures and domestic political dynamics, this research finds that intra-party factional politics within the VCP directly structured the logic of its China policy. During the 1990s, the conservative faction was relatively strong, and concerns over regime security and ideological stability in the wake of the Cold War's bipolar collapse led Vietnam to adopt a bandwagoning approach toward China. By contrast, in the 2000s, as reformists and conservatives reached a relative equilibrium, the VCP's urgent need to integrate into the global economy, coupled with recognition of its inability to counter U.S.-led capitalist power, prompted a prioritization of economic integration and multilateral diplomacy. This dynamic led to a *de facto* political hedging posture, as diplomatic diversification unintentionally created a form of political hedging *vis-à-vis* China. Subsequently, from the 2010s onward, Vietnam's China policy exhibited characteristics of heavy hedging. Systemic pressures—including China's rapid rise and the intensification of great-power rivalry, expanding from the economic domain into broader strategic confrontation—set the external context. However, a comparative analysis of factional politics between 2010–2016 and 2017–2024 reveals distinct domestic drivers. During 2010–2016, heavy hedging was largely driven by the largest opportunistic faction within the VCP, which exploited systemic opportunities to advance personal interests. In contrast, from 2017 to 2024, heavy hedging was primarily shaped by the conservative faction's perception of systemic pressures, aimed at insulating Vietnam from great-power competition and regional turbulence.

The research further distinguishes between light and heavy hedging, depending on the different alignment choices used. In Vietnam's case, light hedging is manifested primarily through diplomatic diversification to avoid overreliance on China. Heavy hedging, however, involves a combination of mixed alignment choices: economic diversification to reduce dependency on China, military measures such as strengthening defense capabilities and engaging in multilateral security cooperation for indirect balancing, diplomatic efforts such as enmeshing China within a variable institutional framework, and limited bandwagoning measures—including deference and a selective low-profile stance on South China Sea disputes, high-level political exchanges to build political trust, and ideological resonance. Overall, these findings contribute to hedging theory in two main ways. First, they validate that hedging behaviors can be driven not only by risk-contingent considerations but also by opportunistic incentives. Second, the demonstration and distinguishing between light and heavy hedging offers an operationalizable framework for analyzing hedging practices in greater detail.

Beyond these theoretical contributions, the results underscore the central thesis of this study: small states should not be assumed from the outset to function as unitary actors, a complexity frequently overlooked in oversimplified and one-dimensional analyses. In the case of Vietnam, this study points out that the Ministry of Foreign Affairs is not the highest foreign policy-making body; rather, the VCP's Politburo serves as the direct body responsible for all political decisions in Vietnam. Vietnam's China policy is primarily determined by a small group of Politburo members. Contrary to the common perception of the Communist Party's highly unified one-party rule, this study presents substantial evidence that the Vietnam's Politburo does not function as a unitary actor, but rather as a coalition of different factional representatives. The evolution of converging and diverging interests, as well as the trade-offs among these political factions, directly shape the trajectory of Vietnam's China policy. More broadly, this research contributes to neoclassical realism by introducing factional politics as an intervening variable, thereby providing a more nuanced understanding of the policymaking process.

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Urban Political Economies of Sustainable Tourism: Comparing Jakarta and Seoul

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Abstract

Although urban tourism policies have embraced sustainability, most frameworks often overlook the political-economic arrangements that determine the governance of sustainability and its implementations. This is most pronounced in Asian cities, given the highly diversified institutional pathways and state–market relationships. To address this gap, this study explored how the implementation of sustainable urban tourism in Jakarta and Seoul is affected by specific configurations of capitalism. Utilizing the concepts of variegated capitalism and developmental environmentalism, the study explained how the two megacities with contrasting political economies of sustainable tourism address the environmental, social, and governance aspects of sustainable tourism. Based on qualitative interviews, policy documents, and national statistics, the study finds that Jakarta is predominantly a hybrid neoliberal setting with fragmented regulation, CSR-oriented environmentalism, and donor–recipient community partnerships. Conversely, Seoul adheres to a developmental state model that incorporates sustainability into the core of culture and smart urbanism policies as a part of its long-term planning. The differences in the implementation of the four pillars of sustainable tourism emphasize the limited applicability of universal or prescriptive governance models. The study positions sustainable tourism within the institutional pluralism of capitalism and, in doing so, advances the political economy of urban sustainability for metropolitan policymakers to balance economic growth, social equity, and ecological sustainability.

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Introduction

As the world is shifting into sustainable development, the phenomenon of sustainable tourism is becoming a focal point of urban development, facilitating the integration of economic growth, environmental preservation, and sociocultural equity (Krabokoukis & Polyzos, 2023; Wang & Cheablam, 2025). Given that the world's urban settlements are the focal points of human activities, they experience extreme ecological stress, and the need for sustainable tourism is imperative. Planning such tourism fulfills the SDG 8 and 12 subset indicators, as indicated by Miller & Torres-Delgado (2023). Cities in the Global South, particularly Jakarta (Indonesia) and Seoul (South Korea), are indicative of the socio-environmental issues of rapid urbanization. These are the frontline cities in the battle for sustainable tourism and the demonstration of urban resilience.

While sustainability is widely endorsed in global tourism discourse, scholars have increasingly critiqued the technocratic and managerialist framing of sustainable tourism, which often obscures the political and institutional structures that shape outcomes (Bramwell & Lane, 2011; Fletcher et al., 2019). Research indicates the importance of political economy in providing a powerful framework for the analysis of sustainable tourism development by investigating the balance of economic systems, governance, and societal power dynamics over policy and practice (Manioudis & Meramveliotakis, 2022; Saayman & Li, 2023). There is thus a growing call for a political economy perspective that captures the tourism sector as situated within broader systems of governance, market regulation, and development planning (Bianchi, 2018; Mosedale, 2016). This perspective captures how the capacity of the state, capitalist dynamics, and historical development of institutions delimits the governance of sustainability in cities.

Although sustainable tourism has become a central policy concern in many Asian cities, existing scholarship pays limited attention to how different political–economic configurations shape sustainability outcomes in practice. Most studies assess tourism performance, destination branding, or stakeholder participation (Bramwell & Lane, 2011; Higgins-Desbiolles, 2018), but pay limited attention to the institutional logics through which environmental, social, and governance outcomes are produced. Studies of urban sustainability similarly highlight policy initiatives, the strong role of the state, and long-term infrastructural planning without interrogating how variations in state capacity and market coordination pathways generate divergent policy trajectories (Acuto & Rayner, 2016; Lowe et al., 2022). This creates a conceptual and empirical gap in understanding why cities with comparable sustainability ambitions diverge in practice. Also, this creates a gap in understanding why cities with tourism sustainability ambitions diverge in implementation.

This study attempts to fill that gap by looking at sustainable tourism practices in relation to two globalizing cities with different institutional trajectories: Jakarta, Indonesia's capital, and Seoul, South Korea's capital. They are both major national and regional tourism hubs and are experiencing rapid urbanization and shifts in tourist demographics, and are undergoing post-pandemic recovery (Akbar et al., 2024; Martinez & Masron, 2020; Yoo et al., 2024). However, they differ greatly in terms of governance and the political economy of development.

Such differences should not be considered as a binary model. Rather, they represent a constellation of political economies that shape the governance of sustainability on the environmental, economic, social, and governance frameworks of the polity. Jakarta is an example of a hybrid neoliberal regime characterized by corporate social responsibility (CSR) environmentalism, dual economies, fragmented social inclusion, and multi-actor governance with weak enforcement (Kidokoro et al., 2022; Yang, 2024). Conversely, Seoul demonstrates synergistic coordinated development with state hierarchical ecological governance, local economic growth, cultural inclusion, collaboration, and cohesive bureaucratic structures aimed at attaining sustainability (Lee & Woo, 2020; Lee et al., 2025). By such systematic comparisons of arrangements, the study moves beyond articulating distinctions and explores the impact of different forms of capitalism on the rapidity with which sustainability becomes embedded in the policy and practice of a given society. Such an approach situates the governance of sustainable tourism not as a policy of a homogeneous unit, but as the product shaped by the capitalism of in given complexity.

Drawing on the contrasts provided by the political economies of Jakarta and Seoul, the study explains the institutional architecture of sustainable tourism governance. These different trajectories provide the basis for relational analysis of the interconnection between state, policy and regulatory frameworks, and market-society arrangements as they demonstrate distinct integrations of the principles of sustainability into legislation and policy-making. By comparing these cases, the research helps to theorize how varieties of capitalism produce different modalities of urban sustainability governance. Thus, demonstrating the various institutions and historical contexts that the global frameworks governing sustainable tourism and its governance in terms of urban form have poorly considered.

This study seeks to examine how political-economic systems influence governance and urban tourism sustainability in Jakarta and Seoul. More specifically, the study asks, how do the environmental, economic, social, and governance factors of sustainable tourism differ in the two cities? In what ways do the institutional frameworks, relations between state and market, and the regulatory mechanisms ascribe to distinct forms of capitalism in tourism sustainability? To answer these questions, the study applies the concepts of variegated capitalism (Brenner et al., 2010; Peck & Theodore, 2007), as well as the nascent theory of developmental environmentalism (Thurbon et al., 2023). Variegated capitalism responds to the global neoliberal convergence theory by providing evidence of institutional diversity, spatial differentiation, and path dependence as forms of governance in capitalism. It offers a comparative framework for studying the various forms of capitalism and their mediating relations with sustainability in different contexts. Developmental environmentalism, within the East Asian political economy discourse, explains how some states pursue ecological goals through industrial and urban policies, providing alternatives to market-driven or donorsponsored sustainability models. Methodologically, the study draws on qualitative interviews and document analysis within a structured comparative framework.

Variegated Capitalism and Developmental Environmentalism

This research study is guided by a theoretical framework rooted in the political economy literature on the spatial and institutional diversity of capitalism. Using the concept of variegated capitalism (Brenner et al., 2010), the study analyzes Jakarta and Seoul as products of distinct but interconnected capitalism trajectories shaped by uneven neoliberalization and differentiated state capacities. To capture the specificity of East Asian sustainability governance, the framework incorporates developmental environmentalism (Thurbon et al., 2023), which theorizes the integration of environmental concerns within the structure of developmental-state institutions. Working within these two perspectives enables a comparative understanding of how variations in capitalism shaped the governance of tourism and urban policy in response to the global sustainable development agenda.

As cities deal with the consequences of climate change, rising inequalities, volatile global tourism, and global pandemics, the positive impacts of sustainable tourism on urban development have come into focus. Future positive global tourism needs to be sustainable. It is defined as tourism that satisfies the wants of current visitors and the needs of the host region while improving future opportunities. Sustainable tourism has four key dimensions: environmental stewardship, economic resilience, social and cultural integrity, and institutional governance (Ivars-Baidal et al., 2023; Lozano-Oyola et al., 2012; Miller & Torres-Delgado, 2023; Rasoolimanesh et al., 2023). While these dimensions are accepted in global policy rhetoric, their implementation is greatly influenced by the political economy, the state's capacity, and historical institutional path dependencies. We argue that urban sustainable tourism governance needs to transcend the technocratic or managerialist framework and move towards a political economic approach, adopting the perspectives of variegated capitalism and developmental environmentalism.

The focus of this analysis is Jakarta and Seoul through the lens of variegated capitalism and developmental environmentalism, with the understanding that capitalism can take different forms through different institutional arrangements and does not have to take a singularly neoliberal approach. Rather than assume there are only two possibilities of case determination, the study treats cases as manifestations of different forms of capitalist logic across the four interconnected dimensions of sustainability: environmental, economic, social, and governance. Each of these dimensions indicates the different configurations of state's capacity, market presence, and social action that determine sustainability outcomes. It is this multidimensional nature of the analysis that helps in utilizing the concept of variegation. Neoliberal flexibility, eco-capitalism, participatory inclusion, and hybrid governance of Jakarta stand in contrast to developmental coordination, endogenous innovation, institutionalized inclusion, and bureaucratic coherence of Seoul. This helps in demonstrating the different political economies that shape the governance of various sustainability dimensions.

The unsustainable model of sustainable tourism remains a contested political space, marked by institutional diversity and socio-economic inequities. While the four pillars suggested by the Global Sustainable Tourism Council GSTC and other global organizations are useful, they could lead to the sociological oversimplification of the structural conditions that enable or constrain the practice of sustainability (Bramwell & Lane, 2011; Hall, 2011). Taking the environmental pillar as an example, the waste minimization, biodiversity conservation, and green infrastructure policies cannot be evaluated independently of the financial streams, legal frameworks, and enforcement capacities of the local states. The same goes for economic sustainability, which is often framed in the context of employment and revenue generation; it brings to the surface issues such as who tourism serves, the distribution of monetary benefits, and types of tourism economies highlighted.

The political economy of tourism is most pronounced in cities where there is competition for land, infrastructure, tourism identity, and global capital framework tourism flows within the global economy's infrastructure. More recent works have focused on the idea of variegated capitalism to describe the uneven development of a given system of capitalism within a particular region and during a specific period (Peck & Theodore, 2007; Peck & Tickell, 2002). This approach challenges the convergence theory, which assumes that neoliberalism operates in a homogenizing manner. It instead argues that such capitalist restructuring gives rise to an institutionally embedded diversity, described as "path-dependent, territorially specific, and relationally constituted" diversity in governance and forms of capitalist accumulation. In this case, Jakarta and Seoul do not serve as deviant examples of a so-called sustainable tourism model; rather, they illustrate different capitalistic paradigms that, throughout time, have fundamentally altered the notion of sustainability in each place.

Jakarta reflects a hybrid neoliberal model with dispersed regulation, reliance on external funding, and privatized governance. Rather than state-led planning, environmental sustainability is regulated through CSR initiatives, public-private partnerships, informal community interventions, and voluntary group planning. Achieving economic sustainability occurs through a dual system: first, grassroots tourism initiatives, informal economic activities, and cultural heritage sites; and second, large-scale commercial contracts masked by environmental, social, and governance (ESG) claims, often lacking robust accountability. Initiatives pertaining to social sustainability are developed by Non-Governmental Organizations (NGO) and heritage bodies with little institutional collaboration. Governance features a lack of uniform regulatory compliance, poor oversight, and increased fragmentation of control that is dominant in former colonial regions and is characteristic of neoliberal decentered governance (Banerjee, 2003; Büscher & Fletcher, 2015).

Seoul embodies the principles of developmental environmentalism (Thurbon et al., 2023), as influenced by East Asia's developmental state, which incorporates environmental considerations into economic planning. Here, urban planning integrates the construction of smart cities, green street infrastructure, and cultural restoration projects to support sustainable tourism. The state continues to govern tourism development by siloing and coordinating sustainability across indicators, instruments, and agency sectors. Endogenous innovation provides economic sustainability through small businesses and new digital cultural tourism and cultural industry economic sectors. Social sustainability is attained by the development of human capital, urban social inclusion, and the official recognition of cultural heritage. The system embodies a high bureaucratic system coherence and technocratic, centralized but consultative planning (Evans & Karvonen, 2014). Compared to each other, Jakarta and Seoul exemplify the frameworks in showing the multiplicity of capitalist diversity and urban sustainability.

The perspective of variegated capitalism is unique in that it does not oversimplify economic differences to simple dichotomies. It places these differences in the relational geographies of policy diffusion, institutional imitation, and intra-urban rivalry (Ward & McCann, 2011). Rather, it situates them within relational geographies of policy diffusion, institutional imitation, and intra-urban rivalry. Neither Jakarta nor Seoul is an insulated model; instead, they are nodes within a global network of tourism knowledge exchange and regulatory diffusion. Domestic political interests, bureaucratic traditions, and even the strategic agency of local actors shape the implementation of global cross-sustainability indicators. Standards of the environment and laws of heritage protection are also internationally negotiated and locally prioritized.

The focus on sustainable tourism from this perspective highlights the various levels of sustainable governance. Unlike the vast literature on national tourism strategies, governance at the city level is now the center of policy contestation and implementation. Urban regimes, as described by Mossberger and Stoker (2001), "a coalition of public, private, and civil society actors which governs a city," not only allocate of governance resources but also frame the problems and successes of governance. Unlike Jakarta, which has ad hoc and project-based urban regimes, Seoul has institutionalized regimes with strong metropolitan and developmental national planning links.

An integration of the frameworks of variegated capitalism and developmental environmentalism enables a comprehensive investigation of urban tourism governance. Such integration enables us to move beyond the 'how' of the policy and performance metrics and ask the more critical questions: which sustainability goals are articulated? Who defines them? What institutional architecture is used to achieve them? What forms of capital, whether economic, cultural, or administrative, shape the trajectories of tourism development? What political economies are present? Moreover, how do they balance the trade-offs of economic growth, ecological sustainability, and social integration?

Jakarta and Seoul serve as analytically rich endpoints for this type of analysis. In this case, Jakarta is an example of an exposed, donor-dependent, hybrid neoliberal model, while Seoul exemplifies an integrated, technocratic, and state-led model. The two together represent the type of spatial and institutional heterogeneity the variegated capitalism framework seeks to define. This framework views the pillars of sustainability not as stand-alone outcomes to be achieved, but as outcomes of the different forms of capitalism that can be articulated and sustained.

The analytical framework employs these theoretical insights through four interlinked dimensions: environment, economy, society, and governance. Each of these dimensions exemplifies the specific ways in which the different capitalisms determine the attainment of sustainability through different configurations of market-state relations. Table 1 summarizes the analytical dimensions of variegated capitalism and the developmental environmentalism that structure the comparative analysis of sustainable tourism governance in Jakarta and Seoul, and which analysis sections further this empirical analysis.

Table 1. Comparative Analytical Framework for Sustainable Urban Tourism in Jakarta and Seoul

Dimension	Jakarta	Seoul	Political Economy Framing
Environment	CSR-driven, fragmented, community-led conservation	Infrastructure-integrated, state-led ecological planning	Neoliberal flexibility vs. developmental state
Economy	Dual model: grassroots + corporate ESG branding	Endogenous development through small-scale enterprises	Eco-capitalism vs. coordinated capitalism
Social	Community engagement, cultural preservation, informal sector	Embedded cultural economy, smart tourism, human capital	Participatory vs. institutionalized inclusion
Governance	Formal reporting, weak enforcement, NGO-driven partnerships	Implicit regulation via smart urbanism and centralized planning	Hybrid governance vs. bureaucratic coherence

Furthermore, Table 1 illustrates that the comparative synthesis political economy of sustainable tourism encompasses numerous trajectories instead of one. Jakarta's hybrid neoliberalism emphasizes flexibility, pluralism, and external inducements. Conversely, Seoul's developmental environmentalism incorporates sustainability into the guided planning of the state and endogenous innovation. Together, these configurations illustrate the variegated character of capitalism in shaping urban sustainability outcomes.

Research Method

This study investigates how distinct political-economic systems influence the governance and outcomes of sustainable urban tourism in Jakarta and Seoul. The research engages comparative qualitative case study methodology, collecting and analyzing documentary, statistical, and interview data within a pre-established comparative framework.

This study utilizes a structured comparative design, which focuses on analytical advantages of cross-case variation rather than universal causal mechanisms (Anckar, 2008; Mello, 2021). Both cities have different political-economic systems, administrative capacities, and development trajectories, though both face challenges in integrating sustainability into their urban tourism policy. Hence, the variation in governance and logic regarding sustainability across the institutional constellations of Jakarta and Seoul provides analytical space to capture the scope of differences in hybridity and Seoul’s developmental environmentalism. This is the approach taken in the recent comparative political economy and urban studies, which attempt to derive analytical benefits from variation (Kumar et al., 2024; Murakami, 2025). Therefore, this study is designed not to seek universal causal explanations but to examine how different capitalist orders influence sustainability trajectories across urban contexts.

This study recognizes that the two cities analyzed vary widely in their socio-economic systems, in their governance systems, and in their patterns of development (Joo, 2023; Martinez & Masron, 2020). Referred to here, then, is not an attempt at symmetrical comparison of performance, but an effort at analyzing the role of institutional arrangements and the systems of their minimal intervention in the economic processes, of the essences of market freedoms, and on the processes of achieving sustainability. Hence, the distinctions in the two cases are not treated as divergences but rather as the presence of development regimes and neoliberal governance systems that fundamentally determine the configurations of tourism governance in relation to the state, market, and society (Brenner et al., 2010; Thurbon et al., 2023).

The analysis adopts a political-economic perspective, intpreting the four pillars of sustainable tourism—environmental, economic, social, and governance. These dimensions ensure comparability across cases while situating each within its historical and institutional context. Across the four dimensions, Table 2 presents indicators that connect sustainability practices to institutional structures.

Table 2. Operationalization of Analytical Dimensions

Dimension	Political–Economic Interpretation	Key Indicators
Environmental	How ecological management is structured within different capitalist logics	Waste management, energy transition, water conservation, biodiversity protection
Economic	How tourism markets and investments reflect state–market coordination	Enterprise type, fiscal incentives, innovation, employment generation
Social	How inclusivity, equity, and cultural reproduction are embedded in governance	Community participation, cultural heritage preservation, accessibility, safety
Governance	How regulation, partnerships, and accountability are institutionalized	Policy integration, regulatory instruments, civil society engagement, transparency mechanisms

Data is collected by triangulating diverse qualitative sources, which include (a) national and local policies; (b) statistical information provided by the Central Bureau of Statistics (Badan Pusat Statistik, 2025) for Indonesia and the Seoul metropolitan government; and (c) interviews with key informants and experts in a less-formalized manner.

In-depth interviews are conducted with six purposively selected respondents with expertise in tourism, governance, and sustainability. A total of six interviews are conducted, three in Jakarta and three in Korea. In Jakarta, respondents include two policy-making officials from the Jakarta regional government and one director of a multinational tourism company headquartered in Jakarta. In Seoul, two respondents are master's students in Korea and are also working in the communications and digitalization sectos. Then, one respondent is a Korean professor who is an expert in tourism, global cities, and digitalization. Each interview lasta approximately 90 minutes and is conducted in English and Bahasa Indonesia, with translation assistance where necessary.

Interview transcripts are analyzed together with documents and reports, after translation when required. Thematic coding drawing is applied from both inductive and deductive approaches (Fereday & Muir-Cochrane, 2015; Proudfoot, 2016). The two guiding theoretical frameworks and the four sustainability pillars are applied to develop the preliminary set of deductive codes. Initial codes encompassed themes such as *state capacity, market coordination, community participation, policy integration*, and environmental management.

Subsequently, through repeated readings and a constant flux of data, inductive codes begin to take shape to spot recurring patterns and designs in sustainable tourism governance (Corbin & Strauss, 2015; Fife & Gossner, 2024). Emerging codes like *fragmented CSR-driven programs*, *state-led ecological planning*, *informal participation*, and *coordinated policy coherence* are recursively distilled into the interpretive concepts list in Table 1. Categories such as *neoliberal flexibility* or *bureaucratic coherence,* therefore, represent interpretive synthesis in which empirical patterns are anchored but, to some extent, abstracted away through theories. Careful coding is done manually to facilitate deep interaction with the data, and categories are iteratively adjusted through a continuous process of revision and refinement. This is done in accordance with Fuchs's (2023) recommendations for qualitative tourism research. The the analysis is strengthened through triangulation across several data sources (interviews, policy documents, and statistical data), thereby demonstrating consistency and convergence of evidence (Morgan, 2024; Noble & Heale, 2019).

Syntheses are carried out after coding, which comprises matrix-based comparative analyses (Naeem et al., 2023; Reading & Merrill, 2018), where emerging topics are carefully fitted into the four analytical quadrants (environmental, economic, social, and governance) to pinpoint both similarities and differences across the cases. This meticulous cross-case synthesis permitted the study to establish connections between the political–economic structures and the sustainability results for each city. Thus, enabling the further development of the underlying analytical framework to explain the impact of institutional variety on the governance of urban tourism. These analytical steps are summarized in Figure 1.

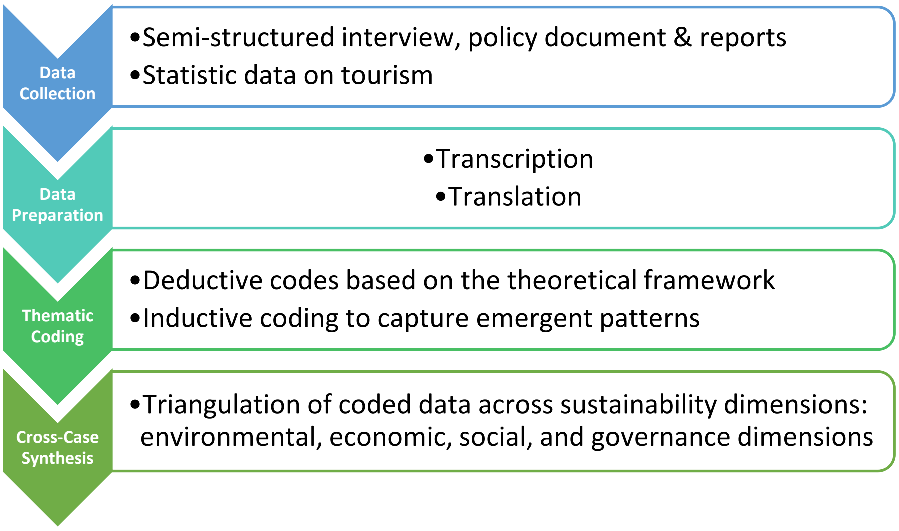

Figure 1. Summary of data collection and analysis process

Contextual Overview: Urban Tourism in Jakarta and Seoul

Over the past decade, domestic demand, international arrivals, and the COVID-19 pandemic have all impacted and shaped tourism in both Jakarta and Seoul. The construction of tourism infrastructure, the backbone to each city, further enhances the focus of international visitors on Jakarta and Seoul. This section seeks to provide insight into comparative international tourism with official data to support continuous sustainable development in tourism.

Tourism in Jakarta is predominantly regional, focusing on domestic travelers. As we retrieved from the Central Bureau of Statistics of Indonesia (Badan Pusat Statistik (BPS), 2025), all administrative regencies of Jakarta witnessed an abrupt decrease in the number of tourists in 2020, which was followed by steady recovery from 2021 onward (Figure 2). As of 2024, the structure of visitation surpassed pre-pandemic levels. Jakarta Barat continued to dominate the city in tourist volume, surpassing 18 million visits in 2023 and maintaining similar numbers in 2024. Jakarta Timur was a close second, increasing from 14 million visitors in 2019 to 17 million in 2023. These regions seem to have better infrastructure, appeal, and proximity to important infrastructure and attractions. Central Jakarta and Kepulauan Seribu remained the least visited regions, the latter consistently attracting under a million visitors annually, despite a strong potential for ecotourism. This points to the need for specific development plans aimed at augmenting the commercial and tourism activity and diversifying the commercial centers' tourism benefits.

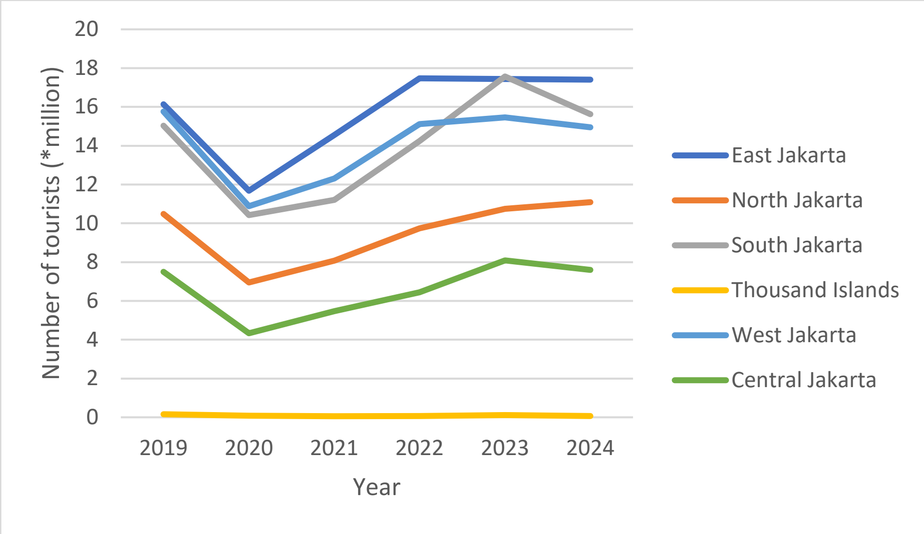

Figure 2. Number of Tourists by Regency in Jakarta (2019-2024)

Source: BPS's (2025) data

Before 2020, international tourism to Jakarta was increasing, though it remained below the national average. Foreign visits to the city grew steadily from 2 million in 2010 to 3.5 million in 2019. Then, in 2020, foreign visits to the city dropped to under 1 million, recovering slowly to just over 1 million in 2022. In contrast, total foreign arrivals to Indonesia reached almost 16 million in 2019, only to plummet during the pandemic. Bali and Yogyakarta dominate in comparative international tourism, while the rest, particularly Jakarta, lag. This over-reliance on domestic travel and tourism poses other challenges, enlarging the international tourism visibility gap. To promote equity in tourism and boost Jakarta's international tourism competitiveness and appeal, integrated infrastructure and tourism management systems for urban and rural areas are important to the tourism sector (BPS, 2025).

The most visited tourist sites in Jakarta illustrate this domestic tourist focus (Figure 3). Taman Impian Jaya Ancol (Ancol Dreamland) is again the most visited site in 2022, receiving more than 13 million guests, a remarkable recovery considering the steep decline in visitors in 2020, and 2021 was the poorest travel year on record; this is her second year in a row. Ragunan Zoo also retained its runner-up position with more than 6.5 million attendees, and Monas (National Monument) improved to attract over 5 million visitors in 2022. In contrast, visitors to the National Museum and Museum of History in Jakarta, culturally significant repositories of artifacts, were disgracefully low, at less than 0.5 million each. These patterns indicate a growing preference among visitors to spend their recreational time on leisure and hobby pursuits, with little or no balance with available heritage facilities.

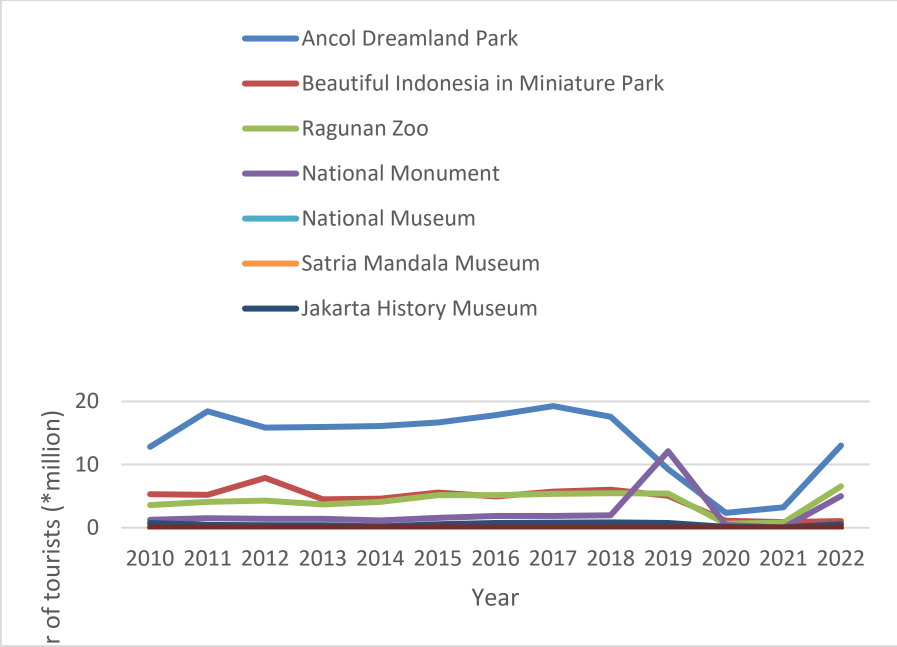

Figure 3. Top touristic attractions in Jakarta (2010-2022)

Source: BPS's (2025) data

By contrast, indicators suggest an advanced internationalized tourism economic system in Seoul. The figure from the Seoul Metropolitan Government (2025) shows a consistent upward trend in international visitors from 3.68 million in 1996 to 17.5 million in 2019. The numbers, although more severe due to the pandemic, show a rapid improvement trend post-2022, with tourism numbers in the region reaching 11 million in 2022 and continuing to increase through 2023. The top tourists still come from the same top 3: China, Japan, and the USA. Chinese Outbound Tourism (COT) also peaked in 2016, with 8 million trips. COT to Seoul has declined over the last few years amid ongoing geopolitical tensions. On the other hand, Japanese and American outbound tourists have clearly recovered to pre-pandemic levels—a considerable post-2022 inflow from Southeastern Europe.

Tourism activities in Seoul are concentrated in some specific areas (Figure 4). Jongno-gu, which has historical accessible palaces and cultural sites, has consistently been the highest-receiving tourist district, reaching a peak of 9 million in 2016 and recovering to over 8.6 million in 2023. Jung-gu also attracts a significant number of tourists through Myeongdong's shopping and entertainment centers, while Songpa-gu remains a key leisure hub with Lotte World and Olympic Park. In contrast, the more residential Nowon-gu and businesses-focused Gangnam-gu receive lower tourist numbers in the year. Recovery trends in areas like Jongno-gu and Songpa-gu demonstrate the effectiveness of integrated urban planning for Seoul in preserving heritage and leisure tourism.

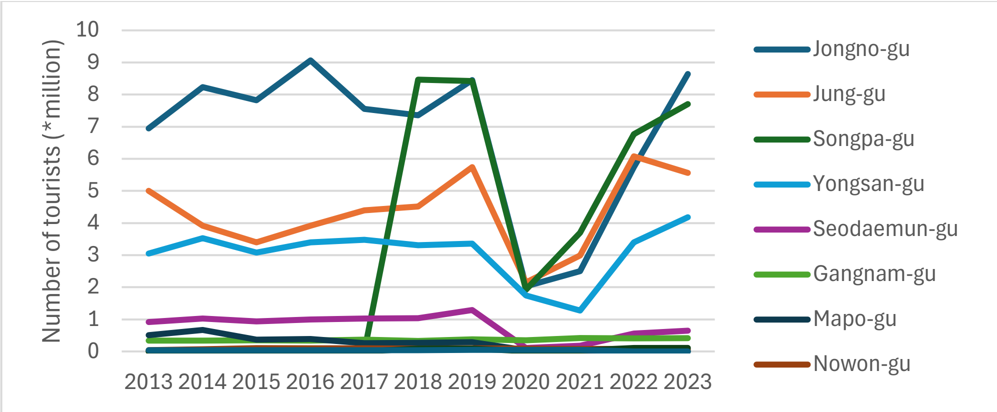

Figure 4. Number of tourists by district in Seoul (2013-2023)

Source: Data from the Seoul Metropolitan Government (2025)

Data on preference clearly shows that Seoul's tourism economy is centered on commercial zones (Figure 5). Over 80 percent of international tourists shopped at outlets in Myeongdong and Namdaemun from 2012 to 2019. Cultural sites such as palaces and traditional markets were less popular with visitors. Recently developed entertainment hubs such as Hongdae and Gangnam continue to rise in popularity as they cater to an increasingly lifestyle-oriented and experiential tourism. Although traditional sites continue to be important for culture, the decrease in visitors reflects consumer trends in international metropolitan tourism.

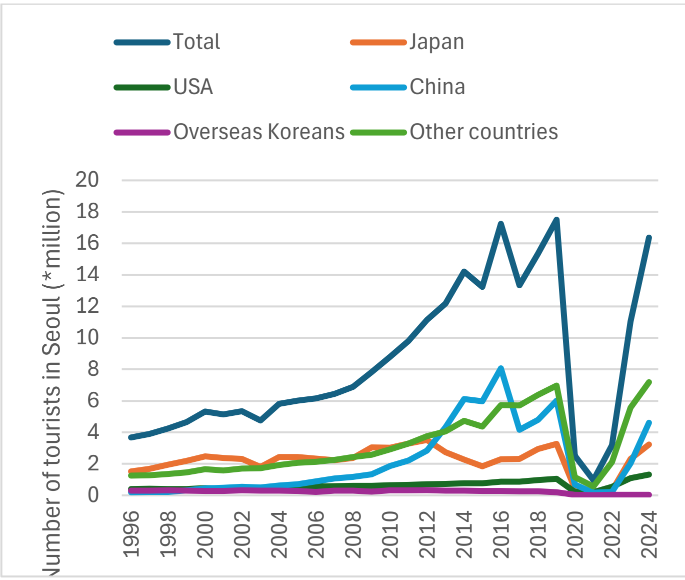

Figure 5. Origin and number of foreign tourists in Seoul (1996-2024)

Source: Data from the Seoul Metropolitan Government (2025)

Overall, Jakarta and Seoul have different features in their tourism geographies. Jakarta depends on domestic tourists and centers on recreation; on the other hand, Seoul has diverse international traffic and advanced logistical systems, acting as a global-level hub. This results in different attitudes toward the region's economics, environmental stewardship, multi-jurisdictional politics, and how the two cities manage sustainable tourism. These contextual profiles lay the empirical field for juxtaposition in the analysis section.

Analysis

Environmental Sustainability Practices in Jakarta and Seoul

Jakarta and Seoul have rapidly expanding metropolitan areas, and urban tourism infrastructure has developed in parallel, as has the focus on urban tourism from a sustainable development perspective. Analysis builds on the tourism dynamics described in the contextual overview, where the prominent attractions of Ancol Dreamland, Ragunan Zoo, Kota Tua in Jakarta, and the palace and heritage areas in Seoul determine the environmental outcomes of the cities.

Waste governance exemplifies the divergence in environmental configurations. In Jakarta, waste management in tourism areas like Ancol Dreamland and Kelapa Island reflects an environmental management model that is decentralized and largely community—private sector driven. Sustainability practices are largely framed through corporate CSR programs and donor-supported initiatives rather than citywide ecological planning. One interviewee noted that "companies usually take the lead on green events through CSR, but cross-agency coordination is still weak." Another explained that "the city government mainly uses waste management indicators, not broader sustainability measures." There is minimal state support, which has given rise to community-based support systems, such as waste banks. Although such bottom-up approaches enhance participation and raise awareness, they also signal the state's retreat from the long-term infrastructural responsibilities. For instance, at the Kota Tua heritage complex, waste remains mixed although waste-separation bins are provided (Figure 6), and no on-site waste management or processing program has yet been implemented.

Figure 6. Waste-Separation Bins at Kota Tua Jakarta.
Source: One respondent in Jakarta

A lack of systematic support structures further fragmented governance, which aligns with Harvey's (2005) neoliberal public sector retrenchment framework that critiqued the outsourcing of environmental governance. Although more formal interventions such as Waste Management Site-Reduce, Reuse, Recycle (TPS 3R) units and composting schemes in areas like Kota Tua, these are mostly tactically unreactive in implementing, rather than strategically assimilating. As outlined by Jessop (2005), hollowed-out state governance is said to diffuse across a multitude of unaccountable and incoherent actors.

In contrast, Seoul demonstrates a robust, state-led waste governance regime grounded in regulatory enforcement and public compliance. Legally required waste separation hijacks social habits, becoming a civic routine glucose-chained to civic infrastructure. Respondents highlighted recycling, cultural internalization of citizenship behavior, and the impact of civics. Seoul intertwines infrastructure and long-term planning sustainability. Environmental actions appear in developmental environmental states (Thurbon et al., 2023), where actions emerge through the managed intersection of policy, infrastructure, and social norms. Recycling in Seoul is culturally integrated and normatively supportive: "The act of waste separation is a cultural norm, not just a regulation." Civic environmentalism stems from strong compliance and trust by offspring in effective governance, and these attributes reflect the idea of embedded autonomy by Evans (1995), in which states are comparatively insulated from capture by organized interests but remain interdependent with social actors.

Disparities are further accentuated when we look at the governance of energy use and transition in tourism. In Jakarta, energy initiatives at tourist destinations such as Ancol Dreamland and Sebira Island exhibit a fragmented, market-driven orientation. Policy documents for initiatives such as fuel consumption (BBM) monitoring and solar energy (solar panel) facility installations are corporate ESG obligations or donor-driven projects rather than public energy transition concern. Additionally, local conservation projects, such as mangrove restoration in North Jakarta, are typically community-led and dependent on NGO or donor support, reflecting limited institutional coherence at the city level. These actions fall under performative governance: acting strategically to sustain the appearance of visibility and bounded sustainability without undermining the fossil fuel political capital energy system that structures capital energy in Indonesia. These confirm the fragmentation that sustainability reporting remains largely voluntary, and environmental indicators focus on waste management and cleanliness rather than integrated ecological planning.

These initiatives are symptomatic of neoliberal environmental governance, in which the sustainability of socio-ecological systems is contracted to private actors, and reputation rather than real deep structural changes is sought. Sector is a governance approach with limited cross-state coordination and supervision of the energy system transitions, described as elite capitalism, where coherence is absent from policy because of rent-seeking and regulatory capture (Carney & Witt, 2014; Hadiz & Robison, 2014).

Seoul's approach differs markedly. Respondents pointed to green infrastructure, such as electric buses, energy-efficient public buildings, and eco-mobility initiatives, as part of the city's green planning, integrated with the greater metropolitan planning. These are not simply exercises in corporate social responsibility but rather are integrated into the public-private modernization of the sector within the smart city paradigm. The South Korean government is actively engaged in the formulation of energy policy and the integration of sustainability in transport, housing, and tourism at the center of policy in neoliberal governance. One participant mentioned, “Environmental planning is part of the national urban strategy; projects like the Cheonggyecheon restoration show how ecological design is built into development.” The alignment across policy levels in this instance exemplifies the conception of development environmentalism described by Thurbon et al. (2023). In this case, the state’s innovation with respect to the policy and the resultant investment with respect to the flows of the economy, both production and consumption, are within the framework of modern green.

Governance rationalities continue to diverge regarding conservation practices. In Jakarta, water-saving technologies, such as greywater recycling and seawater treatment, have been implemented in Ancol Dreamland, a site dedicated to elite tourism. These technologies are reframed as compliance rather than viewed as public goods for the entire citizenry. These scarce programs fulfill the branding objectives for the area and embody what While et al. (2004) refer to as the territorial ecological fix: solutions to ecological challenges that are advertised to attract investment but do not resolve the service inequity. The tourist enclave is still illustrative of a much deeper pattern of peripheral green capitalism; the socio-environmental inequities are so deep-seated that the public is granted concessions only when they benefit the market.

In contrast, water conservation practices in Seoul are better managed, planned, organized, and equitable. Unlike privately owned and restricted areas, automatic watering systems and water-saving facilities are installed in public areas. One commentator pointed out the climate-responsive design that reflects the successful integration of sustainable practices into everyday life in the city. These climate-responsive design choices, which reflect evidence-based design, complement public and government policies aimed at equitable access to natural resources. Yet again, the developmental state model is evident, for in the conservation of water there are no commodities for sale to high-end tourists. It is a public service that comes as a prerequisite in the everyday life of the city.

The unsustainable frameworks of conservation and biodiversity management are evident in tourism management. The Ancol marine restoration and *ex-situ* breeding programs are among Jakarta’s biodiversity interventions directed to tourism and are not part of any cohesive ecological plan. These programs are presented as conservation efforts yet only represent neoliberal attractions, epitomizing the ecological fix (Castree, 2008). The manipulation of biodiversity to bolster brand value supersedes any ecological aim and, to reiterate, supports governance and corporate brand propaganda. Aritenang (2022) considers the absence of city-wide biodiversity intervention, planning, and regulatory frameworks as indicative of a weak state—one that remains unwilling or unable to move beyond ecological stewardship of donor projects, flagship tourism, and tourism-based projects.

The management of biodiversity in Seoul relies on coordinated land-use planning and policy management. Projects like the restoration of the Cheonggyecheon Stream (Figure 7) and protected hiking trails, for example, are deployed as ecological infrastructure in the stream's urban design. The stream's users highlighted, as public goods, the habitat monitoring and ecological education governmental initiatives, implying a more profound temporal perspective. These actions are embedded within national policies on the environment, showing how a developing state can respond to ecological crisis and govern biodiversity more directly. In Seoul, the spectacle of conservation goes beyond mere visual appeal for tourists. It is deeply incorporated into the structures of policy and the core of sustainable development.

Figure 7. Restored Cheonggyecheon Stream in Seoul

Source: Carrasco (2024)

In Jakarta, there is a tangible lack of cohesion, and the city operates under a neoliberal agenda in which the concept of sustainability is merely a form of branding and is limited to elite areas, donor incentives, and corporate logos, as suggested in the agenda of Jakarta's fragmented neoliberalism. On the contrary, Seoul illustrates a coordinated, developmentalist rationality in which environmental aims are consummated and goal-setting achieved, with fully institutionalized, strategically integrated, and equitably distributed environmental policies. These investigations emphasize the explanatory potency of variegated capitalism in the context of uneven environmental governance in urban tourism (Kim & Thurbon, 2015; Thurbon et al., 2023). As demonstrated, sustainability cannot simply be classified as a technical or managerial concern. Instead, it is the outcome of a political economy determined by institutional capability and the type of regime in place, as well as the governance between the state, capital, and society, which shapes the norms.

These observations uncover contrasting environmental logic rooted in different political–economic configurations. In Jakarta, neoliberal environmental responsibilities flow to private and community stakeholders through partnerships with CSR and NGOs, resulting in an unequal yet participatory conservation practice. Within a developmental model, Seoul exemplifies systematic, strategic, coordinated sustainability through state environmental planning, structured bureaucratic infrastructure relations, and state environmental sustainability-oriented mesoscale investment. This contrast indicates the impact of capitalist pluralism on the environmental governance of urban tourism. Despite the differences, both cities demonstrate a hybrid urban governance system. Jakarta's government sometimes facilitates lead control of integrated development, while Seoul sometimes hybridizes public policies with market mechanisms, illustrating the fluidity and hybrid extensiveness of urban sustainability governance.

Social Sustainability of Tourism in Jakarta and Seoul

Social sustainability in tourism governance is influenced by certain political-economic configurations in which tourism governance is embedded. These cities also demonstrate the extreme opposite variations in flexible composite features of community participation, culture and heritage preservation, tourists' satisfaction, mobility, security, and civic educational uplift within the developmentalist and neoliberal capitalist frameworks. These differentiations demonstrate the phenomenon of the social sustainability of a politically constructed condition and unevenly explain the integration of sustainability in different urban tourism geographies.

In the case of Jakarta, the social foundations of sustainable tourism are community involvement and informal participation without formal organizational inclusion. Porous boundaries serve as a motivational constraint to civic engagement, purportedly because public engagement overcomes the absence of public provision. There is a consistent emphasis by respondents on the considerable involvement of peripheral local civil society and cultural associations in the maintenance of tourism initiatives, particularly in the heritage and creative sectors. One respondent explained, "Community members maintain cultural festivals and local attractions; most of these activities run without government funding." Another respondent explained, "Many informal workers and small businesses support tourism in old Jakarta, but they are rarely included in official planning meetings."

These observations correspond with findings from public activities of residents from Setu Babakan, Sebira Island, and Tidung Island, including but not limited to eco-education, heritage preservation, and small-scale entrepreneurial activities. The tourism activities and the revitalization of culture in communities such as Kota Tua and Setu Babakan, despite a high degree of volunteer contributions, suffer from weak relationships with formal governing structures. This condition reflects a participatory model of inclusion that appreciates community initiatives. However, such models become reliant on informal community structures and external facilitators to sustain the initiatives.

The representative models of communities are often romanticized in policy. Self-help models or community-driven models, as Lipton (1993) describes, operate under an anti-politics machine known as projects, which depoliticize development as blame is removed from the government and placed on the communities. This form of community-driven tourism falls within the broader scope of neoliberalism, where there is an uneven or fragmented system of governance; the focus on local self-determination and self-reliance shifts inequities within the system around financing, regulation, and infrastructure.

In contrast, Seoul's tourism expansion epitomizes a type of institutionalized inclusion, stemming from cultural engagement and human-capital formation offered by the state and urban policies. Some respondents perceive seamless collaboration among local administrations, academe, and cultural institutions in promoting creative and smart tourism. For instance, one respondent noted, "The city invests in training programs and digital platforms so residents can participate as cultural interpreters and guides." Another remarked, "Our cultural economy is part of the tourism strategy; creative industries and smart-tourism programs are planned together." Stakeholders in and around Bukchon Hanok Village and Insadong are co-managed for tourism through bed and breakfasts, craftsmanship, and cultural entertainment, which are also safeguarded by a protection zone and municipal sponsorship. The instance of the Haenyeo divers of Jeju Island is an example of the form of subsidized ecological work and a place-governance framework, where traditional activities are integrated into the discourse of sustainability.

These support institutionalized inclusion statements by emphasizing the integration of cultural participation, education, and digital innovation into tourism governance. This institutionalization allows citizens' participation to be formalized within structured programs and measurable performance frameworks. These arrangements embody what are termed 're-embedded markets', where the state is involved in shaping economic activities towards collective cultural objectives (Kim & Thurbon, 2015). Unlike the former bypasses of governance, the communities in Seoul are enmeshed within developmentalist planning systems that operate through the devolution of power, heritage, subsidized labor, and civic identity through tourism and national development.

The institution of cultural preservation further emphasizes the differences in approaches and ideological framing. The two cities differ in the circumstances underlying the development of state's and community's cultural policy. The major heritage sites of Jakarta, Beautiful Indonesia in Miniature Park (TMII), Setu Babakan, and Glodok, are often curated with a performance approach to heritage theater as a spectacle. These are mainly identity sites that geographically represent the nation. TMII is more about mass participation in the creation of cultural heritage than participatory heritage making. Even in performance and craft, residents' participation is restricted to state- and market-framed roles. This fits into the symbolic economy of urban development (Vodopivec & Dürr, 2019), in which cultural space is created for tourism consumption and preserved only in the sense that it is marketed as preserved, reinforcing depoliticized, marketized logics.

Seoul offers an alternative trajectory. To some extent, cultural heritage at Kogyeokgung Palace and Korean Folk Village is incorporated into civic and historical education. At the same time, neighborhoods like Bukchon function as "living museums," which are part-managed by the community and part-managed by the urban planners. Respondents observe the use of bilingual interpretation, subsidized cultural education and jointly implemented heritage interpretation and cultural education that is done jointly. Such processes indicate developmental state's intention to cultivate cultural reproduction by merging heritage into spatial planning, tourism development, public education systems, and knowledge systems (Jæger & Breen, 2016). Rather than relying solely on market principles to capture culture, Seoul's governance model seeks to embed cultural value within larger frameworks of national identity and social investment.

The visitor satisfaction metrics expose the underlying assumptions of competing institutions. In Jakarta, eco-sustainability projects focused on eco-performance and the rehabilitation of mangroves at Setu Babakan, Sabira Island, TMII, and PIK, designing the tourist experience. While participation in civil society activities such as these offers the potential for greater ecological awareness and opportunities for rich and complex engagement, the existing feedback system is informal and passive, described by Bulkeley et al. (2014) as modular sustainability. The reliance on anecdotal accounts, comments on social media, and social media chatter points to a lack of institutional capacity to conduct thorough assessments. This lack of cohesion exemplifies what Peck & Tickell (2002) describe as roll-out neoliberalism: the restructuring of governance systems via soft systems and market-driven incentives, without the public goods on which those systems are built.

Compared to Jakarta, travelers in Seoul experienced the integration of government and smart cities. Respondents commented on the cohesive integration of digital services, transportation systems, and signage systems, as well as the real-time evaluation of interface systems. While these components may seem like separate innovations, they are embedded within a larger institutional framework where public tourism is the domain of public infrastructure. This is the approach proposed by Thurbon et al. (2023) in developmental environmentalism and illustrates the place of tourism within a sustainable environment. It emphasizes the unique experience as regulated, controlled, and innovatively developed from technological advances. It certainly differs from Jessop's (2005) strategic-relational state in that tourism and the experience are possibly used to enhance state control.

Considering accessibility in tourism as an indicator of social sustainability reveals the inclusiveness of the tourism sector within public policy. In Jakarta, accessibility as an issue is attended to through a mosaic of initiatives such as the inclusion of TMII and Ancol's inclusive design features, as well as Kidzania's CSR services. Also, *Kartu Jakarta Pintar* (KJP)—Jakarta's education assistance program—plus subsidized tourism for over 700,000 underprivileged students. While commendable, the initiatives tend to be sporadic and driven by external funding, corporate collaborations, or city government pilot projects. Here, accessibility is the hybrid governance framework in which redistribution is episodic and arbitrary rather than law-based or regulated. As Wissink (2019) indicates, such a provision deficiency is characteristic of urban governance under neoliberalism, where redistribution is episodic rather than structural.

Seoul showcases publicly funded inclusive tourism practices. Public areas and transport have accessibility measures such as ramps, elevators, stroller paths, and braille signs. These things go beyond technical fixes and exemplify the results of sustained legal supervision, especially the "Act on Promotion of Transportation Convenience for Mobility Disadvantaged Persons." In this case, accessibility becomes one of the urban citizenship frameworks. The application of universal design tourism in Seoul exemplifies pervasive neoliberalism (Peck & Theodore, 2007), characterized by state control, redistributive social policy, and a greater market.

The patterns of institutional divergence are accompanied by aspects of safety and security. The Jakarta administration has increased safety infrastructure tourism at flagship tourist destinations, such as Dunia Fantasi (Dufan) and TMII, in response to COVID-19. The use of health posts, visitor monitoring, and certification of health, sanitization, and safety (CHSE) shows increased concern for risk governance. These systems, however, are often uneven in their application because they target only partially corporate-compliant, high-value tourism sites. Jakarta's safety operations fall under what Ong (2006) refers to as graduated sovereignty. In this case, safety and state protection are offered only selectively and hierarchically based on spatial and economic considerations. Therefore, urban safety is contingent, uneven, and market-driven on the hierarchy of tourist attractions.

Seoul is a global leader in safety and security infrastructure integration within public systems. Preemptive safety measures such as multilingual alert systems and real-time monitoring are in place at public transport hubs and tourist sites. Safety measures are not limited to privileged areas; they are systematized throughout the entire city, supported by public infrastructure spending and civic trust. This exemplifies a high-capacity state framework in managing social risks within tourism by framing public safety as a social right and a mandatory requirement for global competitiveness (Peck & Theodore, 2007). Instead of relying on a fragmented system of certifications or reactive, event-driven measures, Seoul's security framework is unified under coordinated policy frameworks along with anticipatory governance strategies.

Education and awareness complete the social sustainability spectrum, demonstrating how tourism is a vehicle for civic pedagogy. In Jakarta, educational activities like the recycling stations at TMII or the eco-tours conducted at JAQS are, for the most part, limited in scope and funded through CSR or donor-driven initiatives. In TMII, for instance, facilities such as bicycles are provided to raise awareness among visitors of vehicle pollution (Figure 8). While these initiatives bolster environmental awareness, they are inequitable and poorly aligned with the national curriculum. Public learning is symbolically structured, illustrating a governance approach called "governance by projects" (Swyngedouw, 2005), in which governance is achieved through fragmented, ad hoc sustainability strategies devoid of comprehensive or integrated long-term frameworks.

Figure 8. Tourists with guides use bicycles in TMII, Jakarta
Source: One respondent in Jakarta

Seoul differs from Jakarta in its public works model, in which sustainability education is taught in schools, museums, and parks. Parks and museums incorporate sustainability education, and public environmental messaging is displayed on signage, interactive exhibits, and through tourism promotion. For instance, a Smart Tourist Information System, a multilingual digital tourist information kiosk (Figure 9), is installed at major tourist and transportation hubs across Seoul to inform the public. Advanced degrees in sustainable tourism and ecological governance also contribute to the sustainability education ecosystem. Integrating sustainability education reflects the developmental environmentalist paradigm that views civic knowledge as critical to ecological modernization and global competitiveness (Thurbon et al., 2023).

Figure 9. Digital Tourist Information Kiosk in Seoul

Source: Visit Korea Committee (VKC), 2020

Social sustainability within urban tourism is more intricate, as localized initiatives are within more extensive governance and capitalist logics. Jakarta is a case within variegated capitalism, emblematic of a participatory hybridized neoliberal model defined as donor-dependent, projectized, and fractured public authority. By contrast, Seoul represents the inclusion of an advanced East Asian developmental state in the coordination of developmental inclusion; social participation is incorporated into policy frameworks designed to contain the dynamics of culture and its economic modernization, wherein the state restrains the social dimension of tourism. These extremes show the political economy of place and its contextual inclusiveness and equity in transforming tourism into the urban context. Jakarta is more participatory and Seoul is more coordinated. Both show hybrids along the continuum of state–society relations, with Jakarta community initiatives more formalized and Seoul's participatory programs more integrated within bureaucratic frameworks.

Economic Indicators of Sustainable Tourism in Jakarta and Seoul

Sustainable tourism is not only an environmental and social concern but also an economic endeavor deeply shaped by the institutional architecture and capitalist regimes governing urban development. The cases of Jakarta and Seoul illustrate the peculiarities of variegated capitalism in the integration of tourism with the local economies of these regions. The current discussion centers on economic indicators such as revenue and environmental exchange, the impact on the local economy, the volume of visitors managed seasonally, sustainable investments made, and job creation.

The differences in political economies, their approach to tourism, and their impacts on the environment are evident in Jakarta and Seoul. Corporations in Jakarta are subject to Indonesian Law No. 40/2007 and Government Regulation No. 47/2012, which require some degree of environmental responsibility. These laws allow firms to self-define the scope of their environmental responsibility. Ancol Dreamland and other corporate respondents increased their environmental sustainability spending ($0.6 million in the 2024 spending plan), which is still focused on mitigation and maintenance initiatives rather than systemic integration. Similarly, public sector spending on urban competitiveness, framed in the 2024 Jakarta regional budget at $5.2 million, with investments exceeding $36.8 million, is considered as sustainable spending. This is the case with neoliberal capitalism, with sustainability as a tool for capital rather than a limit to growth (Harvey, 2005).

In contrast, Seoul's ecological investment strategy is a product of the built environment. State projects such as the restoration of the Cheonggyecheon Stream and Seoullo 7017, which serves public facilities, also constitute ecological rehabilitation integrated into broader urban planning. Although budget details are not reported for these projects, they demonstrate efforts to safeguard the environment through infrastructure remodeling supported by public bureaucracy, accountability, and governance. This illustrates a hardened form of a coordinated capitalist regime where the state seeks to mobilize ecological planning tourism for public utility.

Jakarta and Seoul are no different in terms of how tourism impacts the local economy. Setu Babakan's community-based tourism, along with the Thousand Islands and Kota Tua, fosters opportunities for cultural and economic expression. For instance, the Kota Tua area also provides a space for MSMEs to earn income from tourists by selling traditional food, souvenirs, mini-Dutch-style photo studios, and bicycles, as depicted in Figure 10. Additionally, these efforts exemplify insufficient infrastructure support with reliance on donor aid, portraying 'neoliberalism from below' as a community-backed initiative in the absence of systemic investment (Peck & Theodore, 2007). Simultaneously, Jakarta's corporate-led tourism, spearheaded by Ancol Dreamland, generates employment opportunities and CSR-centered participation. However, these activities are embedded within ESG brand narratives that support the commodification of sustainability without challenging hegemonic extractive growth frameworks (Büscher & Fletcher, 2015).

Figure 10. Small Businesses in Jakarta Tourist Attractions:
Mini-Dutch-Style Photo (left) and Street Vendor (right)
Source: One respondent in Jakarta

On the other hand, Seoul fosters a more embedded economic model. Areas such as Bukchon Hanok and Insadong flourish due to local businesses (Figure 11), further stimulated by zoning and rent subsidies, as well as cultural subsidies. Respondents mentioned city-sponsored initiatives to promote local and creative branding, highlighting the developmental state's role in fostering endogenous growth (Karkut, 2011). Seoul illustrates a coordinated form of capitalism in which tourism is integrated into the economy and society as a form of nourishment and dynamism, highlighting socio-economic resilience, in contrast to Jakarta's fragmented, dual system of bottom-up and corporate branding.

Figure 11. Small Local Businesses in Bukchon Hanok Village, Seoul
Source: Alexis (2017)

Visitor seasonality illustrates differential governance in relation to tourism management. Ancol Dreamland in Jakarta demonstrates growth in attendance but has no concrete plans to manage tourist peak flows. Instead, external catalysts such as the MRT construction or economic changes are relied upon to ease visitor congestion. Jakarta Aquarium & Safari is a rare outperformer, as they apply crowd control through online reservations and variable pricing. A similar quota-based management approach is applied in in the Thousand Islands, where marine tourism is restricted by carrying capacity thresholds on an island basis.

Seoul, on the other hand, manages seasonality through quotas and off-peak promotions. For example, Hallasan Mountain in Jeju limits visitor numbers through a reservation-only system. The systematic and rational self-restraint of a state capable of recalibrating the balance between the ecosystem and the inflow of tourists is evident in timed entry periods, off-season events, and multi-site coordination (Kim et al., 2020). Within the framework of variegated capitalism, the fragmented governance system for visitors in Jakarta reflects decentralized neoliberalism, while the spatiotemporal governance in Seoul is evidence of strategic cross-sectoral coordination among tourism, transport, and ecology.

The patterns of sustainable investment show even more differences. In Jakarta, both state and public-private collaborations steer investment toward sustainable projects. Under InJourney, TMII's rehabilitation sustains and integrates inclusivity, sustainability, and cultural retention, while the Sebira Island offshore zone attracts funding for renewables and ecotourism. These actions are positive, albeit highly reliant on donor collaborations, Jakarta's fragmented fiscal tools, and hybrid governance. Also, public-private partnerships have financed outer areas. For instance, Sebira Island has a 400 kWp solar power plant, a subsidized collaboration between the DKI Jakarta Provincial Government and PLN. The Jakarta government encourages investment through fiscal benefits and fast-tracked business licensing for green initiatives. This has been the case for Ancol Dreamland and other projects that have integrated solar-powered infrastructure, electric transport, sustainable waste management, and eco renewables.

Seoul's landmark investments in public green infrastructure, such as Cheonggyecheon and Seoullo 7017, demonstrate the incorporation of sustainability within the framework of national development. These frameworks are also coupled with fiscal and regulatory support, thereby enabling sustainable frameworks within the bureaucracy. While the specifics may not be public knowledge, the alignment of long-term ecological state objectives with infrastructure provision showcases the developmental state (Hong, 2018).

The creation of jobs in sustainable tourism develops along the same lines. In Jakarta, support for Micro, Small, and Medium Enterprises (MSMEs) exists culturally at TMII and Setu Babakan, where locals serve as guides, vendors, and performers. Ancol's support to 283 MSMEs and its training programs for skills in 2024 illustrate the tourism sector's redistributive potential (or at least the CSR-tourism redistributive potential). This reflects a self-organized, sustainable livelihood strategy that shifts, rather than transforms, labor capacity throughout project governance. Conversely, Seoul integrates tourism into its human capital paradigm, with Kyung Hee University offering specialized tourism training and the Seoul Tourism Organization actively managing tourism MSMEs. Local jobs in cultural areas are community-based, and digital innovations (multilingual apps, AR guides) help stabilize precarious employment. This demonstrates a development model where jobs are viewed not simply in quantitative terms but rather in complex, knowledge-based, and highly valued dimensions within national competition.

These insights reinforce the significance of variegated capitalism when examining the implications of sustainability goals amidst tensions and differences in structures and arrangements. Jakarta's tourism economy operates within an eco-capitalistic system with hybrid governance, CSR, and ecological fragmentation, while in Seoul, eco-capitalism is embedded within coordinated capitalism with a strong developmental state. The political economy of tourism demonstrates not only the differential impacts of these systems but also the eco-institutional structures that can promote or constrain the potential for sustaining transformational change.

Governance Indicators of Sustainable Tourism in Jakarta and Seoul

Sustainable tourism must address the environmental, social, and economic impacts generated by the governance and capitalist configurations that guide urban development. Tourism governance in Jakarta and Seoul reflects the different logics of their respective capitalisms. The most basic governance indicators mentioned and exemplified in this section are policy regulations, relationships with civil society, and governance systems with monitoring and evaluation. This illustrates how the different political economies of these countries shape and influence the systems and pathways used in managing sustainable tourism.

The first layer of institutional differentiation is the policy tourism framework. In Jakarta, the governance of sustainable tourism operates through hybrid and fragmented mechanisms, relying heavily on formal reporting systems, NGO partnerships, and external donor programs rather than cohesive state regulation. Sustainable tourism operates under the purview of national laws like Law No. 10 of 2009 and Ministerial Regulation No. 14 of 2016, which is international, encompassing the United Nations World Tourism Organization (UNWTO) and the Global Sustainable Tourism Council (GSTC). At the local level, Jakarta enforces these goals through Regional Regulation No. 6 of 2015 and Governor Regulation No. 38 of 2022, which mandate state-owned enterprises toward sustainability and the procurement from MSMEs. The green hotel and CHSE initiatives also have very low uptake, as does the green certification scheme that only a handful of destinations like Untung Jawa Island have.

Respondents described coordination challenges among municipal departments and the limited enforcement capacity of sustainability policies. One interviewee noted, *"Many sustainability activities are reported to the city government, but the follow-up depends on different departments, so implementation is inconsistent."* They reported that these mechanisms are lacking, but formal frameworks for certification do not strangle the urban environment, which is managed under anti-littering and energy-saving public infrastructure laws, fire safety, and eco-building maintenance. The described deregulatory contrasts reveal variegated capitalism, where Jakarta is a rule-based fragmented neoliberal system, and Seoul sustains a coordinated developmental model with sustainable embedded bureaucracy (Thurbon et al., 2023).

Regarding institutional partnerships with civil society, a respondent explained that in Jakarta, NGOs often run environmental and tourism projects; the government's role is mostly to provide permits and reports, not continuous supervision. The public-private partnership model is used extensively. In Setu Babakan, the Betawi Cultural Institute (LKB) participates in the formulation of cultural heritage policy alongside the local government, thereby aiding community empowerment along with traditional culture. There are corporations such as Ancol, that partner with both public and private entities like Bappeda and the Lions Club, on the green shellfish restoration project. On the other hand, Kehati, an environmental program, is involved in a participatory, community-based mangrove conservation program (Hardjono et al., 2023). Supporting policy analysis demonstrates similar behavior. It focuses on sustainability programs within the dominant multi-project framework, with overlapping jurisdictions spanning the Tourism and Creative Economy Agency, the Environment Agency, and the Regional Development Planning Agency. Accountability mechanisms focus on compliance reporting rather than outcome evaluation, reflecting a system of hybrid governance that blends public authority with civil society and private-sector initiatives.

Seoul-based governance practices are subject to similar forms of bureaucratic integration. Therefore, a rationally organized form of sustainable tourism governance is evident in ongoing urban projects that are sustainable operations under major developments such as Cheonggyecheon and Seoullo 7017. Respondents noted focused policy integration and coherence related to tourism, the environment, and urban development. For example, one respondent noted that sustainability is not a separate program; it is already embedded in our master plans and smart city frameworks. This description aligns with the local policy framework to match high levels of environmental, technological, and tourism governance. All functions are under one unit within a single bureaucratic framework. Decision-making is achieved through digital governance across agencies to maintain flexibility in governance and accountability across domains.

Collaboration at the community scale is observed in Bukchon Hanok Village, where local government, NGOs, and community members work together to manage cultural tourism and preserve the site. However, the interviews reveal a limited understanding of the role of NGOs in policymaking, indicating a more complex form of governance that is technocratic and where the state coordinates rather than a more 'hands-on' civil society. The respondent said, "Different departments coordinate with partners automatically through digital planning systems, so projects rarely overlap." Again, the differences in these arrangements illustrate differing trajectories of capitalism: Jakarta's governance system is more decentralized and participatory, albeit quite fragmented, in contrast to Seoul, which is more centralized, expert-driven, and aligned with a coordinated capitalist model (Kim & Scott, 2018).

The degree of transparency and accountability in tourism governance differs between these two cases. Jakarta is more advanced in monitoring the engagement of industry partners in the area. For instance, PT Pembangunan Jaya Ancol (Ancol) has annual sustainability reports and complies with the Financial Services Authority Regulation POJK No.51/POJK.03/2017. The sustainability report details relevant expenditures, emission reductions, and waste management. Other institutions, such as TMII and Pacific Place, also hold CHSE and Green Hotel certifications. Certain sustainability frameworks have also been incentivized through national environmental awards such as Kalpataru and Adipura. However, gaps in monitoring and enforcement remain. In contrast, Seoul's monitoring system is embedded in the city's centralized and digitalized governance system. The lack of focus on tourism evaluation may indicate a more comprehensive governance system, one in which tourism is neither neglected nor regulated in isolation but integrated within the broader urban management system. The results support the theory of diverse capitalism. Jakarta clearly demonstrates a hybrid and more regionally responsive model, responding to the absence of formal transparency modalities. At the same time, Seoul is more proactive in its responsiveness, a clear example of internalized bureaucratic rationalism.

This comparison shows how certain political-economic structures influence governance systems. Jakarta exemplifies neoliberal adaptability in governance and sustainability, where the government is absent, and external actors and temporary partnerships stabilize institutional capacity. Seoul's bureaucratic coherence exemplifies a model of a developing country, where a dense union invites the fusion of sustainability with urban modernization. Such contrasts illustrate the institutional configurations that moderate a city's capacity to manage sustainable tourism within a plurality of capitalism. Figure 12 illustrates this study's empirical work by comparing the levels of participation in Jakarta and Seoul across the four analytical pillars of sustainable tourism, thereby creating a paradox.

Table 3. Summary Comparative Political Economics Configurations
of Sustainable Urban Tourism in Jakarta and Seoul

Indicator	**Jakarta**	**Seoul**
Environmental	CRS-driven, fragmented, community-led	Infrastructure-integrated, state-led
Economic	Grassroots + corporate ESG branding	Endogenous, coordinated small enterprises
Social	Community participation, informal inclusion	Institutionalized inclusion, smart tourism
Governance	Hybrid, NGO-led coordination	Bureaucratic coherence, centralized planning

Table 3 shows that in Jakarta, sustainability governance emerges from a decentralized, participatory governance model. Such a model also encompasses a diffuse, operationalized environmental governance model that encompasses CSR, community-level conservation, and selective law enforcement. These features align with interview accounts that describe weak inter-institutional cohesion, shadow consortia, and reliance on externalities that signal neoliberalist flexibility. In contrast, Seoul's configuration demonstrates a more closed and institutionalized model: ecological planning is supported by urban infrastructure strategies, synergistic support structures are provided to micro-entrepreneurs, and social inclusion is achieved through regulated cultural and digital tourism activities. These characteristics are consistent with a developmental state paradigm, further reinforced by high-quality and coherent documents that support adaptive urbanism and streamlined bureaucratic structures.

By comparing Jakarta and Seoul, this research illuminates their distinct positions on the map of diverse capitalism. It also demonstrates that this distinction is not binary, as both cities are hybrids. While Jakarta adopts fully integrated city-led projects, Seoul employs market-based tools. Thus, this visualization adds a more detailed and empirical understanding to the findings and helps readers understand how institutional heterogeneity influences sustainable tourism governance across diverse contexts.

This research broadens the understanding of diverse capitalism by examining two Asian cities with similar regional political economies and distinct approaches to and implementation of tourism sustainability. Jakarta depicts a hybrid neoliberal-postcolonial configuration in which governance is the result of concessions between state, market, and community actors. Meanwhile, Seoul embodies a model of a built environment distinguished by coordinated, state-mediated planning and a cohesive policy framework. These results illustrate diversity within capitalism, which is not simply a national-level phenomenon. At the sub-national level, regional urban sustainability is articulated through differing environmental governance, social integration, and inter-institutional alignment determined by distinct historical institutional contexts.

Conclusions

This research has examined how political–economic diversity shapes the governance and practice of sustainable urban tourism through a comparative analysis of Jakarta and Seoul. The findings indicate that sustainability in these two cities reflects neither the policies in place nor the ability to technically do it, but rather the persistent institutional logic that shapes how actors are coordinated, resources are mobilized, and tasks are distributed. The Jakarta case explains how the hybrid flexible neoliberal configuration results in fragmented and participatory governance, in which incoherent regulations are replaced by CSR, community-based governance, and donor collaborative governance in participatory development. In the case of Seoul, the developmental state model invests in long-term planning, socially embedded infrastructure, and coordinated enterprise support, resulting the more integrated social and economic resilience, managed inclusively and culturally, as well as the remaining coordinated enterprise.

Together, the cases show that the governance of sustainable tourism is also variegated capitalism in action, in that distinct state–market interrelations of governance and coordination give rise to different institutional configurations. At the same time, sustainability, in its general definition, remains permanent. This comparative analysis shows that both cities are hybrid and therefore defy the dominant dualistic frameworks. For example, Jakarta sometimes deploys integrated state-directed initiatives, and Seoul, to a great extent, employs market-based and digital governance mechanisms. This hybridity confirms that urban sustainability is the outcome of complex, context-specific political-economic relations rather than generalizable frameworks or prescriptive governance models.

Furthermore, this research offers three main contributions. First, in the political economy of sustainable urban tourism, the research, for the first time, conceptually integrates the lenses of variegated capitalism with developmental environmentalism. Second, the research defends its claim with empiric comparative evidence thats disparate institutional configurations influence the environmental, economic, social, and governance pillars of sustainable tourism across two disparate Asian mega-cities. Finally, and perhaps most importantly, this research exemplifies the need for situated, institutionally informed governance that other cities with growth, equity, and ecological resilience tensions may learn from.

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EU-ASEAN Cooperation for Sustainable Growth: A Policy Analysis of Economic and Developmental Impact

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Abstract

This research analysed the transformation of European Union and the Association of Southeast Asian Nations (EU-ASEAN), development cooperation into a multidimensional framework linking trade, aid, and sustainability. It situates the partnership within the global transformation of development governance from poverty reduction toward sustainability-oriented policy regimes. The research highlighted the EU's dual identity as both a normative power and a strategic actor, exploring how this duality shapes institutional design and developmental outcomes. Using official data on Official Development Assistance (ODA), trade integration, and sectoral initiatives, this research evaluated how mechanisms such as Global Europe (NDICI), Enhanced Regional EU-ASEAN Dialogue Instrument (E-READI), and the ASEAN-EU Dialogue on Sustainable Development operationalize the EU's guiding principles of complementarity, coordination, and coherence. The findings show that EU assistance has generated measurable, but uneven, gains in trade facilitation, governance capacity, and social-sector resilience. Lower-income ASEAN members have benefited from infrastructure and institutional support, while middle-income countries increasingly engage through policy-based and technical cooperation. However, persistent governance asymmetries, bureaucratic rigidity, and limited local ownership continue to constrain impact. Conceptually, the research interprets EU-ASEAN cooperation as a case of pragmatic inter-regionalism, where normative ambition and economic pragmatism converge through sustainability-based policy diffusion. The partnership ultimately stands as both a laboratory and a litmus test for a new generation of equitable and sustainable inter-regional development governance.

Keywords: EU-ASEAN cooperation, Sustainable Development Goals (SDGs), Official Development Assistance (ODA), trade integration, policy coherence

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Introduction

The global architecture of development cooperation has evolved markedly since the early 2000s. The transition from post-war reconstruction to a multidimensional agenda of poverty reduction, social inclusion, and environmental sustainability, was first articulated in the Millennium Development Goals (MDGs) and later expanded through the Sustainable Development Goals (SDGs), redefining the scope and ambition of international development policy (Fehling et al., 2013). Central to this shift is SDG 17's call to revitalize the Global Partnership for Sustainable Development (SDG, 2024), which underscores that sustainable progress depends not only on domestic reform but on the quality and depth of cross-regional cooperation. Within this context, the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) stand out as two regional actors capable of aligning economic dynamism with long-term sustainability objectives.

The EU's dual identity - as both a bilateral donor and the supranational coordinator of member-state development policies, grants it an unusual position within the international development regime (Downes, 2017). This hybrid character enables the Union to project normative commitments rooted in solidarity, human rights, and social justice (Grilli, 1993; Nugent, 2000) while simultaneously advancing strategic economic and geopolitical interests. EU-ASEAN relations exemplify this intersection: trade liberalization, political dialogue, and development assistance converge within an institutionally dense partnership that intertwines normative aspirations with strategic imperatives.

The scale of the EU's engagement reinforces its global significance. In 2021, the EU and its member states accounted for roughly one-third of global ODA, approximately USD 185.9 billion, while shaping development governance more broadly through their influence in multilateral institutions such as the World Bank, IMF, and WTO (OECD, 2022a). This dual leverage positions the EU not only as a major financial actor but also as a key architect of the rules and norms governing international development.

ASEAN's economic trajectory further elevates the strategic relevance of the partnership. Rapid structural transformation has narrowed income gaps with advanced economies: while the EU's average GNI per capita reached USD 48,779 in 2021, the East Asia–Pacific region achieved USD 20,131, with annual growth rates of 4-6 percent compared to 1.8 percent in OECD countries (World Bank, 2021; OECD, 2023). Projections to 2035 indicate continued convergence, particularly for Singapore, Malaysia, and Indonesia (Te Velde, 2006; World Bank, 2021), positioning ASEAN simultaneously as an increasingly integrated regional market and as a critical testing ground for sustainability-oriented cooperation.

Against this backdrop, our paper examines EU-ASEAN cooperation as an evolving interregional development regime. It analyzes how the EU's normative and strategic agendas intersect in practice and how policy coherence and institutional design - conceptualized through Hoebink's (2004) 'four C's' of complementarity, coordination, coherence, and consistency - shape developmental outcomes. Drawing on ODA allocation patterns, trade-related instruments, and thematic programs in environmental resilience and capacity-building, the study evaluates both the developmental consequences of EU engagement and the tensions inherent in its dual identity. The overarching question guiding the analysis is how EU-ASEAN cooperation translates into measurable sustainable-development outcomes, and what this reveals about the changing character of interregional development governance.

Conceptual and Institutional Background

The foundations of the European Union's development cooperation are anchored in the Treaty on European Union (TEU), which established development policy as an integral component of the Union's external action (Articles 177–179). The Treaty articulated three overarching objectives: the promotion of sustainable economic and social development; the integration of developing countries into the global economy; and the eradication of poverty, complemented by explicit commitments to democracy, the rule of law, and human rights (European Union, 1992; Higgins & Prowse, 2009). These objectives have since been elaborated through successive policy frameworks - the European Community Development Policy Statement (Council of the European Union, 2000), the European Consensus on Development (Council of the European Union, 2005), and the New European Consensus on Development (Council of the European Union, 2017). Each policy further institutionalizes the EU's ambition to reconcile normative aspirations with economic partnership (Santos, 2009).

Financially, EU development cooperation operates within a multi-level governance architecture that combines supranational and national resources. The European Development Fund (EDF) and its successor, NDICI (2021-2027), constitute the Union's principal budgetary instruments for external assistance. While NDICI consolidates previously fragmented funding streams under a unified framework for neighborhood, development, and international cooperation, its overall allocation of EUR 79.5 billion reflects both the scale and strategic selectivity of EU engagement (European Commission, 2021). Although the ASEAN region does not occupy the same geographic centrality as the African, Caribbean, and Pacific (ACP) countries, it remains a significant recipient of EU thematic programs targeting climate action, food security, health system strengthening, and civil society development (Brillinger et al., 2022).

Over the past five decades, the Union's external economic instruments have also undergone substantial transformation from non-reciprocal trade preferences, such as the Generalized System of Preferences (GSP) introduced in 1971 (European Commission, 1981), to reciprocal, WTO-compatible Free Trade Agreements (FTAs) (Doidge & Holland, 2015; Mackie et al., 2005). This shift mirrors the evolution of global trade governance and the waning developmental utility of unilateral preference schemes (Keijzer, 2010). In contemporary practice, the EU-ASEAN relationship therefore represents a genuinely integrated form of inter-regional cooperation in which aid, trade, and regulatory dialogue are embedded within a single policy framework. Mechanisms such as the Enhanced Regional EU-ASEAN Dialogue Instrument (E-READI), the ASEAN-EU Dialogue on Sustainable Development, and regional crisis-response initiatives (ASEAN, 2024) exemplify this synthesis, linking developmental assistance to broader objectives of institutional resilience, policy coherence, and sustainable growth.

Methodology

The research applies a multi-method qualitative–descriptive research design that integrates documentary analysis, structured policy analysis, and longitudinal examination of ODA data to assess how EU-ASEAN cooperation generates measurable, sustainable-development outcomes. This triangulated approach is appropriate for capturing both the institutional evolution and the material implications of a complex interregional partnership.

First, the research applies qualitative document analysis of core policy texts, including EU treaties and legislative frameworks, European Commission communications and programming documents (such as the European Consensus on Development and Global Europe/NDICI), evaluation reports, ASEAN Community blueprints and ministerial declarations, and joint EU-ASEAN dialogue outputs. These documents are treated as evolving articulations of institutional intent and as discursive sites in which normative, strategic, and developmental priorities are negotiated.

Second, a structured policy-analysis framework based on Hoebink's (2004) four principles of complementarity, coordination, coherence, and consistency serves as the analytical criteria for assessing the architecture and strategic logic of EU external action in Southeast Asia. This framework enables a systematic evaluation of the division of labor between EU institutions and member states, the integration of trade, development, and sustainability objectives, and the degree of alignment between EU interventions and ASEAN policy priorities.

Third, a descriptive quantitative analysis of ODA trends is conducted using OECD-DAC and European Commission datasets. Covering the early 1990s to 2023, the analysis examines temporal trajectories, sectoral and geographic allocations, and ASEAN's relative position within the EU's global aid portfolio. The empirical scope includes all ten ASEAN member states, with particular attention to sectors central to sustainable growth, including environmental resilience, sustainable infrastructure, social-sector development, governance, and trade facilitation.

Throughout, "developmental outcomes" are conceptualized not as direct causal effects but as observable shifts in resource allocation, institutional capacity, and policy design that collectively reflect the evolving developmental, normative, and strategic dynamics of EU-ASEAN cooperation. This approach links macro-level institutional change to the differentiated transformations observed across ASEAN member states.

Key Concerns in Development Cooperation

Global development cooperation operates within an increasingly complex and volatile environment shaped by overlapping crises, most notably the COVID-19 pandemic, climate change, and persistent structural inequalities. These crises have not only reversed years of social progress but also exposed the limits of existing institutional architectures. Both the EU and the Association of Southeast Asian Nations have been forced to confront a dual challenge: safeguarding economic growth while sustaining social inclusion and environmental resilience. Within this context, EU-ASEAN cooperation represents both a strategic opportunity and a test case for translating normative commitments into effective instruments of sustainable development.

The COVID-19 pandemic starkly revealed the vulnerabilities of both regions. The Asian Development Bank (2022) estimates that 4.7 million people in ASEAN fell into extreme poverty due to pandemic-induced disruptions, while Eurostat (2024) reports that 21.7 percent of the EU population was at risk of poverty or social exclusion. In ASEAN, the crisis disproportionately affected informal workers and small enterprises. In Europe, it accentuated regional disparities and strained welfare systems. These patterns underscore the need for inclusive recovery models that integrate health, education, and labor policies within broader development frameworks. EU-ASEAN initiatives on public health cooperation, social protection, and digital transformation have thus gained renewed strategic salience, serving as platforms for rethinking the social dimensions of growth.

Parallel to the health crisis, the climate emergency continues to erode developmental gains. Rising sea levels, biodiversity loss, and extreme weather events threaten livelihoods across Southeast Asia, with estimates suggesting an 11% decline in ASEAN's GDP due to environmental shocks affecting agriculture, fisheries, and tourism (Prakash, 2018). In 2022, Malaysia, Indonesia, the Philippines, and Thailand experienced devastating floods (ASEAN Humanitarian Assistance Centre, 2022). The EU faces parallel vulnerabilities, including heat waves, droughts, and forest fires across Spain, Portugal, France, Romania, and Italy (European Commission, 2022). This situation demonstrates that both regions share a mutual exposure to environmental stress. Furthermore, these convergent risks create fertile ground for interregional climate cooperation, particularly in renewable energy, disaster preparedness, and sustainable finance. However, despite numerous EU-ASEAN initiatives, such as the High-Level Dialogue on Environment and Climate Change and the E-READI platform, implementation remains fragmented, and long-term economic benefits are difficult to quantify (ASEAN, 2024).

Institutional Fragmentation and Policy Coherence

Beyond crisis management, structural challenges persist within the EU's development architecture. The dispersion of competences between EU institutions and member states has long been identified as a central obstacle to coherence and efficiency (Brillinger et al., 2022). Although the TEU introduced the principle of shared competence (European Commission, 1992), overlapping mandates have often produced duplication and diluted strategic focus. The Directorate-General for International Partnerships (DG INTPA) designs regional programs. However, member states continue to operate autonomous bilateral portfolios, such as Germany's and France's energy cooperation programs, that coexist with EU-funded initiatives like the ASEAN-EU Energy Cooperation (EUEI). The absence of unified monitoring frameworks weakens policy visibility and complicates impact assessment (Keijzer, 2010; Downes, 2017).

A second concern involves the coherence and alignment of EU objectives with local development priorities. While coherence constitutes one of the EU's "four C's" (Hoebink, 2004), coordination between trade, development, and environmental policy remains partial (Santos, 2009). In ASEAN, such misalignment is evident in the Aid for Trade (AfT) programs in Cambodia and Laos, which successfully improved customs administration yet delivered limited industrial upgrading or local value creation. This reflects a deeper paradox: the EU's insistence on procedural accountability often restricts the adaptive flexibility necessary for transformative development (Rüland, 2001; Brillinger et al., 2022).

Decision-making centralization further compounds these issues. Authority over program design and budgeting remains centrally managed by EU institutions, limiting local ownership and responsiveness (Keijzer, 2010). The EU-ASEAN Regional Integration Support Programme (APRIS II) illustrates this imbalance: despite substantial funding, ASEAN's participation in setting priorities and evaluating progress remained limited, constraining the program's developmental impact and institutional empowerment (European Commission, 2015). The EU's growing reliance on external consultants, a consequence of insufficient in-house expertise (Keijzer, 2010), exacerbates the disconnect between program management and learning. On the recipient side, low absorptive capacity among ASEAN administrations, particularly in Myanmar and Laos, has delayed implementation and reduced fund utilization (Rüland, 2001).

Trade Policy, Economic Integration, and Developmental Asymmetries

Trade represents the core mechanism linking EU external policy to developmental outcomes. Historically, the EU's Generalized System of Preferences (GSP), established in 1971 under the WTO's enabling clause (European Commission, 1981), sought to stimulate exports and industrial diversification in developing economies (Carbone, 2008). Yet, in practice, tariff reductions for sensitive products averaged only 3.5 percentage points, providing minimal incentives for ASEAN exporters (Rüland, 2001). The 1995 and 2001 reforms simplified procedures, and the 2006 revision introduced the GSP+, EBA, and general tiers (European Commission, 2013; Carbone, 2008). The GSP+ system expanded benefits for states that complied with human-rights, labor, and governance standards. However, its conditionality embedded policy uncertainty, as preferences could be unilaterally withdrawn (Barry, 2010). This unpredictability discouraged long-term investment, contradicting one of the GSP's developmental goals.

The system's sectoral bias further disadvantages ASEAN economies. Agricultural and fisheries exports - critical for rural employment - face narrow preference margins and stringent EU regulatory barriers. This reveals a developmental hierarchy within EU trade policy, where ACP countries historically enjoyed priority access, while ASEAN states occupied the least-favored tier (Pieterse, 1998). Nevertheless, the rapid industrialization of East Asia in the 1980s and 1990s compelled a strategic shift. The EU-ASEAN Cooperation Agreement (1980) and the establishment of the ASEAN Free Trade Area (AFTA), reinforced by the Asia-Europe Meeting (ASEM) since 1996, repositioned ASEAN within the EU's broader Asia strategy (Turner, 1982).

In the 2000s, the EU's Global Europe agenda accelerated the transition from non-reciprocal preferences toward reciprocal Free Trade Agreements (FTAs), embedding environmental and social clauses (European Commission, 2021). This reorientation tied trade liberalization to sustainable growth, reframing market access as a vehicle for promoting green and inclusive development. The results have been mixed. While FTAs attracted new foreign direct investment (FDI) and enhanced efficiency (Stevens & Killick, 1989), asymmetric liberalization exposed small and medium-sized enterprises (SMEs) to intensified competition without adequate safety nets (Boschini & Olofsgård, 2007; Doidge & Holland, 2015). The resulting structural adjustment pressures risk undermining employment and widening inequality. These paradoxes are acknowledged but rarely resolved in EU strategy documents (European Commission, 2021).

The broader geopolitical environment further complicates the developmental calculus. The deepening of EU-China relations through the Partnership and Cooperation Agreement signed in 2007, which includes dialogue on social security and labor mobility, has introduced a triangular dynamic that indirectly influences ASEAN's policy space (Maher, 2016). In this multipolar development framework, EU-ASEAN cooperation operates within an increasingly competitive landscape where conditionality, partnership, and competition co-exist.

Health Governance and Post-Pandemic Multilateralism

The transnational nature of COVID-19 underscored the intersection between health security, economic resilience, and multilateral governance. Initially marked by fragmented national responses in Europe (Kliem, 2021), the EU ultimately emerged as a promoter of interregional solidarity, facilitating virtual ministerial dialogues, technical exchanges, and financial assistance (European Commission, 2021). The ASEAN region, among the world's most disaster-prone, had already institutionalized health cooperation through the ASEAN Health Ministers Meeting (AHMM) and the Healthy ASEAN 2020 framework, which declared that health should be at the center of development and ASEAN cooperation (Castillo-Carandang et al., 2020; Lamy & Phua, 2012). In April 2020, the Special ASEAN Summit on COVID-19 launched the COVID-19 ASEAN Response Fund to support pandemic response and supply-chain continuity (Castillo-Carandang et al., 2020). ASEAN also expanded ASEAN Plus dialogues with China, Japan, and Korea, facilitating regional coordination and laying foundations for enhanced East Asian integration (Kliem, 2021).

The EU's response complements these regional efforts with a €350 million assistance package, which substantially exceeds the USD 18.3 million provided by the United States (Abate et al., 2020). While intra-EU solidarity is initially uneven (Cicchi et al., 2020), the Union's engagement demonstrated the value of development policy as a vehicle for human security, reinforcing its image as a normative power advancing health equity and multilateral cooperation.

Sustainability, Governance, and the Persistent Paradox

A fundamental question concerns whether EU interventions genuinely promote sustainable growth through the integration of economic efficiency, social inclusion, and environmental stewardship. Although sustainability is now embedded as a cross-cutting objective under the 2017 New European Consensus on Development and Global Europe (NDICI) (European Commission, 2021), practical implementation often privileges short-term procedural outputs over transformative outcomes. In EU-ASEAN cooperation, the tension is visible in renewable-energy and disaster-resilience portfolios, which closely align with the European Green Deal. However, it lacks robust metrics for employment generation, poverty alleviation, or local capacity-building (ASEAN, 2024). Consequently, the developmental value of sustainability remains under-institutionalized, dependent on project-level experimentation rather than system-wide coherence.

Taken together, these interrelated challenges reveal a profound governance paradox at the heart of EU-ASEAN development cooperation. The EU's commitment to coherence, coordination, and accountability can become a pragmatic weakness when centralization, fragmentation, and limited local adaptability reduce developmental effectiveness. Preferential trade systems such as the GSP facilitated export diversification but perpetuated dependency hierarchies; reciprocal FTAs promoted efficiency yet amplified inequality; and post-pandemic cooperation revitalized regionalism while exposing gaps in social protection. These tensions capture the defining dilemma of contemporary development policy, namely how to reconcile normative ambition with economic pragmatism.

Development Cooperation Initiatives

Historical Evolution and Strategic Transformation

The foundations of contemporary EU-ASEAN development cooperation are deeply rooted in the historical ties between Europe and Southeast Asia. Owing to their colonial legacies, most ASEAN member states had long-standing bilateral relations with various European powers even before the establishment of regional frameworks. Formal cooperation between ASEAN and the European Economic Community (EEC) began in the 1970s, culminating in the EU-ASEAN Cooperation Agreement of 1980, which institutionalized political dialogue, trade, and economic collaboration.

Since then, the relationship has undergone significant evolution. The 21st century marked a distinct upward trend in development cooperation initiatives as both regions expanded their engagement from traditional aid to sustainable growth, governance, and capacity-building. Between 2014 and 2020, ASEAN member countries received approximately €2 billion in bilateral assistance from the EU, primarily targeting sustainable infrastructure, education, and trade facilitation.

During the COVID-19 pandemic, the EU emerged as one of ASEAN's key partners in crisis management and recovery. The Union allocated €800 million to strengthen health personnel, hospital capacity, and related infrastructure, and contributed an additional €2.2 billion to the COVID-19 Vaccines Global Access (COVAX) facility, ensuring equitable vaccine access across Southeast Asia (Syakirah, 2021).

In December 2020, the EU and ASEAN upgraded their partnership to "strategic" status (Allison-Reumann & Murray, 2021). This shift marked a fundamental redefinition of their relationship, from a donor-recipient model toward a mutual partnership of equals, based on shared principles of sustainability, regional resilience, and rule-based multilateralism. Under this new framework, the EU-ASEAN Development Cooperation Programme (2021–2027) directs resources toward key priorities, including sustainable infrastructure, environmental conservation, higher education, labor mobility, and safe migration (ASEAN, 2024). Crucially, these programs are designed to support existing ASEAN initiatives, emphasizing mutual learning, institutional strengthening, and local ownership.

Platforms for Policy Dialogue and Sustainable Development

Development cooperation between the EU and ASEAN increasingly relies on dialogue-based instruments that foster policy convergence, strategic coordination, and collective problem-solving. The ASEAN–EU dialogue on sustainable development functions as the central platform for aligning both regions' approaches with the United Nations' SDGs. Complementing this, the fourth ASEAN–EU High-Level Dialogue on Environment and Climate Change, held in October 2022, has reaffirmed the joint commitment to biodiversity preservation, climate adaptation, and the sustainable use of natural resources (ASEAN, 2024).

These interregional mechanisms have produced tangible cooperative initiatives, including joint programs on peatland restoration, haze mitigation, and biodiversity conservation, areas where ecological interdependence necessitates coordinated regional responses. Beyond environmental governance, the E-READI further consolidates the institutional framework by facilitating 'ongoing and new dialogues' across a broad spectrum of policy domains and stakeholders, including governmental, academic, and private-sector actors (ASEAN, 2024).

E-READI exemplifies an integrated, multi-stakeholder model of cooperation that links environmental, educational, and digital transformation agendas. Through this cross-sectoral approach, the EU and ASEAN seek to enhance regional resilience, policy coherence, and mutual learning, positioning interregional dialogue not merely for a channel of aid delivery, but as a strategic instrument for sustainable and inclusive growth.

As Hwee (2023) highlights, the maturing EU-ASEAN partnership exemplifies the logic of inter-regionalism: the institutionalized interaction between regional organizations that creates new layers of governance, identity, and developmental agency. Within this framework, dialogues such as the ASEAN–EU High-Level Dialogue on Environment and Climate Change or the E-READI function not merely as platforms for consultation but as generative arenas of regional integration. They translate shared priorities, from sustainable growth to digital connectivity, into iterative processes of norm diffusion and policy experimentation. This institutionalized inter-regionalism situates ASEAN-EU cooperation at the frontier of global governance innovation, where dialogue becomes a developmental mechanism.

Financial Architecture and Quantitative Dynamics of EU ODA

The EU's development cooperation operates under shared competence between the Union and its member states. According to the OECD Development Assistance Committee (DAC), ODA comprises grants or loans provided by the official sector on concessional financial terms to promote economic development and prosperity (OECD, 2024).

In 2021, the EU and its member states collectively disbursed €70.2 billion in net ODA, representing 9% of the total EU budget and 37.04% of global ODA (European Commission, 2023). The European Commission accounted for approximately 21% of this total. The average national contribution was USD 4.03 billion, but with a wide variation (standard deviation ±7.35), underscoring uneven national commitments. Germany provided the largest share (USD 32.23 billion), while Slovenia contributed the smallest (USD 0.07 billion) (OECD, 2022b).

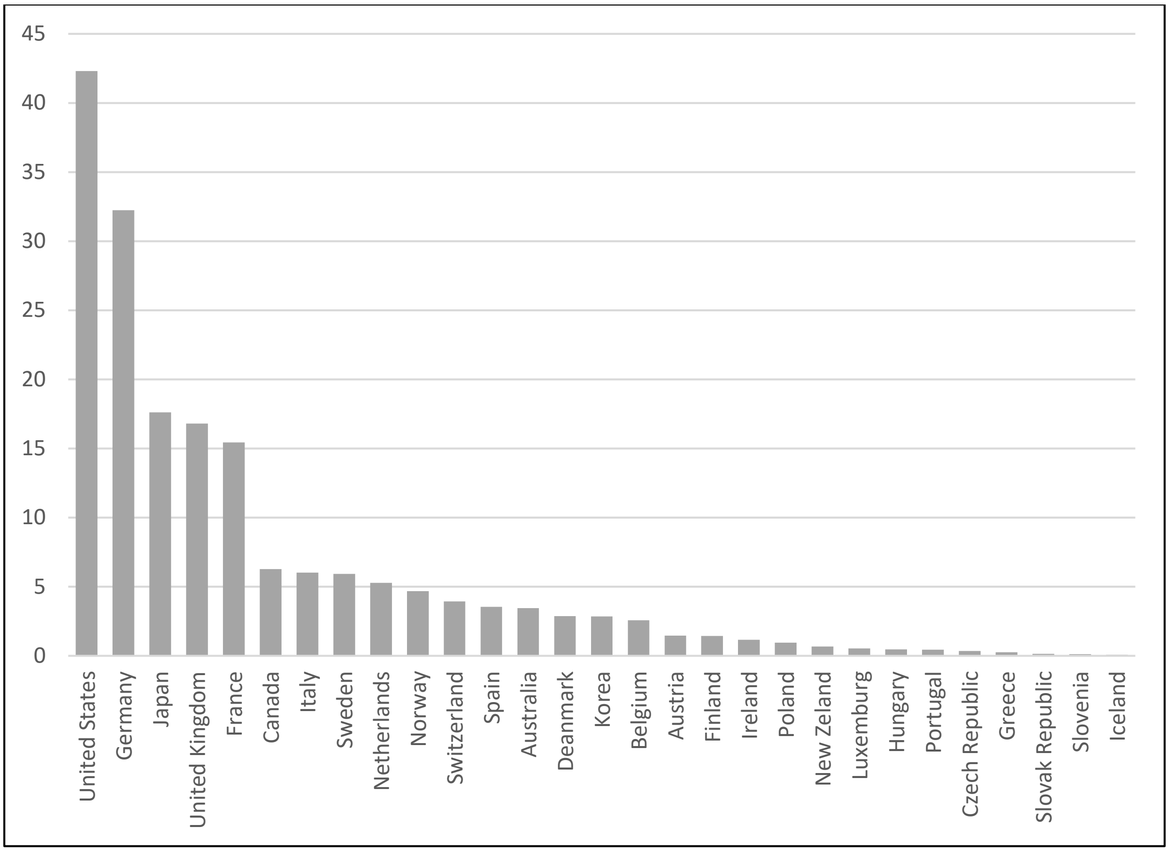

Figure 1. Global ODA in 2021 on a Grant-Equivalent Basis (in USD billion)

Source: OECD (2022)

Temporal Trends in EU Official Development Assistance (ODA)

Only a handful of EU member states have consistently achieved the United Nations ODA target of 0.7% of Gross National Income (GNI) - most notably Luxembourg (0.99%), Sweden (0.91%), Germany (0.76%), and Denmark (0.71%) (OECD, 2023). Despite these exceptions, the overall trajectory of European ODA reflects a steady, long-term expansion of financial resources and policy ambition, as depicted in Figure 2.

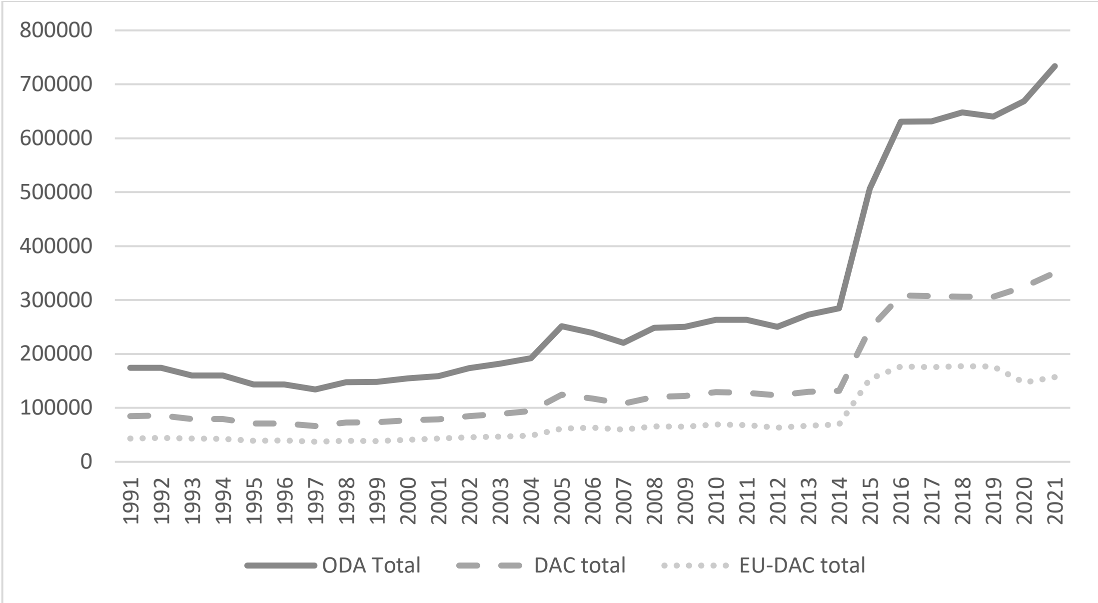

Figure 2. Net and Total ODA, DAC and EU Disbursements (in USD million)

Source: OECD (2022)

Between 1991 and 2021, EU ODA volumes grew consistently - rising by an average of 5.3 percent annually during the 1990s. This steady increase coincided with the institutionalization of development cooperation within the Maastricht and Amsterdam Treaties, which elevated poverty reduction and sustainable growth as shared Union priorities. This period also exposed an asymmetry. While EU-level disbursements expanded, member-state contributions slightly declined, reflecting a gradual centralization of aid management within EU institutions.

After 2004, following the Union's enlargement and the introduction of new neighborhood and development frameworks, total official development support increased sharply. The global financial crisis (2008-2010) temporarily disrupted this trajectory, as fiscal consolidation in many member states constrained aid budgets.

However, by 2014, amid recovery from the Eurozone crisis and the adoption of the SDGs, ODA flows surged once again, signaling renewed political commitment to eradicting global poverty and promoting sustainable growth. A short phase of stagnation between 2017 and 2020 reflected both donor fatigue and budgetary re-prioritization, before the Brexit adjustment led to a temporary decline in aggregate EU ODA, as the United Kingdom's contributions (previously among the largest donors) were excluded from EU totals. By 2021, however, overall ODA levels had largely recovered to pre-Brexit averages, demonstrating the resilience of the EU's collective donor capacity.

This long-term trajectory also emerges clearly in the weighted GNI-to-ODA ratio, which highlights three pivotal inflection points in EU aid policy evolution. First, in 2002, in response to the MDG framework, the European Commission and Council jointly called on member states to increase their contributions, achieving a combined ODA/GNI ratio of 0.32%

(Hoebink, 2004). Second, in 2005, the Union adopted the EU Roadmap for Scaling Up Aid, a formal timetable to reach the United Nations 0.7 percent target by 2015, with an intermediate collective goal of 0.56 percent by 2010, thereby linking normative commitments to measurable fiscal benchmarks. Third, in 2014 - Post-Euro Crisis and SDG Alignment, the recovery from the Eurozone crisis and the transition from the MDGs to the SDGs catalyzed a new surge in aid spending, reflecting a broader reorientation of EU development cooperation toward sustainability, governance, and resilience.

Overall, these turning points illustrate how global development agendas and European macroeconomic cycles have jointly shaped the rhythm of EU aid expansion. The evolution of ODA since the early 1990s reflects not merely financial growth but the gradual consolidation of the EU's dual identity, as both a normative power committed to global solidarity and a strategic actor navigating fiscal and geopolitical constraints.

Sectoral, Bilateral, and Geographic Distribution of EU-ODA

A closer look at the sectoral composition of EU-ODA between 2009 and 2020 reveals the evolving architecture of European development priorities. As shown in Figure 3, the public sector remained the dominant beneficiary, accounting for an average of 55 percent of total disbursements. This long-term stability reflects the EU's continued reliance on governmental institutions as principal intermediaries of aid delivery, ensuring administrative oversight and policy continuity across partner states.

The second-largest allocation, averaging 20 percent, went to multilateral organizations. Significantly, this category doubled in size during the Euro-crisis years (2014-2015), when the EU sought to mitigate financial and humanitarian spillovers through joint financing with international institutions such as the World Bank and UN agencies. Support for the civil-society sector has hovered consistently around 10 percent, highlighting the EU's normative commitment to participatory governance and accountability mechanisms.

A distinct diversification emerged after 2011, when universities and research institutions entered the aid portfolio, accounting for a steady 1 percent share. This signaled the growing recognition of knowledge transfer and innovation networks as instruments of sustainable development. From 2015 onward, private-sector engagement appeared in the portfolio with variable intensity (7-10 percent), marking a shift toward inclusive, multi-actor models of cooperation that integrate entrepreneurship, social enterprise, and green-investment initiatives. Finally, the 2015 institutional reforms eliminated non-sectoral subsidies, resulting in a more targeted and thematically coherent allocation of resources.

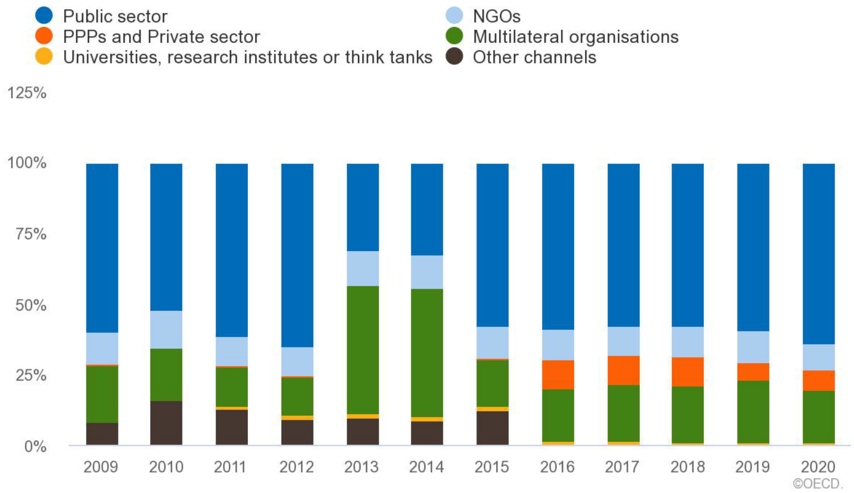

Figure 3. Sectoral Breakdown of EU ODA (2009–2020, % Gross Disbursements)

Source: OECD (2022)

The bilateral distribution of ODA in Figure 4 further illustrates the EU's operational logic. In 2020, roughly 59% of total bilateral funds targeted specific national programs, reaffirming the predominance of country-tailored cooperation frameworks. Humanitarian and food-aid allocations accounted for 11.3%, while the residual category, comprising cross-cutting and pilot initiatives, represented 27.1% of total disbursements. The latter highlights the fragmentation of smaller thematic and short-term projects that continue to challenge coherence within the EU aid system.

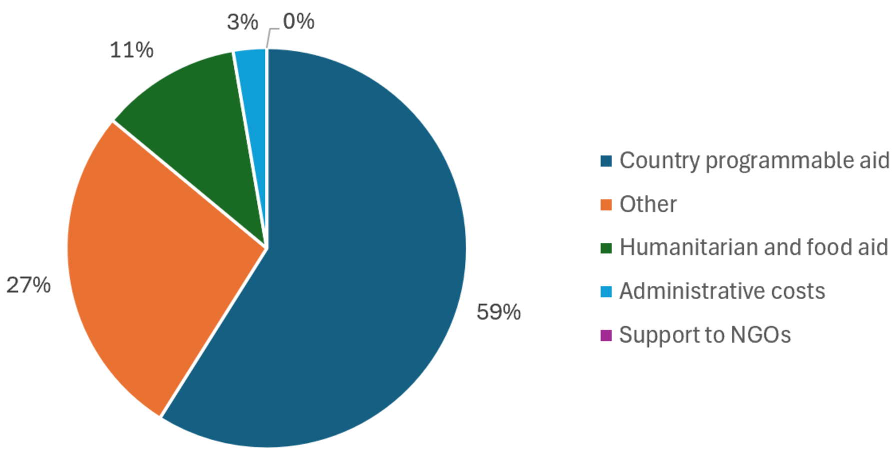

Figure 4. Distribution of Bilateral EU ODA by type of expenditure 2020

Source: OECD (2022)

From a geographical perspective, Africa and the Middle East remain the central foci of EU development assistance, reflecting both historical ties and the Union's strategic interest in regional stability, migration management, and resource governance. This concentration is visible in Figure 5, which shows that these two regions jointly account for the majority of EU disbursements.

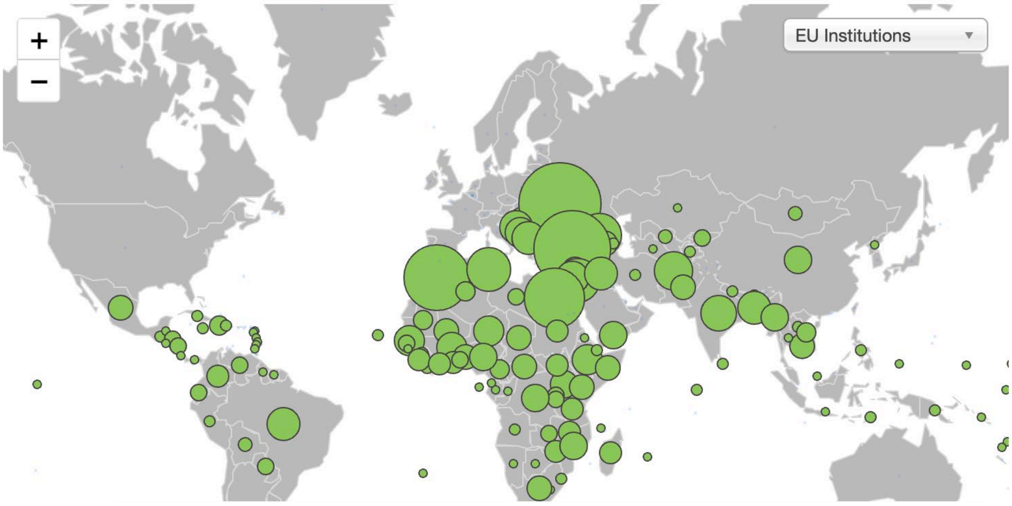

Figure 5. Geographical Distribution of EU ODA 2020

Source: OECD (2022)

Although ASEAN's share of global EU ODA remains modest, its trajectory exhibits gradual but yet consistent growth, particularly in the context of the Union's shift toward thematic and regional cooperation instruments.

Table 1. EU ODA to ASEAN Countries (2019–2020, USD million)

Country	**2019**	**2020**
Brunei Darussalam	0	0
Cambodia	68	140
Indonesia	16	21
Lao PDR	50	34
Malaysia	3	1
Myanmar	124	179
Philippines	38	27
Singapore	0	0
Thailand	10	12
Viet Nam	39	90

Source: OECD (2022)

Between 2019 and 2020, total EU assistance to ASEAN countries rose markedly, with the average national allocation increasing from USD 34.8 million to USD 50.4 million. Nevertheless, intra-regional disparities remain substantial. Myanmar and Cambodia emerged as the primary beneficiaries, followed by Viet Nam, Lao PDR, and the Philippines. At the same time, Singapore, Brunei Darussalam, and Malaysia were classified as upper-middle-income or high-income economies that received minimal or no support. The standard deviation of ±63.95 reflects the region's structural heterogeneity in development needs and absorptive capacities.

When contextualized globally, ASEAN's leading recipients approached the scale of Nigeria (USD 172 million) and Uganda (USD 172 million), but remained far below major EU-supported states such as Ukraine (USD 1.66 billion), Turkey (USD 1.45 billion), and Morocco (USD 1.08 billion). These comparative figures underline ASEAN's intermediate status within the EU's global aid geography, neither a core beneficiary region like Sub-Saharan Africa nor a marginal actor, but an increasingly significant partner as cooperation shifts toward regional connectivity, environmental resilience, and sustainable growth.

Overall, the sectoral diversification, bilateral targeting, and geographic re-balancing of EU ODA reveal a long-term trend toward institutional rationalization and strategic selectivity. While public-sector dominance ensures administrative coherence, the gradual inclusion of civil society, academia, and private actors points to a more pluralistic and innovation-driven model of European development engagement - one that better aligns with ASEAN's own regional priorities and its pursuit of inclusive, sustainable development pathways.

Institutional Complexity and Policy Frameworks

The EU's development policy architecture has evolved through successive institutional and legal milestones. Early aid efforts, including the 1963 Yaoundé Convention and the 1975 Lomé Convention, primarily targeted African and Caribbean states (Hansard, 1988). The 1992 Treaty on European Union formalized development cooperation under Articles 177–179. The treaty identified three objectives: (a) promotion of sustainable economic and social development; (b) integration of developing countries into the global economy; and (c) poverty eradication, alongside support for democracy, rule of law, and human rights (European Union, 1992; Higgins & Prowse, 2009).

The EU performs a dual role as a bilateral donor and a supranational coordinator. The Downes (2017) characterizes the role as a distinctive 'dual donor system' that operationalizes through Hoebink's (2004) four guiding principles of complementarity, coordination, coherence, and consistency. These form the 'institutional grammar' of EU-ASEAN cooperation. Complementarity and coordination manifest in shared funding mechanisms linking national programs with EU-level instruments such as Global Europe (NDICI). At the same time, coherence and consistency expose the Union's internal challenge of aligning normative aspirations with economic interests in Southeast Asia's liberalized markets.

The 2000 European Community Development Policy Declaration (Council of the European Union, 2000) operationalized these principles by identifying six priority areas (macroeconomic policy, food security, transport, trade and development, regional cooperation, and institutional capacity-building) and four cross-cutting issues (human rights, gender equality, environmental protection, and conflict prevention). The 2005 European Consensus on Development (Council of the European Union, 2005) further consolidated the economic, social, and environmental dimensions of sustainability. The 2017 New European Consensus reoriented EU policy around a 'geopolitical' vision linking development to migration, governance, and peacebuilding, and established Global Europe (NDICI) with a €79.5 billion allocation for 2021–2027.

Within this architecture, ASEAN primarily benefits through thematic programs focused on food security, health, environmental protection, and civil society support, rather than through geographically earmarked instruments (European Commission, 2021). The region also remains a major recipient of ECHO humanitarian aid due to its high exposure to natural disasters.

Structural Challenges and Path Dependence

Despite many advancements, persistent institutional challenges continue to limit the developmental impact of EU assistance. Fragmentation, centralization, and rigid accountability mechanisms have constrained the adaptability of aid programs (Brillinger et al., 2022; Keijzer, 2010). For example, Aid for Trade initiatives in Cambodia and Laos, while procedurally robust, fail to stimulate industrial diversification, illustrating the dominance of administrative compliance over developmental learning (Rüland, 2001). Similarly, the EU-ASEAN Regional Integration Support Programme (APRIS II) remains heavily Brussels-driven, limiting ASEAN's agency in project evaluation (European Commission, 2015).

Human resource shortages within EU institutions exacerbate these inefficiencies. The expansion of aid portfolios has outpaced staff growth, increasing dependence on external consultants and eroding institutional memory (Keijzer, 2010). On the recipient side, weak absorptive capacity, particularly in Myanmar and Laos, has delayed the utilization of fund and reduced effectiveness (Rüland, 2001).

To overcome these limitations, the EU has initiated reforms to delegate project management to field delegations, improve evaluation systems, and harmonize aid programs (Zito et al., 2019). However, the structural inertia and path dependence of the ODA system continue to pose challenges for achieving genuine coherence and context-sensitive cooperation.

Toward a Coherent and Sustainable Partnership

The change of EU-ASEAN development cooperation reveals a steady institutional consolidation alongside persistent governance tensions. The European Union's ODA system, composed of of EU budget allocations and voluntary member-state contributions, has gradually expanded from its early, geographically limited conventions to a multidimensional framework integrating bilateral, multilateral, and thematic instruments. The transformation culminated in the establishment of the Neighborhood, Development and International Cooperation Instrument (NDICI - Global Europe), which unifies previously fragmented mechanisms under a €79.5 billion envelope for 2021–2027. Within this structure, ASEAN increasingly occupies a defined, though still secondary, position, benefiting from programs that target sustainable infrastructure, environmental protection, higher education, and governance reform.

The evolving framework also reflects what Gilson (2020) describes as pragmatic inter-regionalism, a pattern of cooperation in which mutual economic interests and institutional learning increasingly outweigh purely normative ambitions. In the EU-ASEAN context, development assistance and policy dialogue are not only instruments of solidarity but also mechanisms for building connectivity, regulatory alignment, and trade facilitation. This pragmatic turn does not negate the Union's normative identity. Rather, it operationalizes through measurable developmental outcomes such as infrastructure resilience, digital inclusion, and capacity building. By embedding sustainability into sectoral cooperation, EU-ASEAN inter-regionalism exemplifies how pragmatic governance can advance long-term sustainable growth.

Despite the institutional progress, the developmental and economic impact of EU-ASEAN cooperation remains uneven. ODA has supported tangible advances in trade facilitation, institutional capacity, and disaster management, yet its contribution to long-term economic transformation differs sharply across member states. Lower-income ASEAN countries such as Cambodia, Laos, and Myanmar remain significant aid recipients, while more advanced economies such as Malaysia, Thailand, and Indonesia engage primarily through policy dialogues and technical cooperation rather than direct financial flows. This disparity reflects both the EU's differentiated approach to partner classification and its emphasis on normative alignment and governance reform over macroeconomic stimulus.

At the same time, the Union's commitment to coherence, coordination, and accountability, its traditional strengths, continues to generate administrative rigidity and limited responsiveness to local contexts. Centralized decision-making in the EU often constrains the adaptive potential of EU Delegations, while complex evaluation procedures may privilege procedural compliance over developmental learning. Ongoing institutional reforms, including the delegation of project management to field offices, greater use of joint programming, and improved evaluation frameworks, aim to mitigate these limitations and strengthen local ownership.

Overall, the EU-ASEAN partnership today stands at an intermediate stage between normative ambition and developmental pragmatism. It demonstrates the Union's capacity to act as a coordinated global donor, yet also exposes the constraints of its bureaucratic model in achieving context-sensitive outcomes. The challenge moving forward lies in deepening the link between policy coherence and developmental impact, ensuring that the EU's evolving ODA system not only aligns with ASEAN's priorities but also delivers measurable, sustainable benefits across a heterogeneous region.

Findings on the Evolution and Effectiveness of EU–ASEAN Development Cooperation

The analysis reveals a coherent yet uneven trajectory in the evolution of EU-ASEAN development cooperation. Across the financial, institutional, and sectoral domains, four core findings emerge that collectively illuminate both the partnership's achievements and its structural limitations.

First, EU engagement in Southeast Asia has become more multidimensional, strategically integrated, and explicitly sustainability-oriented. The steady rise and thematic diversification of ODA, particularly in environmental governance, climate adaptation, digital transformation, and institutional capacity, indicate a shift from project-based assistance to policy-oriented cooperation. The proliferation of structured dialogues, including E-READI and climate-focused working groups, has embedded cooperation within a more institutionalized framework, enabling more regularized regulatory coordination and cross-sectoral knowledge exchange.

Second, these advances are constrained by persistent institutional fragmentation within the EU's development architecture. Overlapping competences among the European Commission, the European External Action Service, and member-state development agencies continue to dilute strategic coherence and complicate implementation. The growing reliance on external consultants provides short-term technical capacity. However, it undermines institutional continuity, erodes long-term learning, and weakens the EU's ability to cultivate sustained partnerships, challenges consistently identified across case studies and policy evaluations.

Third, the developmental returns of Aid for Trade and related economic cooperation programs remain limited. Although administrative and regulatory capacities have improved, particularly in customs, standards-setting, and public-sector administration, these initiatives have not generated substantial industrial upgrading or deeper integration into regional value chains. A key factor is the EU's highly procedural monitoring and evaluation system, which prioritises compliance and risk avoidance over adaptive governance and context-sensitive innovation. This rigidity constrains local experimentation and reduces incentives for more transformative reforms.

Fourth, ODA distribution across ASEAN remains markedly uneven, reflecting both the region's economic heterogeneity and the EU's income-based allocation criteria. Cambodia, Laos, Myanmar, and Vietnam absorb the majority of financial assistance, while upper-middle-income member states engage primarily through regulatory cooperation and technical dialogue. This stratified pattern produces differentiated developmental trajectories and complicates attempts to cultivate a coherent, region-wide strategy for sustainable and inclusive growth.

Overall, these findings portray a partnership that has broadened, deepened, and become more sustainability-driven, yet remains hampered by structural asymmetries and uneven developmental impact. EU-ASEAN cooperation today represents a pragmatic form of interregionalism - capable of generating meaningful policy convergence and institutional learning - while simultaneously revealing the constraints of the EU's fragmented governance architecture and ASEAN's internal diversity. To enhance the developmental effectiveness of the partnership, both sides will require more coherent institutional alignment, adaptive implementation frameworks, and differentiated, context-responsive strategies tailored to ASEAN's diverse political economies.

Conclusion

The evolution of EU-ASEAN development cooperation demonstrates how a historically asymmetric, aid-based relationship has progressively developed into a multidimensional partnership anchored in sustainable development, regulatory convergence, and pragmatic interregionalism. From the fragmented arrangements of the Yaoundé and Lomé Conventions to the more coherent architecture established through the 2017 New European Consensus on Development and the NDICI-Global Europe instrument, the EU's engagement with Southeast Asia has shifted from peripheral development assistance to a strategically significant element of its external action. This long-term transformation underscores how institutional reforms, path dependencies, and geopolitical shifts have shaped a partnership that continually negotiates the tension between normative ambition and the constraints of practical governance.

Empirically, the findings show that EU development cooperation has generated tangible, though uneven, economic and institutional outcomes across ASEAN. Rising and increasingly thematic ODA flows have strengthened governance capacity, public-sector resilience, environmental management, and human capital development, particularly in Cambodia, Laos, Myanmar, and Vietnam, where aid-financed programs have supported public administration, education, and sustainable infrastructure. In more advanced ASEAN economies such as Malaysia, Thailand, and Indonesia, cooperation has moved decisively toward technical and regulatory partnerships that promote institutional convergence, innovation-driven growth, and alignment with emerging global standards. Although these initiatives have contributed to improvements in logistics performance, trade facilitation, and administrative efficiency, the breadth and depth of their impact remain conditioned by persistent disparities in administrative capacity, policy coherence, and socio-economic structure within the region.

Conceptually, the partnership articulates a holistic model of sustainable growth that integrates economic modernization, social inclusion, and environmental stewardship. Economic sustainability is supported through regional market integration, connectivity, and private-sector engagement; social sustainability through programs advancing human rights, gender equality, and inclusive governance; and environmental sustainability through cooperation on climate adaptation, biodiversity governance, and renewable-energy transitions. Together, these policy domains operationalize the EU's understanding of sustainability as both a developmental outcome and a guiding governance principle. However, sustainability is more fully institutionalized as a strategic narrative than realized as a measurable developmental outcome, constrained by EU proceduralism, fragmented governance structures, and ASEAN's uneven institutional capacities.

These findings carry several policy implications. For the European Union, enhancing institutional coherence remains central to effective engagement. Fragmentation across the Commission, the EEAS, and member-state development agencies continues to dilute strategic focus and complicate implementation. A more unified architecture, anchored in joint programming, clearer divisions of labor, and streamlined intra-EU coordination, would strengthen consistency and credibility. Reducing reliance on external consultants while deepening in-house expertise within Directorate-General for International Partnerships (DG INTPA) and EU Delegations would help rebuild institutional memory and enable more adaptive, contextually grounded programming. Reorienting monitoring and evaluation systems toward iterative, problem-driven learning rather than procedural compliance would enhance the impact of Aid for Trade and sustainability initiatives. As ASEAN increasingly prioritizes knowledge cooperation over traditional aid, the EU is also well-positioned to deepen regulatory and technological partnerships in climate governance, carbon markets, digital regulation, renewable energy, biodiversity protection, and sustainable supply chains.

For ASEAN member states, strengthening institutional and absorptive capacity is essential for translating EU cooperation into durable developmental outcomes. Investments in regulatory coherence, inter-ministerial coordination, and evidence-based policymaking would improve the uptake and effectiveness of EU support. Member states can also leverage EU partnerships more strategically to support industrial upgrading, compliance with evolving sustainability standards, and integration into higher-value regional and global supply chains. Enhanced ASEAN-level coordination, particularly in sustainability governance, disaster resilience, and digital regulation, would enable a more cohesive regional position and maximize the collective benefits of EU engagement. Ensuring co-ownership in agenda setting, program design, and evaluation remains critical to avoid externally driven policy transfer and to foster long-term institutional learning.

This research makes three contributions to the scholarly literature on development cooperation and interregional governance. First, it reconceptualizes EU-ASEAN relations as a pragmatic, sustainability-oriented form of interregionalism that transcends donor-recipient logics and integrates development, trade, and regulatory policy. Second, it offers a comprehensive empirical synthesis of EU engagement in Southeast Asia, demonstrating how developmental outcomes emerge not from isolated interventions but from the cumulative interaction of financial flows, institutional architectures, and governance practices. Third, this research applies Hoebink's four-principle framework (complementarity, coordination, coherence, and consistency) by integrating qualitative document analysis with descriptive ODA trend analysis to examine the dynamics of EU-ASEAN development cooperation.

Ultimately, EU-ASEAN cooperation functions as both a laboratory and a litmus test for the future of interregional development governance. It demonstrates how two regional organizations with distinct histories, institutional capacities, and political cultures can cultivate shared agendas for resilience, equity, and sustainability. The central challenge lies in transforming the partnership from a system of coordinated aid delivery into a reciprocal framework of co-development, where sustainable growth becomes not merely a declaratory norm but a measurable, mutually reinforcing outcome. If the EU and ASEAN succeed in aligning their financial, institutional, and normative resources toward this end, the partnership may emerge as a model for a new generation of equitable, sustainability-driven, and genuinely interregional development cooperation.

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Navigating Geoeconomic Fragmentation: How Political Alignment Shapes Foreign Direct Investment to ASEAN

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Abstract

This research investigated how geopolitical alignment influences bilateral foreign direct investment (FDI) flows into ASEAN amid rising global fragmentation. We construct a geopolitical distance index using Principal Component Analysis (PCA) of United Nations General Assembly (UNGA) voting data and validate it against the Ideal Point Distance (IPD) metric. Using an extended gravity model with bilateral FDI data from 2010 to 2023, the research analysed the heterogeneous effects of geopolitical distance across regions, including the United States, European Union, China, Latin America, and intra-ASEAN partners. The results reveal contrasting dynamics: while EU FDI is positively associated with political alignment, US and Chinese FDI increase with increasing geopolitical distance, suggesting diverse geoeconomic strategies. These findings underscore ASEAN's strategic position as a resilient investment hub and offer new insights into the political economy of FDI in an era of global uncertainty. They also suggest that the impact of geopolitical alignment on investment is not uniform, but mediated by region-specific strategic logics, institutional ties, and the broader role of ASEAN in an increasingly fragmented global economy.

Keywords: Foreign Direct Investment, Geopolitical Distance, ASEAN, UNGA Voting, Gravity Model

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Introduction

Over the past decade, the international economy has entered a period of growing uncertainty and transformation. The rise of geopolitical tensions, the intensification of great-power rivalries, and the spread of protectionist policies have challenged the foundations of globalisation. While global trade has plateaued as a share of GDP, foreign direct investment (FDI), a key pillar of economic integration, has also stagnated. According to UNCTAD (2024), global FDI flows have decoupled from trade and output growth, and a rising share of investment is now directed toward countries aligned with geopolitics. This trend is increasingly referred to as the "geoeconomic fragmentation" of the world economy.

Geoeconomic fragmentation implies that political considerations are becoming more salient in shaping the geography of cross-border investments. Rather than seeking only efficiency or market access, firms and governments are now factoring in strategic trust, security risks, and the geopolitical positioning of host countries. In this context, alignment between investors and host countries, based on shared diplomatic postures, voting behaviour in international organisations, or participation in regional alliances, may act as a new determinant of FDI.

Much of the recent debate has centred on the concept of "friendshoring", whereby firms relocate production and investment to politically aligned or 'trusted' partners to reduce exposure to geopolitical risk (Aiyar et al., 2023; Alfaro & Chor, 2023). There is empirical evidence that FDI and trade are increasingly concentrated among aligned economies. UNCTAD (2024) estimates that between 2013 and 2022, the share of FDI flows between geopolitically distant countries declined by 10 percentage points. Recent studies also suggest that the realignment of global value chains (GVCs) is accelerating, as firms seek to reduce their dependence on countries deemed "risky" or politically misaligned. This reconfiguration is taking place across a wide range of sectors, from semiconductors to green technology and defence-related industries.

However, ASEAN presents a more complex and potentially distinct case. Unlike regions clearly embedded in one geopolitical camp, such as the European Union or North America, the Association of Southeast Asian Nations (ASEAN) occupies an intermediate position in the global order. ASEAN has emerged as a particularly attractive investment hub. Composed of ten diverse economies, ASEAN combines economic dynamism, institutional resilience, and a posture of deliberate neutrality in the US-China rivalry. Its strategic location, growing middle class, and deep integration into global supply chains have made ASEAN a key beneficiary of investment diversion from China, particularly under "China+1" strategies.

Despite a global FDI downturn, ASEAN attracted a record $235 billion in 2024, with Vietnam, Malaysia, and Indonesia emerging as the top recipients (UNCTAD, 2025). The region's ability to preserve political stability while maintaining openness to all major powers has made it a "safe harbour" for multinational enterprises navigating rising global uncertainty. Sectors such as electronics, renewable energy, digital infrastructure, and logistics have seen substantial investment inflows, underscoring ASEAN's growing importance on the global investment map.

However, not all regions of the world are equally engaged in this ASEAN investment boom. For instance, Latin America remains a marginal player in the region's FDI landscape, accounting for less than 0.1% of total FDI into ASEAN. This is striking, given the region's increasing interest in economic diversification and South–South cooperation. While Latin America has intensified investment ties with China (López et al., 2023) and, to a lesser extent, India, its investment linkages with Southeast Asia remain underdeveloped. This raises important questions about the factors behind Latin America's low economic presence in ASEAN.

One potential explanation lies in geopolitical alignment. Nevertheless, the possibility that geopolitical distance may be a barrier to investment has received little attention. In a context where FDI is increasingly mediated by strategic trust and political affinity, this omission becomes analytically and politically relevant. While the US, China, and the EU have increased their share of FDI in ASEAN in strategic sectors, Latin America continues to lag. This divergence suggests that it is not just a matter of geographical distance or market access, but of strategic and diplomatic decisions that condition the attraction and channelling of investment.

This research seeks to fill this gap by systematically examining how geopolitical alignment affects FDI flows into ASEAN from different world regions. Specifically, it investigates whether political distance, measured by voting patterns in the United Nations General Assembly (UNGA), acts as a significant determinant of bilateral FDI, and how different regions respond differently to geopolitical alignment. The research further explores to what extent does geopolitical distance affect FDI flows into ASEAN? Moreover, how does the sensitivity to geopolitical distance vary across investor regions, including Latin America, the United States, the European Union, and China?

To answer these questions, this research develops a geopolitical distance index based on a Principal Component Analysis (PCA) of UNGA votes between 2005 and 2023. Votes are coded as 1 (yes), 0 (abstain), or -1 (no), and PCA is used to construct a single dimension of ideological alignment. Each country receives an annual index score, rescaled from 0 (full alignment) to 10 (maximum distance), and bilateral geopolitical distance is calculated as the absolute difference between the two countries' scores. This metric captures both gradual shifts and regional divergences, and offers a transparent, tractable alternative to more complex ideal point models (Bailey et al., 2017)

This research makes three main contributions to the literature. First, empirically, it adds to the growing body of work on how geopolitics affects international investment. While several recent studies have examined trade reconfiguration and "friendshoring", fewer have focused on FDI, especially in a region as geopolitically salient as ASEAN. Second, methodologically, it introduces a geopolitical distance index based on PCA, which complements existing ideal-point estimation approaches by providing a simple, replicable tool for empirical analysis. The index can be updated annually and applied to a wide range of bilateral relations. Third, from a policy perspective, the paper provides actionable insights for governments. If geopolitical misalignment is indeed a barrier to FDI in ASEAN, then diplomatic engagement and strategic realignment could help unlock new investment opportunities in Asia's most dynamic region. More broadly, the results contribute to ongoing debates on the role of South-South cooperation and the diversification of economic partnerships in an increasingly fragmented world.

To estimate the relationship between FDI and geopolitical distance, the study employs a gravity model framework with bilateral panel data covering over 70 countries from 2010 to 2023. The model includes standard covariates such as GDP, geographic distance, contiguity, common language, and the presence of trade or investment agreements, as well as our geopolitical distance index. The analysis is complemented by robustness checks using alternative specifications and alignment metrics.

Literature Review and Analytical Framework

The relationship between FDI and economic development has long been a central topic in international economics. Numerous studies have highlighted the potential benefits of FDI for host countries, particularly in developing economies, emphasising its role in promoting technology diffusion, human capital formation, employment generation, and productivity growth (Asiedu, 2006; Denisia, 2010). However, the empirical evidence is not universally optimistic. While early contributions such as Borensztein et al. (1998) and Daude & Stein (2007) underscore positive spillover effects from multinational enterprises (MNEs) to domestic firms, others suggest that these benefits are contingent on host country absorptive capacities and may even be absent or negative in some cases (Navaretti & Venables, 2004; Crespo & Fontoura, 2007; Navarrete & Sossdorf, 2008).

Sectoral heterogeneity also plays a key role in shaping FDI's impact. Drawing on structuralist insights, Hirschmann (1958) noted that linkages and multiplier effects vary widely across sectors. Later works, such as Vernon (1996) and Dunning (1977, 1988), argue that the lifecycle of products and the strategic motivations of firms, whether resource-seeking, market-seeking, efficiency-seeking, or strategic asset-seeking, affect both the scale and developmental impact of FDI. These insights remain particularly relevant in the current global context, where MNEs are reassessing their locational choices considering shifting geopolitical realities.

Theoretically, there is no single unified model to explain FDI behaviour. As noted by Dorakh (2020), the study of FDI draws on a broad array of theoretical frameworks from trade theory, industrial organisation, and development economics. Among these, the eclectic paradigm, or OLI model, proposed by Dunning (1977), remains widely used. It posits that firms invest abroad when they possess three types of advantages: Ownership (O), such as proprietary technologies or brands; Location (L), such as favourable regulatory or cost conditions in the host country; and Internalisation (I), referring to the benefits of controlling production internally rather than through licensing or outsourcing. These three pillars have become standard in empirical work on FDI determinants.

To improve analytical clarity, this study focuses on two mechanisms that link geopolitics and FDI: economic statecraft and strategic hedging. Economic statecraft involves the strategic use of economic instruments, such as investment, financial restrictions and supply-chain realignment, to advance geopolitical objectives (Blanchard and Ripsman, 2008). In the context of the intensifying rivalry between the US and China, capital-exporting powers may direct FDI towards politically aligned jurisdictions and reduce their exposure to perceived rivals. Under this mechanism, geopolitical alignment effectively modifies bilateral investment frictions, complementing traditional gravity determinants. By contrast, strategic hedging operates at the level of host countries, particularly middle and emerging powers. Rather than fully aligning with one bloc, these states seek to maximise their economic gains from competing great powers while preserving their autonomy. This involves forming diverse partnerships, selectively engaging in sensitive sectors and maintaining diplomatic ambiguity (Kuik, 2024; Bórquez et al., 2025; Borquez & López, 2025; Serrano-Moreno et al., 2026). While middle powers may also pursue multilateralism or coalition-building with like-minded states, hedging offers a more flexible response in an era characterised by institutional paralysis and systemic rivalry (Serrano-Moreno, 2024).

These mechanisms are particularly relevant in ASEAN. Situated at the centre of US-China competition, ASEAN member states maintain deep economic interdependence with China while preserving security and institutional ties with the United States and its partners. Open alignment carries the risk of retaliation or exclusion, which incentivises hedging behaviour. At the same time, the region is a key arena for economic statecraft, with major powers competing through infrastructure finance, supply-chain relocation and strategic investment. Therefore, FDI flows into ASEAN reflect the interaction between external geopolitical pressures and domestic balancing strategies.

In terms of empirical modelling, gravity models are a tool for analysing bilateral FDI flows. These models posit that investment between two countries increases with their economic mass (typically measured by GDP) and decreases with geographic, cultural, or institutional distance. Recent applications of gravity models have incorporated an increasingly rich set of covariates, including not only GDP and physical distance, but also trade agreements, shared language, colonial ties, institutional quality, and infrastructure availability (Anderson & Van Wincoop, 2003; Mariev et al., 2016; Dorakh, 2020; Abreo et al., 2024).

More recently, scholars have begun to explore how geopolitical factors shape FDI decisions. This literature has gained traction amid growing evidence that MNEs are adjusting their international strategies in light of global tensions. For instance, Alfaro & Chor (2023), Clayton et al. (2023), and Freund et al. (2023) argue that firms are increasingly sensitive to political alignment when allocating capital, especially in strategic sectors. Similarly, Goldberg & Reed (2023) and Aiyar et al. (2024) document how FDI flows are fragmenting along geopolitical lines, with capital moving preferentially among politically aligned countries and avoiding those perceived as adversarial or unstable.

Despite these advances, much empirical work on geopolitical alignment has focused on trade or on high-income countries. Few studies have explored how these dynamics play out in the Global South, and even fewer in the context of ASEAN. Moreover, the methods used to measure geopolitical alignment vary widely. While some rely on expert classifications or alliance memberships, others use textual analysis of diplomatic statements or structural models of international voting behaviour. Among the most common proxies for political alignment are voting patterns in the United Nations General Assembly (UNGA), which provide a publicly available and comparable indicator of countries' foreign policy positions over time.

Some recent studies (e.g., Alfaro & Chor, 2023) suggest that political fragmentation generates new 'invisible barriers,' but these findings have not been formalised within gravitational logic. Incorporating a geopolitical distance index, such as the one proposed in this study, would allow the model to be extended to capture the political dimension in the distance function.

Building on this literature, the present study contributes to the emerging field of geopolitics and FDI by focusing on ASEAN as a key recipient region and by developing a tractable index of geopolitical distance based on the Principal Component of UNGA voting records. This approach complements more complex ideal-point models by offering a transparent, easily replicable method that can be incorporated into standard gravity frameworks.

Research Method

To investigate the relationship between geopolitical alignment and foreign direct investment flows into ASEAN, the research compiles a balanced panel dataset covering the years 2010 to 2023. The unit of observation is country-year, where each observation represents the bilateral flow of FDI from a source country into ASEAN as a regional aggregate. While disaggregated FDI data by recipient ASEAN member states is available in some cases, this research focuses on aggregated regional inflows to address data limitations and reflect the regional investment strategies of multinational firms.

The panel includes a broad set of ASEAN's main investment partners, such as the United States, the European Union (as individual member states), Japan, China, India, and intra-ASEAN sources, as well as a selected group of Latin American countries. Moreover, the dependent variable is the annual FDI inflow into ASEAN from each partner country. These data are obtained from the ASEANStats Data Portal, which consolidates information reported by ASEAN member states to the ASEAN Secretariat. The use of ASEAN-level FDI inflows enables us to capture firms' regional investment strategies, which often treat Southeast Asia as an integrated production base, within the context of global value chains.

Because the dependent variable aggregates FDI inflows at the ASEAN regional level rather than for individual member states, geopolitical distance must be defined relative to a collective ASEAN reference point. We therefore construct an annual ASEAN geopolitical centroid, calculated as the simple average of the rescaled PCA scores of the ten ASEAN member states in each year. Bilateral geopolitical distance is then defined as the absolute difference between the source country's PCA score and the ASEAN centroid. This approach preserves the model's bilateral structure while ensuring consistency in the levels of aggregation of the dependent and explanatory variables. Conceptually, it captures ASEAN's average diplomatic posture as a regional actor, without assuming perfect internal cohesion among its members. As such, it reflects how external investors may perceive ASEAN's overall geopolitical orientation when making regional investment decisions.

Explanatory variables fall into two main categories: (i) standard economic gravity controls and (ii) measures of geopolitical alignment. The standard gravity variables include GDP and GDP per capita of the source country (World Bank's World Development Indicators), Geographic distance between capital cities, Dummy variables for contiguity and common official language (Conte et al., 2022), and bilateral investment or trade agreements between the source country and ASEAN (ASEAN Secretariat and WTO RTA database).

A central methodological innovation of this research is the construction of a bilateral geopolitical distance index based on Principal Component Analysis (PCA) applied to voting patterns in the United Nations General Assembly (UNGA). In the field of international political economy, UNGA roll-call votes are commonly used as proxies for states' foreign policy preferences, serving as observable indicators of geopolitical alignment or divergence. Unlike treaty-based measures of political affinity or subjective diplomatic categorisations, UN voting records offer a high-frequency, standardised, and behaviourally grounded dataset covering virtually all sovereign nations.

To construct the index, researchers assemble a panel of country-level voting data spanning from 2005 to 2023. Each country's vote on selected resolutions is coded numerically: "yes" votes are assigned a value of 1, "abstain" a value of 0, and "no" a value of -1. The research restrict the dataset to votes considered geopolitically salient, primarily those classified as "important" by the US Department of State in its annual Voting Practices in the United Nations report. These include resolutions where the United States has actively lobbied due to perceived national interest. To provide a broader geopolitical perspective, the research also include a set of manually selected resolutions on key global and regional issues, particularly those with implications for ASEAN.

In total, the dataset includes approximately 1,500 UNGA resolutions over the period 2005-2023. Of these, roughly 500 are classified as ‘important votes’ by the US Department of State in its annual *Voting Practices in the United Nations* reports, covering issues such as sanctions regimes, human rights resolutions, nuclear proliferation, Middle East conflicts, and the US embargo on Cuba. This classification is widely used in the literature as an indicator of geopolitically salient voting behaviour. In addition, we include a limited number of resolutions reflecting major global or regionally significant strategic disputes, including questions related to Myanmar, the South China Sea, and multilateral trade governance. The full list of resolutions and coding criteria is available upon request. This selection strategy ensures that the index captures broad patterns of global geopolitical alignment rather than being narrowly tailored to ASEAN-specific events, thereby strengthening both comparability and replicability.

PCA is then applied to this matrix of vote codes. This technique reduces the dimensionality of countries' voting behaviour by extracting unobserved components that explain the greatest variance in the data. The first principal component (PC1) is interpreted as a latent ideological or geopolitical dimension that reflects a country's overall position within the global political spectrum. Countries that tend to vote in tandem will have similar PC1 values, while countries that frequently vote in opposition will be farther apart in the PC1 space.

To enhance interpretability and cross-country comparability, each country's PC1 score is rescaled into a discrete index ranging from 0 to 10. A value of 0 corresponds to full alignment with the dataset's geopolitical centroid, while a value of 10 reflects the maximum distance. For each year, bilateral geopolitical distance is computed as the absolute difference between the rescaled PC1 values of two countries. This yields a time-varying, symmetric, and cardinal measure of geopolitical distance, suitable for empirical modelling and direct comparison across pairs and time periods.

The advantages of this approach are threefold. First, it provides a data-driven summary of complex voting behaviour using minimal parametric assumptions. Second, it is easily replicable and transparent, avoiding reliance on model-specific priors. Third, its flexible structure enables the incorporation of regionally relevant resolutions that may be neglected in global models, making it particularly suitable for studies focused on ASEAN and its strategic partners.

Validation and Comparison with the Ideal Point Distance (IPD)

The robustness and external validity of our PCA-based geopolitical distance index are assessed by comparing it with the IPD, a widely used measure developed by Bailey et al. (2017) and recently revisited by Airaudo et al. (2025). The IPD approach is grounded in a spatial voting model that estimates latent ideological positions, termed "ideal points", for each country based on their observed voting behaviour in the UNGA. These ideal points are typically interpreted as reflecting countries' alignment with the U.S.-led liberal international order, and bilateral geopolitical distance is calculated as the absolute difference between the ideal points of two countries in a given year.

This method benefits from strong theoretical foundations and a sophisticated Bayesian estimation framework. However, its application comes with important caveats. As emphasised by Airaudo et al (2025), the IPD is sensitive to the length of the time window used for estimation, the nature of the selected votes (e.g., peace and security vs development), and the underlying assumptions of the spatial model. Small changes in vote inclusion criteria or sample periods can yield materially different estimates of geopolitical distance, potentially complicating interpretation in contexts of dynamic or regionally contingent alignment, such as in Southeast Asia.

In contrast, the PCA-based index offers a simpler and more transparent methodology that can be more easily adapted to the specific geopolitical context of a study. While it does not provide the same theoretical richness as the spatial voting model underlying IPD, its flexibility allows for better tailoring to regional questions. For instance, by incorporating ASEAN-relevant geopolitical events, such as resolutions on Myanmar and the South China Sea, and trade-related norms, our PCA index can more directly capture alignment dynamics that are particularly relevant to FDI flows into the region.

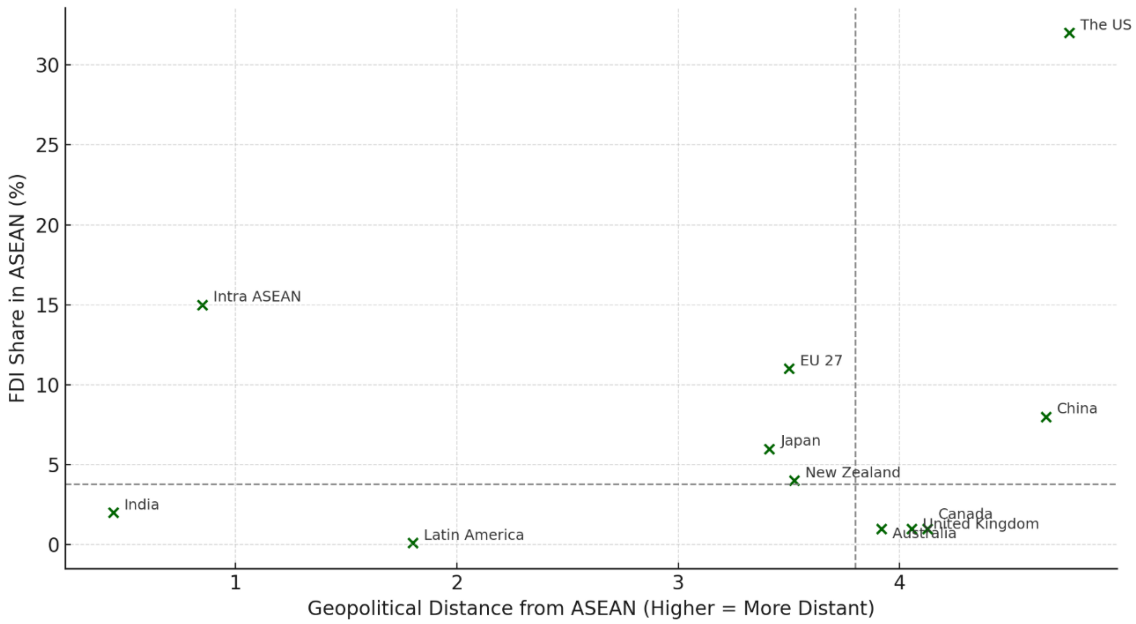
Empirically, the PCA and IPD indices are highly correlated across a broad set of major economies, especially when the IPD is estimated using comparable years and resolutions. This strong correlation provides reassurance that both measures capture a similar underlying dimension of political alignment. At the same time, the divergence in specific dyads highlights the importance of methodological choices when applying geopolitical distance metrics in applied research.

Overall, the results support the PCA-based measure as a valid and useful alternative to the Ideal Point Distance, particularly in applications where regional specificity and methodological transparency are key priorities. The use of both measures in robustness checks strengthens the empirical foundation of our analysis and contributes to a more nuanced understanding of the geopolitical determinants of FDI.

Descriptive Evidence: FDI and Geopolitical Distance

To visually illustrate the relationship between geopolitical alignment and investment intensity, Figure 1 plots the average FDI share in ASEAN (2010–2023) against the average bilateral geopolitical distance index, constructed from PCA-based UNGA voting data.

Figure 1 suggests a complex relationship between the geopolitical distance and FDI share. Countries that are geopolitically aligned with ASEAN, such as intra-ASEAN partners and the European Union, tend to have higher FDI shares. Conversely, countries with greater geopolitical distance, such as the US and China, show a high FDI share in ASEAN. Interestingly, Latin America and India are positioned as geopolitically closer to ASEAN yet have low levels of investment, suggesting the influence of additional institutional or commercial barriers. This pattern motivates a formal econometric analysis to assess the extent to which geopolitical alignment, beyond conventional gravity variables, explains the distribution of FDI flows into ASEAN.



Note: Each dot represents a country or regional group. The X-axis measures average geopolitical distance from ASEAN (higher = more distant); the Y-axis measures average FDI share in ASEAN over the period 2010–2023.

Figure 1. FDI Share in ASEAN vs Geopolitical Distance (Median-based Quadrants)

Empirical Strategy: Extended Gravity Model of FDI

To examine the relationship between geopolitical alignment and foreign direct investment flows into ASEAN, the research employ an extended gravity model framework. Gravity models have become a standard tool in the empirical analysis of international trade and investment due to their ability to account for dyadic economic frictions and bilateral interactions. This approach builds on recent contributions by Abreo et al. (2024) and Aiyar et al. (2024), adapting the traditional gravity structure to capture not only economic fundamentals such as GDP, distance, and institutional proximity but also strategic-political alignment between countries.

In the baseline specification, the dependent variable is the logarithm of bilateral FDI flows $(log\left(FDI_{ijt}\right))$ from country i (source) to country j (recipient, ASEAN member) in year t. The core explanatory variable is the Geopolitical Distance Index between countries i and j, measured in year $t-1$ to mitigate endogeneity concerns.

Control variables include bilateral characteristics such as geographic distance, contiguity, common language, and the existence of investment agreements, as well as macroeconomic indicators such as GDP and income per capita for both source and host countries.

The baseline model is specified in Equation 1.

$$log\left(FDI_{ijt}\right) \;=\; = \beta_0 + \beta_1\left(GeoDist_{ijt-1}\right) + \beta_2 X_{ijt} + \eta_i + \mu_j + \varepsilon_{ijt} \quad (1)$$

Where $log\left(FDI_{ijt}\right)$ denotes the FDI flow from country i to ASEAN (j) in year t. $GeoDist_{ijt-1}$ is the lagged bilateral geopolitical distance index between i and j. X_{ijt} is a vector of control variables. η_i and μ_j are source and destination country fixed effects, respectively. ε_{ijt} is the error term.

To explore heterogeneity by origin, we estimate a second model that introduces interaction terms between geopolitical distance and regional dummies, allowing us to assess whether the sensitivity of FDI to political alignment differs across major source regions (e.g., the United States, the European Union, India, China, Latin America, intra-ASEAN).

$$log\left(FDI_{ijt}\right) = \beta_0 + \beta_1\left(GeoDist_{ijt-1}\right) + \beta_2 X_{ijt} + \sum_r \beta_r\left(GeoDist_{ijt-1} \times Region_r\right) + \eta_i + \mu_j + \varepsilon_{ijt} \quad (2)$$

Equation 2 provides a more nuanced understanding of geopolitical effects by explicitly modelling regional differentiation in investor behaviour.

To address potential endogeneity concerns, the geopolitical distance index is lagged one year with respect to the FDI flows. While reverse causality between FDI flows and diplomatic alignment cannot be entirely ruled out, it is unlikely to drive our results for several reasons. First, UNGA voting behaviour tends to be highly persistent over time, reflecting structural foreign policy orientations rather than short-term economic fluctuations. Annual PCA scores exhibit strong temporal stability, suggesting that geopolitical positioning evolves gradually rather than in response to contemporaneous investment flows. Second, large-scale FDI projects typically follow lengthy planning and approval processes, making it improbable that investment decisions in year t would systematically reshape voting behaviour in year t–1. Taken together, these considerations mitigate concerns that the observed relationship reflects reverse causality.

All regressions include fixed effects for both source and destination countries to account for time-invariant unobserved heterogeneity. In addition, year dummies are included to control for global shocks such as the COVID-19 pandemic and financial volatility.

Standard errors are clustered at the dyad level to address autocorrelation and heteroskedasticity across bilateral relationships. As a robustness check, we also estimate specifications using the Ideal Point Distance index and exclude outlier votes to assess the sensitivity of our results to vote selection.

Taken together, our methodological framework offers a rigorous and original contribution to the study of how geopolitical fragmentation influences international investment decisions, with a particular focus on the increasingly strategic ASEAN region.

Analysis

This section presents and interprets the empirical results derived from the estimation of extended gravity models of FDI into ASEAN. The research focuses on two core specifications:

the baseline model using our PCA-based Geopolitical Distance Index and an alternative model incorporating the IPD measure, as proposed by Bailey et al. (2017). In both cases, the research find a positive and statistically significant relationship between geopolitical distance and inward FDI flows to ASEAN.

In the baseline model (see Column 2 of Table 1), the coefficient on the PCA-based geopolitical distance index is positive (0.292) and significant. This implies that, on average, countries that are more geopolitically distant from ASEAN (i.e., that vote more divergently in the UN General Assembly) tend to invest more in the region. This finding challenges the conventional assumption that political alignment reduces investment risks and transaction costs, thereby facilitating capital flows. Instead, it suggests that greater political divergence is not an obstacle and may even be an incentive to investment in ASEAN.

The robustness model using IPD confirms this pattern. In Column 4 of Table 1, the coefficient on the IPD measure is positive and significant. This reinforces the interpretation that geopolitical divergence correlates positively with FDI inflows, regardless of how geopolitical distance is operationalised.

Importantly, both specifications control for standard gravity variables, economic size (log GDP), physical distance, shared language, colonial ties, and contiguity, as well as the presence of investment or trade agreements. As expected, geographic distance has a negative and significant effect on FDI, while investment or trade agreements are associated with increased investment. However, geopolitical proximity does not follow this logic.

Taken together, the results indicate that ASEAN attracts more FDI from politically distant countries, as shown by both the PCA and IPD metrics. This is a counterintuitive but robust result, reflecting the average effect of geopolitical distance on FDI inflows into ASEAN across all source countries. While one might expect political proximity to reduce transaction costs and encourage investment, our findings indicate that, on average, greater geopolitical distance is associated with increased FDI into the region.

Table 1. Baseline Specification

	(1)	(2)	(3)	(4)
PCA	0.123	0.292**		
	(0.089)	(0.104)		
Ideal Point Distance			0.331	1.466***
			(0.268)	(0.271)
Log GDP		0.310		0.451
		(0.738)		(0.784)
FTA/BIT		1.834***		1.772***
		(0.345)		(0.284)
Log Distance		-0.816***		-1.494***
		(0.250)		(0.269)
Common Language		0.077		-0.084
		(0.310)		(0.299)
Colonial Dependency		-0.304		0.025

		(0.384)		(0.332)
Contiguity		-0.757**		-0.611*
		(0.337)		(0.368)
Observations	631	631	631	631
R-squared	0.010	0.114	0.022	0.114

Note: robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

There are at least three possible interpretations for this finding. First, a geopolitical diversification strategy in which countries may invest in ASEAN as a way to diversify their exposure and maintain a strategic economic presence, regardless of political alignment. Second, "buying friendship" hypothesis in which major powers might increase their investment in ASEAN as a soft-power tool to maintain influence in a geopolitically ambiguous or neutral region. Third, ASEAN's intrinsic strategic value in which ASEAN may be such a critical hub for global supply chains and market access that investors overlook political misalignment altogether.

However, this result should be interpreted with caution, as it represents an aggregate effect across heterogeneous countries and regions. To explore this further, Table 2 disaggregates the analysis by source region, focusing on the United States, China, the European Union, and Latin America, to uncover differential patterns in how geopolitical alignment shapes FDI decisions.

Table 2. Heterogeneous Effects by Source Region: Interaction Model

Variable	PCA Model	Ideal Point Model
Geopolitical Distance	-0.039	-0.270*
	(0.062)	(0.147)
Effect USA	0.290***	0.766***
	(0.058)	(0.126)
Effect Latin America	-5.097	-17.086
	(4.604)	(21.782)
Effect EU	-0.464***	-0.873***
	(0.092)	(0.175)
Effect China	0.489***	2.530***
	(0.059)	(0.619)
Effect ASEAN	-0.073	-0.831
	(0.205)	(0.887)
Controls:	Yes	Yes
Observations	715	715
R-squared	0.316	0.317

Note: robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 2 yields several novel and policy-relevant insights into the relationship between geopolitical distance and foreign direct investment flows into ASEAN. Contrary to the prevailing assumption that geopolitical misalignment would deter investment, we find that geopolitical distance from both the United States and China is positively and significantly associated with increased FDI flows into the ASEAN region. This counterintuitive result challenges the expectation that political affinity is a necessary condition for cross-border capital flows.

One possible explanation is that ASEAN economies are strategically leveraging their geopolitical neutrality to attract investment from multiple rival powers. Rather than aligning unilaterally, ASEAN cultivates an open and balanced investment climate that appeals to both US and Chinese firms. In this context, political distance may reflect ASEAN's perceived neutrality or flexibility, thereby reducing perceived political capture and increasing investor confidence from competing blocs. This logic resonates with the notion of "strategic hedging" in international relations, wherein countries avoid overt alignment with any single major power to preserve autonomy and maximise strategic options (Khong, 2004; Lim & Cooper, 2015; Kuik, 2016, 2022, 2024).

Alternatively, this result may reflect a form of "economic statecraft" or "investment diplomacy" by the superpowers themselves. Faced with rising geopolitical tensions and competition for influence in the Indo-Pacific, both the US and China may be using FDI to maintain or expand their presence in the region, particularly in politically ambiguous or non-aligned countries. Under this interpretation, the positive relationship between geopolitical distance and FDI flows may signal attempts by major powers to "buy friendship" or secure strategic footholds, regardless of voting alignment, in forums such as the United Nations General Assembly. This logic is consistent with the growing literature on geoeconomic fragmentation and the instrumental use of investment flows as tools of influence (Alfaro & Chor, 2023; Aiyar et al., 2023, 2024; Gopinath et al., 2025; Grover & Vézina, 2025).

A third possibility is that geopolitical distance does not matter for certain regions or sectors because the economic logic of investment dominates. In other words, ASEAN is a critical hub for supply chains, consumer markets, and manufacturing, so firms from the US and China will continue to invest there, irrespective of the broader geopolitical climate. This hypothesis would suggest that in high-stakes economic zones, the calculus of profit, cost, and logistical efficiency outweighs political considerations. This finding aligns with arguments from structural political economy, which emphasise the role of productive interdependence and global value chain logic in driving capital allocation decisions even in the presence of political frictions (Bondi et al., 2025).

In contrast, FDI from the European Union shows a markedly different pattern. Our analysis reveals a positive and statistically significant relationship between geopolitical alignment and EU FDI flows to ASEAN. That is, European investors tend to favour ASEAN countries with which they share similar foreign policy preferences or voting behaviour at the UN. This finding suggests that political affinity remains a relevant determinant of investment flows in the EU.

There are several possible mechanisms behind this pattern. First, the EU's foreign economic engagement is often framed within broader normative agendas based on "shared values" such as democracy promotion, multilateralism, environmental standards, and respect for human rights. As such, EU firms may be more sensitive to the political and institutional context of recipient countries. Second, EU investment decisions may be shaped by risk aversion and the need to ensure institutional compatibility to protect long-term capital. Finally, the EU and ASEAN have built a longstanding institutional relationship rooted in shared values, culminating in the 2020 upgrade to a Strategic Partnership and the 2022 Commemorative Summit. The EU has also committed significant funding to ASEAN connectivity and regional cooperation through initiatives such as the Global Gateway, which further embeds political and economic alignment.

Taken together, these findings suggest that the role of geopolitical distance in shaping FDI flows is both region-specific and actor-dependent. While the US and China appear to invest heavily in ASEAN regardless of political affinity, possibly due to strategic hedging, economic statecraft, or market logic, European investors exhibit a stronger preference for political alignment, which reflects value-based economic diplomacy or normative conditionalities.

This actor heterogeneity has profound implications for understanding the drivers of South–South and South–North investment dynamics in a fragmented global order. It challenges the one-size-fits-all assumption often embedded in gravity models of investment and calls for greater attention to the geopolitical preferences, corporate behaviour, and institutional frameworks of investing countries. Furthermore, it suggests that ASEAN's geopolitical positioning, neither fully aligned with the US, China, nor the EU, constitutes a comparative advantage in attracting diversified sources of FDI. Such positioning could be leveraged further through targeted diplomatic and regulatory initiatives that preserve neutrality while enhancing institutional attractiveness.

In summary, the empirical patterns observed underscore the increasing salience of geopolitical factors in international investment decisions but also reveal important variations across source countries. The ASEAN case suggests that investment flows can be shaped by a complex interplay between strategic positioning, political affinity, and market fundamentals, a dynamic that merits further investigation in other regions and policy domains. Likewise, the results show no significant relationship between geopolitical distance and FDI of intra-ASEAN countries. This is expected, as regional investment is likely to be driven by geographic proximity, regional supply chains, and institutional familiarity rather than ideological factors.

The most striking finding is perhaps the near-zero foreign FDI share from Latin American countries, and the absence of any statistically significant relationship with geopolitical distance. This outcome suggests not merely political neutrality, but structural disconnection. Unlike firms in the US, China, or the EU, which are deeply embedded in ASEAN's manufacturing, digital, and infrastructure ecosystems, Latin American outward FDI remains concentrated in natural resources, energy, and services within the Western Hemisphere. There is limited sectoral complementarity with ASEAN's core investment hubs in advanced manufacturing, semiconductors, electronics, and logistics.

Furthermore, Latin America lacks the dense institutional, financial, and corporate networks that would link it to Southeast Asia. The absence of major bilateral trade agreements, limited development finance instruments, a sparse multinational corporate presence and high logistical costs reduces incentives and capabilities for sustained investment engagement. In this sense, geopolitical distance becomes largely irrelevant because the binding constraints are structural and sectoral rather than ideological.

Taken together, these patterns reinforce the argument that the impact of geopolitical distance on FDI is not uniform across actors or sectors. In strategically sensitive or supply-chain-intensive industries, market logic and geoeconomic positioning may override political alignment. In contrast, in value-driven or institutionally embedded investment models, political affinity plays a greater role. The Latin American case study illustrates how limited sectoral integration and weak interregional institutional links can marginalise entire regions from dynamic investment circuits, regardless of their geopolitical positioning.

Thus, these findings have several important implications for policymakers and development practitioners, particularly in emerging regions that are seeking to expand their presence in dynamic markets such as ASEAN.

Conclusions and Policy Implications

This research has examined the role of geopolitical alignment in shaping the geography of FDI into ASEAN, using both a PCA-based Geopolitical Distance Index and a robustness check based on Ideal Point Distances derived from UN General Assembly voting patterns. Our results contribute to the growing literature on geoeconomic fragmentation, offering robust empirical evidence that political alignment matters, but in ways that differ significantly across source regions.

A key finding is that greater geopolitical distance from ASEAN is associated with more FDI from the United States and China, a counterintuitive pattern that may reflect either a strategic diversification logic, the use of FDI as a soft power instrument ("buying friendship"), or ASEAN's intrinsic strategic value as a hub too important to ignore, regardless of alignment. In contrast, European Union investors display a preference for politically aligned ASEAN countries, suggesting that shared values, ESG standards, or institutional norms may guide European capital more strongly than economic imperatives alone.

Latin America maintains a limited presence in ASEAN, reflecting two critical dimensions: on the one hand, its limited capacity to attract investment to the Latin-Pacific basin; on the other, its weak investment projection towards the new gravitational centres of the Indo-Pacific, including ASEAN. This situation highlights a strategic lag in a global scenario in which value chains, energy transition, and technological innovation are increasingly being articulated in Asia. If Latin America aspires to become more than a passive observer of Indo-Pacific transformations, a strategic shift is needed. State-owned enterprises and private firms could use ASEAN as a platform not only for market access but also for value chain integration, joint ventures in clean technologies, and knowledge spillovers. This would require moving beyond a North–South extractivist paradigm toward a more dynamic South–South investment approach.

For ASEAN, these patterns reaffirm its emerging role as a geopolitical safe harbour and investment hub amid growing global polarisation. The region has managed to attract FDI from competing geopolitical blocs without clearly aligning with either. This non-alignment, or strategic ambiguity, has become an asset, allowing ASEAN to deepen economic ties across the board while minimising political risk exposure. These results reinforce the importance of ASEAN's pragmatic diplomacy and multilateral engagement in safeguarding its economic relevance in a fragmented world.

At the same time, policymakers in the Asia-Pacific region should note the differentiated role that geopolitics plays in shaping FDI sources. For instance, initiatives such as the Free Trade Area of the Asia-Pacific (FTAAP) or the ASEAN+ frameworks could be strengthened by mechanisms that shield investment from geopolitical retaliation and promote confidence-building across regions. ASEAN's strength lies in its ability to remain open without being naïve, and to be strategically engaged without becoming partisan.

Finally, this paper opens several avenues for future research. Our geopolitical alignment measures, while robust, are limited proxies that could be enriched by incorporating indicators of diplomatic intensity, defence cooperation, or elite-level signalling. Additionally, sectoral disaggregation and firm-level heterogeneity in responses to geopolitical risk remain underexplored. Future studies might examine whether capital-intensive, high-tech, or resource-based industries are more sensitive to shifts in alignment.

In conclusion, ASEAN is not just a recipient of geopolitical capital; it is actively shaping the contours of global geoeconomic reordering. For Latin America, the European Union, the United States, and China alike, engaging ASEAN is no longer optional; it is a test of strategic vision. Whether this engagement results in deeper integration or a missed opportunity will depend on the institutional readiness, strategic clarity, and diplomatic adaptability of all parties involved.

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Connecting the Dots: The Convergence of Trade-Based Money Laundering and Environmental Crimes in Southeast Asia

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Abstract

Criminals increasingly resort to trade-based money laundering (TBML) from environmental crimes to conceal illicit funds by exploiting complexities and loopholes in trade transactions. In this study, an extensive analysis was conducted across prominent databases such as Scopus, WoS, and Google Scholar, focusing on TBML and environmental crime research from 2007 to 2025. The study's primary objective is to comprehensively explore the extent of TBML and environmental crime in Southeast Asia while identifying current research trends and the interconnections between these two phenomena. Despite the widespread incidence of environmental crime in the region and substantial evidence of associated money laundering involving natural resources, the findings indicate that scholarly work on TBML remains limited and fragmented. The review further shows that corruption, weak law enforcement capacity, and technological change continue to facilitate TBML. Trade misinvoicing appears to be the dominant laundering technique, complicating detection and weakening enforcement responses. The findings highlight a significant gap between the scale of the problem and the development of the academic literature, underscoring the need for stronger regulatory frameworks, improved enforcement coordination, and greater policy attention to the misuse of international trade for illicit financial flows in Southeast Asia.

Keywords: money laundering, trade-based money laundering, environmental crime, international trade, Southeast Asia

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Introduction

Money laundering represents a profound structural vulnerability to global economic stability, institutional integrity, and the trajectory of sustainable development. Current empirical estimates suggest that illicit financial flows constitute a subterranean economy accounting for 2 percent to 5 percent of global gross domestic product, translating to an annual volume of approximately USD 800 billion to USD 2 trillion (Camdessus, 1998; Ferwerda, 2023; Ferwerda & Unger, 2021). Substantively, money laundering is the clandestine process by which illicitly generated capital is obfuscated, transformed, and seamlessly reintegrated into the formal economy through ostensibly legitimate commercial architectures (Schroeder, 2001; Tanzi, 1996). Far beyond a simple mechanism of concealment, this process allows criminal proceeds to penetrate legal financial systems actively. In doing so, it recycles capital in ways that systematically erode the traceability of unlawful origins, thereby preserving the purchasing power of criminal syndicates. Consequently, these unchecked financial flows distort macroeconomic resource allocation, compromise institutional efforts to dismantle transnational organized crime, and severely obstruct the recovery of stolen assets (Afolabi, 2023; Afolabi & Babatunde, 2025; Masciandaro, 2017; Rikkilä et al., 2021).

Historically, global anti-money laundering (AML) enforcement has concentrated on fortifying the primary entry points of the formal banking and financial sector. This regulatory tightening has inadvertently triggered a displacement effect, prompting criminal actors to reroute illicit value through the highly porous channels of international commerce (Zdanowicz, 2004, 2017). This sophisticated displacement is operationalized through TBML, defined as the strategic exploitation of trade transactions, financing, and associated documentation to disguise the transfer of value and legitimize criminal proceeds (Financial Action Task Force, 2006; Financial Action Task Force & Egmont Group, 2020). By manipulating trade documents, TBML seamlessly embeds illicit value within the high-volume complexities of global supply chains. The enduring persistence of this modality is a direct function of the sheer scale, velocity, and inherent opacity of global maritime and terrestrial trade. This is further compounded by jurisdictional fragmentation, asynchronous customs data, and asymmetric regulatory enforcement across different borders. Consequently, legitimate international trade is systematically co-opted and transformed from a vital engine of economic growth into a covert vehicle for concealing criminal proceeds, evading regulatory scrutiny, and sustaining the operational capacity of broader corruption networks (Hataley, 2020; Marzouk, 2022; Tiwari et al., 2024).

Within this paradigm, environmental crime is uniquely situated to exploit vulnerabilities in the global trading system. Unlike purely digital or financial crimes, environmental crime is inherently physical because it relies heavily on the logistical infrastructure of cross-border trade and commercial documentation to move illicit commodities and their associated capital through formal global markets. Encompassing the illegal extraction, exploitation, and trade of natural resources and environmentally sensitive goods (Financial Action Task Force, 2021; Scott, 2024; Yamaguchi, 2023), this category of crime finds a highly strategic and lucrative foothold in Southeast Asia. The region's dense maritime connectivity, unparalleled biodiversity, and high concentration of valuable natural resources create structural opportunities for criminal actors to physically and financially nest illicit activities within legal trade flows. Empirical evidence from the Global Organized Crime Index underscores a profound regional vulnerability to these offenses, particularly those involving high-value flora and fauna (Bueta, 2021; Dang et al., 2021; Koshy, 2020). Criminal syndicates frequently commingle illicit environmental goods with legitimate cargo, a dynamic that overwhelms the technical, evidentiary, and resource capacities of border authorities, thereby neutralising their ability to identify and disrupt criminal networks operating within formal trading systems.

Despite the intersecting gravity of ecological degradation and financial subversion, the specific nexus between environmental crime and TBML remains critically under-theorized and empirically neglected. While the prevailing literature has extensively documented environmental crime, broad patterns of illicit trade, and localized governance deficits in emerging economies, it has paid surprisingly limited attention to the precise economic, financial, and commercial mechanisms that link environmental exploitation and trade-based money laundering in Southeast Asia.

In this context, the present study synthesizes the relevant scholarly literature, policy reports, and empirical evidence published between 2007 and 2025 to examine TBML activities in relation to environmental crime issues, particularly in Southeast Asia. This longitudinal perspective enables a systematic assessment of the channels, institutional conditions, and operational mechanisms linking these activities. By clarifying this relationship, the study develops a more integrated understanding of an underexamined dimension of illicit trade. It offers policy-relevant insights for anti-money laundering enforcement, customs oversight, and regional regulatory cooperation.

Overview on the Research Trends

To address the research objective and respond to the existing knowledge gap, this study employs a systematic secondary data analysis. A focused search strategy was developed using the keywords presented in Figure 1, and relevant publications were retrieved from the Scopus database for the period 2007 to 2025. The starting point of 2007 was selected because it marks the earliest identifiable study on TBML. The sample includes journal articles, books, book series, and conference proceedings. These records are examined to identify both the historical development and emerging trajectories of the literature. The extracted information was then compiled into a purpose-built Excel dataset using comma-separated values (CSV) and Research Information Systems (RIS) download formats. This approach ensures consistency in data organization and enabled an assessment of publication patterns through descriptive indicators such as frequency counts and percentage distributions.

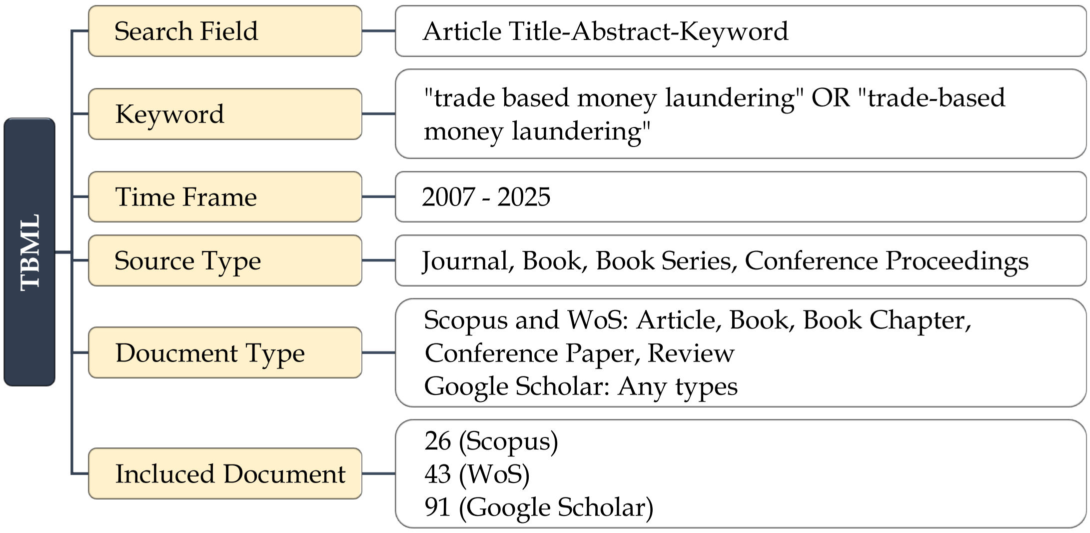


Figure 1. The TBML Search Strategy

The initial search results point to the limited scale of the TBML literature. By the end of 2025, only 26 relevant articles or books were identified in the Scopus database. To place this finding in a broader comparative context, the search was extended to the Web of Science and Google Scholar. Over the same period, WoS returned 43 records, while Google Scholar identified 91 results. To improve precision in Google Scholar, the search was further refined using the command "allintitle trade-based money laundering". A closer review of the retrieved records revealed some overlap across databases, with several publications appearing in both Scopus and the other platforms. Despite differences in database coverage, the evidence consistently indicates that the overall body of TBML research remains limited.

A review of the early literature also reveals several important reference points in the field's development. One of the most influential early contributions was the Financial Action Task Force report *Trade-Based Money Laundering*, published in 2006, which helped shape subsequent policy discussion and scholarly attention. Evidence from Google Scholar further suggests that Zeng-An and Li-Fang (2006) offered one of the earliest academic discussions of TBML in a conference proceeding, focusing on artificial transfer pricing and its estimated contribution to the global money laundering pool. In addition, the WoS database identifies Thanasegaran and Shanmugam (2007) as an early study examining TBML in Malaysia. This contribution is particularly important because it provides one of the earliest country-level analyses of TBML in Southeast Asia. Taken together, these early studies suggest that although TBML has been recognized for nearly two decades, the pace of academic development has remained relatively slow.

This limited development becomes even more apparent when attention shifts to the intersection between TBML and environmental crime. To examine this relationship more systematically, the search strategy was refined by combining the terms "trade-based money laundering" and "environmental crime" within the Article Title, Abstract, and Keyword fields, as shown in Figure 2. This search yielded only one record in Scopus in 2025. WoS produced an equally limited result, identifying one record in the same year by a different author. Such sparse coverage indicates that the direct intersection between TBML and environmental crime remains only marginally represented in the indexed literature. More importantly, it suggests that TBML has not yet been examined in a sustained way as a financial dimension of environmental crime.

To situate this pattern within the broader research landscape, the search was expanded to include the terms “money laundering” and “environmental crimes”. Under this broader search, Scopus returned 28 documents, with the earliest publication appearing in 2014 and annual output rising to six articles in 2025. By contrast, WoS identified only two documents, both published in 2025. Although this broader literature remains modest in size, it nonetheless points to a gradual increase in scholarly interest in the financial dimensions of environmental crime. This contrast is important. While the wider literature on money laundering and environmental crime has started to gain visibility, the specific role of TBML within that nexus remains largely overlooked.

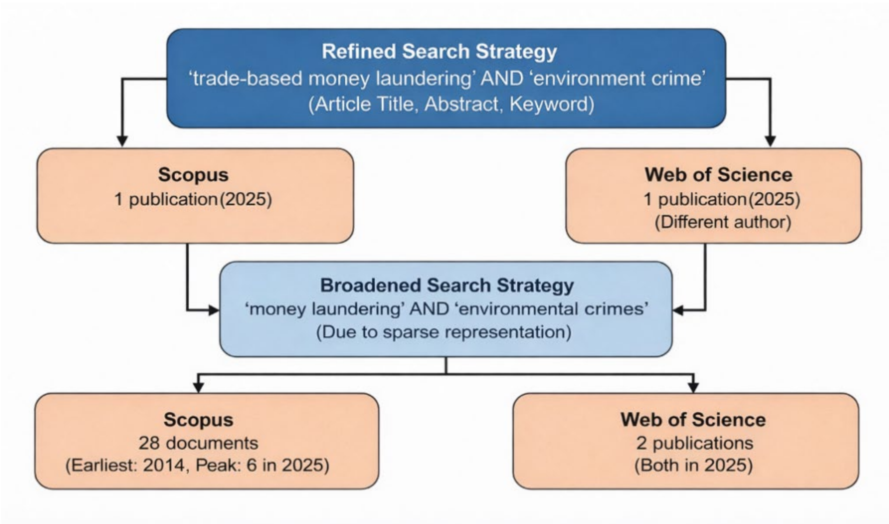


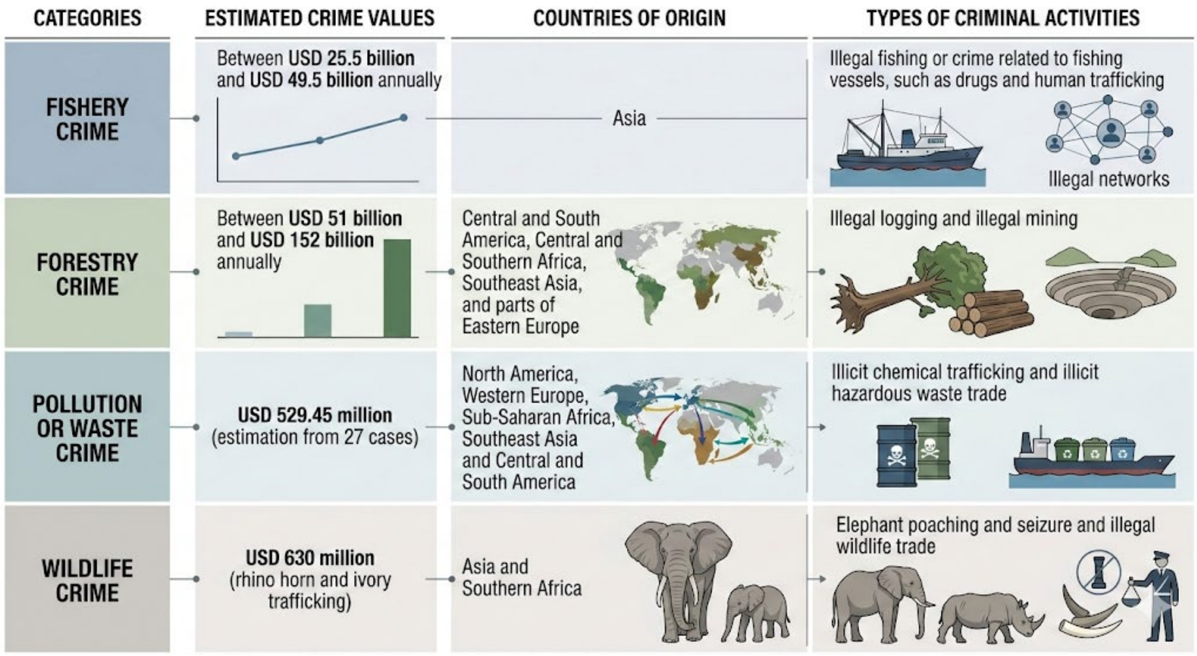
Figure 2. The TBML and Environmental Crime Search Strategy

This gap is particularly significant given recent developments in the policy domain. Financial Action Task Force reports published in 2020 and 2021 contributed to the early recognition of financial concealment as a central feature of environmental crime. However, the limited number of records retrieved from Scopus and WoS suggests that this policy recognition has not yet been matched by equivalent progress in academic research. Much of the existing literature continues to focus on predicate offenses such as illegal logging, wildlife trafficking, illegal fishing, and hazardous waste dumping, often through the related perspectives of corruption, weak governance, and regulatory failure (Arminen & Menegaki, 2019; Cerutti et al., 2013; Cozma et al., 2021; Mohd Noor et al., 2022; Smith, 2023; Sulemana & Kpienbaareh, 2020). By contrast, considerably less attention has been given to the financial mechanisms through which the proceeds of such crimes are concealed and laundered, particularly through international trade channels.

This imbalance in the literature reinforces the need for further inquiry. As Ferwerda (2023) argues, money laundering research remains at a developmental stage and continues to require more credible and reliable estimation approaches. In the context of environmental crime, this limitation is even more pronounced. Existing scholarship has yet to clearly explain how laundering mechanisms operate across environmental crime markets or how trade-based channels may facilitate the movement, disguise, and integration of illicit proceeds. The present study, therefore, contributes by addressing an underdeveloped area of research at the intersection of TBML and environmental crime, where both conceptual understanding and empirical evidence remain limited.

The Rise of Environmental Crimes in Southeast Asia

Environmental crimes comprise illegal activities that damage, exploit, or unlawfully appropriate the natural environment and its resources, including forest crime, illegal wildlife trade, illegal mining of gold and other minerals, illegal fishing, and the illicit trafficking of waste and fuel (Financial Action Task Force, 2021). Within the context of international trade, these offenses are characterised by their transnational nature, generating cascading ecological and socio-economic impacts across regional borders (Lupton, 2023; van Uhm & Wong, 2021; Yamaguchi, 2023). As shown in Figure 3, environmental crimes can be grouped into four main categories, namely wildlife crime, pollution and waste crime, forestry crime, and fishery crime, with Asia, and particularly Southeast Asia, among the most severely affected.



Note: Information was compiled from the International Criminal Police Organization (INTERPOL) and United Nations Environment Programme (UNEP) websites. The origin and direction of each crime type were adapted from Baker (2005) with additional information from the Financial Action Task Force (2021). The image was generated using AI Gemini.

Figure 3. Categories of crime, estimated crime values, countries of origin or direction, and types of criminal activities.

This severity is also reflected in Table 1, which reports persistently high scores for both flora and fauna crimes in Southeast Asia from 2021 to 2025. Flora crime increases from 5.86 in 2021 to 6.18 in 2023 before easing slightly to 6.09 in 2025, indicating sustained pressure from illegal logging, timber trafficking, and related plant-based offenses. Fauna crime is even more pronounced, with scores of 7.09 in 2021 and 7.23 in both 2023 and 2025, the highest in the sample across the observed period and exceeding other high-risk regions such as Central Africa, West Africa, and South America. This persistence indicates that wildlife trafficking and related fauna offenses remain entrenched rather than episodic, underscoring the seriousness of environmental crime in Southeast Asia and providing context for why illicit proceeds generated from these activities may require concealment through mechanisms such as TBML within legitimate trade and financial systems.

Table 1. Flora and Fauna Crimes by Region

Region	**Flora crimes**			**Fauna crimes**		
	2021	**2023**	**2025**	**2021**	**2023**	**2025**
Central Africa	5.73	5.82	5.86	5.64	5.59	5.68
East Africa	4.61	4.94	5.06	5.56	5.94	5.94
North Africa	1.92	1.75	1.58	4.08	4.67	4.83
Southern Africa	4.38	4.69	4.46	5.35	5.65	5.77
West Africa	5.58	5.46	5.57	5.69	5.85	5.77
Caribbean and Central	3.48	3.60	3.82	3.79	3.98	4.33
North America	2.25	2.25	2.25	4.25	4.25	4.50
South America	5.04	5.29	5.67	4.96	5.33	5.75
Central Asia and the Caucasus	2.81	2.88	2.69	3.75	3.69	3.81
Eastern Asia	4.60	4.90	4.70	5.40	5.30	5.40
Southeast Asia	**5.86**	**6.18**	**6.09**	**7.09**	**7.23**	**7.23**
Southern Asia	4.75	5.00	5.06	5.50	5.63	5.75
Western Asia	3.61	3.50	3.43	4.68	4.75	4.82
Central and Eastern Europe	4.12	4.41	4.24	3.88	4.18	3.94
Northern Europe	1.44	1.75	1.94	2.25	2.50	2.56
Southern Europe	2.13	2.25	2.25	3.06	3.19	3.31
Western Europe	2.05	2.36	2.41	3.09	3.18	3.18
Australia and New Zealand	2.50	2.50	2.75	3.50	4.00	3.18
Melanesia	4.60	4.90	6.00	5.80	5.80	6.50
Micronesia	1.00	1.13	1.10	5.63	6.25	6.30
Polynesia	1.17	1.17	1.17	3.50	3.83	4.17

Note: The data was obtained from the Global Initiative Against Transnational Organized Crime 2021, 2023 and 2025. The total score displayed was manually calculated by taking the average index score from the Flora and Fauna crimes index.

Southeast Asia occupies a particularly important position in the global geography of environmental crime because of the interaction among abundant natural resources, strong domestic and international demand, and uneven regulatory capacity. The region’s porous land borders and strategically located maritime routes have increased its attractiveness to organized criminal networks engaged in the cross-border movement of illicit environmental goods (Schaper, 2020). These vulnerabilities are compounded by uneven enforcement across ASEAN member states, which creates opportunities for illegal activities to shift across jurisdictions in response to differences in monitoring capacity and regulatory intensity. Illegal logging remains a notable example, as it continues to drive deforestation and intensify broader environmental and climate-related risks in the region (Mohd Noor et al., 2022). Simultaneously, the illicit trade in endangered species and the burgeoning "e-waste" processing industry in Thailand and Malaysia underscore a shift toward increasingly sophisticated, high-polluting illegal operations (Baldé et al., 2022; Bueta, 2021). Following China’s 2018 "National Sword" policy, which restricted plastic waste imports, Southeast Asia became the primary destination for global waste flows, often bypassing local regulatory controls despite repatriation efforts (Dermatas & Georganti-Ntaliape, 2020; United Nations Office on Drugs and Crime, 2022). These trends suggest that current legal frameworks are failing to keep pace with the scale of the problem, necessitating a shift toward treating these activities as sophisticated financial enterprises.

In recent years, the transition of environmental crime from a regulatory nuisance to a transnational financial threat has been underscored by its deepening integration into global money laundering circuits (Financial Action Task Force, 2020, 2021). The economic incentive structure of these crimes is defined by a high-return, low-risk profile, in which offenders maximize utility by evading taxes, regulatory compliance, and waste-disposal costs. A critical, yet often overlooked, driver of this financial attractiveness is the valuation gap. Unlike fiat currencies or precious metals, environmental resources such as rare timber or minerals, lack standardized, transparent pricing mechanisms (Gan et al., 2016; van Uhm & Nijman, 2022; van Uhm & Zhang, 2022; Yamaguchi, 2023). This structural opacity creates a "valuation vacuum" that criminal syndicates exploit through price manipulation and misreporting to conceal illicit gains (Quah & Tan, 2019). By laundering these proceeds through legitimate financial channels, offenders effectively decouple the illicit origin from the capital, making it increasingly difficult for authorities to disrupt the flow.

TBML as an Operational Conduit

TBML is an illegal activity, causing a direct impact on government finances and public services and fuelling organized crime, thereby threatening economic stability and societal well-being (Financial Action Task Force, 2006; OECD, 2019; Saenz & Lewer, 2022). Financial Action Task Force (2006, p. 3) defined TBML as “the process of disguising the proceeds of crime and moving value through trade transactions (by making false invoices, misrepresenting goods to avoid controls, and breaking other customs and tax laws) to legitimize their illegal origin or finance their activities.”

TBML exploits the infrastructure of international trade to move illicit value across borders while preserving the appearance of legitimate commerce. Operationally, it relies on manipulations of trade documentation and shipment attributes, including false invoicing, fabricated supporting documents, and misstatements of value, quantity, ownership, origin, or product characteristics. Reported typologies also include phantom shipments and multiple invoicing for a single consignment, which complicate verification and increase concealment capacity (Financial Action Task Force & Egmont Group, 2020).

The structural features of cross-border commerce create particularly favorable conditions for laundering proceeds derived from environmental crime. Consistent with Becker's (1968) rational choice framework, TBML reflects strategic behavior that exploits opacity in supply chains, the multiplicity of intermediaries, and the administrative complexity of trade finance and customs procedures (Batayneh et al., 2022; Mavrellis, 2021a, 2021b). By embedding illicit value within routine trade flows, criminal networks can circumvent AML controls and weaken domestic revenue mobilization, particularly in developing economies. Evidence from the Environmental Investigation Agency's crime tracker indicates a marked increase in recorded illegal timber trade incidents over time, rising from 27 incidents in 2006 to 2010, to 423 in 2011 to 2015, 849 in 2016 to 2020, and 809 in 2021 to 2025. This pattern suggests that illegal timber trade has become more pervasive and systematically documented in recent years. However, these figures should be interpreted with caution because the EIA crime tracker is a relatively new database and early observations, especially before 2005, are sparse or unavailable. As a result, the reported incidents are unlikely to capture the full scale of the problem. Further evidence from Indonesia-Singapore trade discrepancies shows that systematic export under-invoicing generated an estimated USD 563 million in forgone tax revenue over four years (Rusydi et al., 2023). These vulnerabilities are compounded by oversight is uneven across trade intermediaries and financial institutions, enabling illicit actors to penetrate the formal financial system through weaknesses in governance and supervision (Masciandaro, 2013; Naheem, 2017).

Empirically, TBML measurement remains contested, and the literature has therefore developed along complementary qualitative and quantitative lines. Case-based research has been important in clarifying practical laundering mechanisms that are not captured in aggregate statistics (Hataley, 2020; Morshed & Rahman, 2021; Sinno et al., 2023; Tiwari et al., 2024). Quantitative studies, in turn, use bilateral trade records to construct indicators of exposure, often through models designed to detect anomalies consistent with illicit value transfer. Within this strand, trade misinvoicing is typically defined as deliberate falsification of prices, quantities, or product attributes in official documentation to transfer value across borders while maintaining an outwardly legitimate transaction record (Kwaramba et al., 2016; Patnaik et al., 2012; Umar, 2023). (Global Financial Integrity, 2023) identifies misinvoicing as the dominant operational method and reports that it accounts for 63 percent of documented cases.

Trade misinvoicing is commonly implemented through under-invoicing or over-invoicing of declared import and export values (McSkimming, 2010; Soudijn, 2014; Zdanowicz, 2017). Over-invoicing inflates declared values to justify outward transfers beyond the true commercial payment obligation. Under-invoicing suppresses declared values to reduce customs duties and tax liabilities, while enabling covert capital movement. Both practices weaken trade controls, reduce fiscal capacity, and facilitate laundering while transactions retain documentary features consistent with lawful trade (Kravchenko & Duval, 2022; Tandon & Rao, 2017; Umar, 2023). Developmental implications are especially severe in settings where enforcement capacity and fiscal space are constrained. Longitudinal evidence for 134 developing economies over 2009 to 2018 documents persistent and geographically concentrated discrepancies, with several Southeast Asian economies among those exhibiting large divergences between reported bilateral trade values (Global Financial Integrity, 2023). Such patterns are consistent with the view that misinvoicing is structurally embedded within illicit financial flows rather than an episodic irregularity, with cumulative losses limiting public investment and progress towards the Sustainable Development Goals (SDGs).

The TBML and environmental crime nexus further intensifies evidentiary and enforcement challenges because falsification often extends beyond valuation to product identity, legality, and provenance. Trade documentation can be used to reclassify illegally extracted resources as lawful commodities, thereby enabling criminal proceeds to enter formal trade channels (Financial Action Task Force, 2021). Illustrative cases include minerals shipped under invoices that misstate origin, rosewood misdeclared as tea leaves, and illegal timber concealed within otherwise legitimate consignments (Mugyenyi et al., 2023). These examples indicate that laundering in environmental crime settings frequently combines price manipulation with product misdescription, obscuring both illicit value transfer and the unlawful ecological origin of the goods.

Despite its analytical usefulness, the literature cautions against interpreting bilateral trade discrepancies as direct measures of TBML volumes. Gaps can arise from reporting lags, valuation conventions, timing mismatches, classification errors, and non-criminal capital flight dynamics (Soudijn, 2014). Alternative estimation approaches, including the Gross Excluding Reversals method, aim to reduce noise in trade-gap measures, yet debates persist regarding their validity across developing and transitional economies. Collin (2020) argues that this method may insufficiently account for legitimate structural sources of trade gaps and may therefore overstate illicit flows. On this basis, trade misinvoicing estimates are most defensible as indicators of elevated TBML exposure rather than one-to-one measures of laundering activity.

Institutional Asymmetry, Regulatory Arbitrage, and Digital Opacity in TBML

TBML is best understood not as a discrete compliance failure but as a mechanism for transferring illicit value through cross-border commercial transactions under conditions of weak observability. In this context, corruption is not merely a background risk. It is a structural enabler that lowers transaction costs for illicit actors and weakens the credibility of regulatory verification across the trade chain. By influencing customs inspection, invoice validation, licensing procedures, and enforcement discretion, corruption allows manipulated trade documents and mispriced transactions to be embedded within otherwise legitimate commercial activity (Cerutti et al., 2013). Its central role lies in reducing the probability that discrepancies between the real and declared value of trade are detected and sanctioned. This risk is especially salient in Southeast Asia, where substantial variation in governance quality and political stability creates pronounced institutional asymmetries across jurisdictions (Schoeberlein, 2020). These asymmetries produce uneven regulatory intensity and fragmented monitoring capacity, which in turn create opportunities for regulatory arbitrage. Illicit actors can redirect trade flows, payment arrangements, and documentary practices towards jurisdictions characterized by weaker enforcement, lower transparency, or higher susceptibility to administrative capture. TBML, therefore, should not be viewed solely as transaction-level manipulation. It is also a regional phenomenon sustained by cross-country variation in state capacity and institutional integrity.

The persistence of TBML further reflects a widening gap between the sophistication of laundering techniques and the adaptive capacity of regulatory systems. Criminal networks increasingly rely on multi-layered invoicing practices, shell entities, third-party intermediaries, and fragmented logistics arrangements that obscure the economic substance of trade transactions (Nellemann et al., 2018). By contrast, supervisory institutions often remain constrained by limited data integration, weak inter-agency coordination, and resource-intensive monitoring procedures. This creates an enforcement lag in which illicit actors can innovate faster than regulators can respond. As a result, formal compliance frameworks may appear extensive while remaining limited in operational effectiveness. The related weakness concerns the architecture of AML reporting itself. Although broad disclosure requirements are intended to strengthen detection, excessive reporting can reduce informational efficiency by generating a high volume of low-value signals. Dalla Pellegrina et al. (2023) characterize this as a crying wolf problem in which regulators and financial intelligence units are overwhelmed by large quantities of low-quality reports, making it harder to isolate genuinely suspicious activity.

In the context of TBML, this is particularly problematic because illicit value transfer is often concealed within ordinary trade transactions and thus cannot be identified solely through volume-based reporting alone. When monitoring systems privilege quantity over precision, the net effect may be weaker, rather than stronger, detection. The literature, therefore, increasingly favors a risk-based regulatory approach that allocates supervisory resources according to transaction complexity, sectoral vulnerability, and jurisdictional exposure. Financial penalties remain relevant, but their effectiveness depends on stronger transparency requirements, better ownership disclosure, and closer coordination between customs, financial intelligence, and enforcement agencies (Mathuva et al., 2020). From this perspective, the regulatory gap is not simply the absence of rules. It reflects the limited ability of fragmented supervisory systems to respond to increasingly integrated and mobile forms of illicit finance.

Technological change compounds these vulnerabilities by creating new channels through which value can be transferred outside traditional banking structures. Cryptocurrencies are particularly important because they enable decentralized and partly anonymous cross-border transfers, thereby weakening the conventional link between trade transactions and regulated payment systems (Dupuis et al., 2022; Dupuis & Gleason, 2021;

Hossain, 2020; Usman et al., 2025). This development does not replace TBML. Instead, it expands its operational scope by allowing the financial side of a transaction to be settled through digital assets. In contrast, the trade side remains obscured through manipulated invoices, falsified shipment records, or misleading customs declarations.

In Southeast Asia, the increasing diversification of financing methods among illicit and extremist networks indicates that digital assets are becoming more relevant within regional laundering systems (Arianti et al., 2020). This convergence is also evident in Lao PDR, particularly in the Golden Triangle Special Economic Zone, where cyber-enabled fraud has been linked to money laundering and underground banking within broader transnational criminal networks (United Nations Office on Drugs and Crime, 2025). Their importance in the TBML context lies in their capacity to reduce reliance on conventional financial intermediaries and to weaken the evidentiary connection between declared trade values and actual financial flows. As a result, practices such as over-invoicing, under-invoicing, and false shipment arrangements become more difficult to detect through conventional anti-money laundering tools. This opacity is further intensified by the integration of crypto-assets into wider trade and payment infrastructures. Crypto-enabled interfaces, including virtual asset cash conversion points, create additional opportunities for layering and integration of illicit funds (Linares, 2022; Mohamed Yousop et al., 2024). When combined with shell companies, falsified trade documentation, and cross-border intermediaries, these mechanisms produce laundering structures that are increasingly fragmented and difficult to reconstruct. The regulatory challenge therefore extends beyond the detection of suspicious trade documents to the broader task of identifying how digital settlement mechanisms can detach the transfer of value from the formal trade record.

Conclusion

The link between TBML and environmental crime in Southeast Asia remains a major challenge for governance, enforcement, and measurement. Its persistence reflects not only the adaptability of illicit actors but also structural weaknesses in the systems designed to detect and deter illicit financial activity. Illegal logging, wildlife trafficking, illegal mining, and related environmental offenses generate substantial rents that can be concealed within seemingly legitimate trade transactions and then integrated into the formal economy. This issue should therefore be understood not merely as an environmental concern, but as a wider problem of institutional weakness and financial integrity, in which ecological harm is transformed into private gain through deficiencies in trade oversight, financial supervision, and cross-border enforcement.

A central obstacle is the limited availability of operational data and actionable intelligence on laundering networks. This restricts researchers' ability to develop robust typologies and limits practitioners' capacity to estimate exposure and evaluate enforcement effectiveness with confidence. The challenge is exacerbated by the fragmented distribution of information across customs authorities, financial intelligence units, environmental regulators, law enforcement bodies, and private intermediaries involved in trade finance and logistics. Where these systems remain poorly connected, suspicious transactions can be embedded within ordinary commercial activity without generating a sufficiently clear risk signal. Enforcement consequently becomes reactive and episodic, relying on isolated intelligence rather than coordinated detection across agencies and jurisdictions.

The difficulty of detection is further compounded by persistent valuation problems. Environmental commodities often vary in quality, legality, origin, and marketability, while pricing is shaped by local market conditions, transport costs, and opaque supply chains. These characteristics make it difficult to construct reliable benchmarks for customs valuation and forensic accounting. Such uncertainty creates scope for deliberate mispricing, quantity manipulation, and product misclassification. More importantly, weak valuation benchmarks do not merely reduce technical precision. They also undermine evidentiary standards, complicate proof of intent, and weaken prosecutorial capacity. In effect, valuation gaps lower the expected cost of offending and preserve the profitability of environmental crime. These weaknesses reveal how institutional deficiencies in trade and financial governance can facilitate the translation of ecological destruction into apparently legitimate wealth.

This diagnosis points to a broader implication. TBML associated with environmental crime persists because illicit proceeds are concealed within governance systems that do not adequately connect environmental regulation, customs control, and anti-money laundering supervision. Policy responses that rely narrowly on compliance reporting or isolated enforcement actions are therefore unlikely to achieve durable results. What is required is a more integrated framework in which environmental crime is treated as a material predicate risk within trade and trade finance supervision. Such a shift would recognize that failures in environmental governance, border administration, and financial oversight are mutually reinforcing rather than analytically separate.

Recent regional developments suggest that this broader framing is emerging. The Association of Southeast Asian Nations (ASEAN) Leaders' Declaration on Combating Money Laundering, adopted at the 47th ASEAN Summit in Kuala Lumpur on 26 October 2025, indicates that money laundering is increasingly viewed as a regional security and governance concern rather than a narrow compliance matter. Public reporting surrounding the Summit highlighted stronger regulation, closer intelligence sharing, and deeper inter-agency coordination (Association of Southeast Asian Nations, 2025). The Chairman's statement also welcomed the establishment of the ASEAN Senior Officials Meeting on Transnational Crime Working Group on Money Laundering, providing a regional platform to address the links between laundering and other forms of transnational crime. This institutional development is especially important because it aligns regional priorities with SDG 16, particularly Target 16.4, which calls for a substantial reduction in illicit financial flows, stronger recovery and return of stolen assets, and more effective action against organised crime by 2030.

To translate these commitments into operational progress, AML frameworks in Southeast Asia need to incorporate environmental crime risk more explicitly into trade and trade finance supervision. Financial institutions and trade finance providers should recognize environmental crime as a material predicate risk rather than a peripheral compliance issue. Where trade documents, routing patterns, beneficial ownership structures, or supply chain characteristics indicate elevated exposure, environmental risk indicators should be incorporated into customer due diligence, transaction monitoring, and escalation processes. This requires more than general regulatory expectations. Supervisors must provide clear typologies, sector-specific red flags, and practical guidance that enable institutions to connect documentary anomalies with potential environmental illegality. It also requires stronger capability across the wider network of gatekeepers, including banks, customs brokers, freight forwarders, and designated non-financial businesses. Without this operational translation, high-level commitments are unlikely to produce meaningful gains in detection or deterrence.

Improved supervision, however, depends on stronger measurement capacity. Illicit financial flows linked to environmental crime are inherently difficult to quantify because the evidentiary record spans trade documentation, payment systems, corporate ownership structures, and indicators of ecological harm. No single dataset or estimation method can capture the full scale of the problem. This makes measurement necessarily partial and methodologically plural. However, imperfect measurement should not be mistaken for analytical paralysis. For Southeast Asia, progress is likely to come from more effective governance of trade and payments data, stronger integration between customs and financial intelligence, and structured feedback loops through which insights from investigations are used to refine monitoring models and supervisory priorities. Measurement in this context is not simply descriptive. It is integral to institutional learning and to the improvement of prevention and enforcement strategies.

A related issue concerns how policy success is assessed. Asset recovery should be treated as a core outcome rather than a secondary by-product of enforcement. Indicators such as suspicious transaction reports, investigations initiated, or institutional reforms adopted remain useful, but they do not in themselves show that illicit gains are being effectively disrupted. Target 16.4 makes clear that reducing illicit financial flows is inseparable from the recovery and return of stolen assets. In the context of environmental crime, this is particularly salient because confiscating criminal proceeds weakens the financial incentives that sustain ecological destruction. It also provides a more demanding test of whether tracing mechanisms, cross-border cooperation, and inter-agency coordination are functioning effectively in practice. A credible regional strategy must therefore prioritize the capacity of competent authorities to identify, freeze, confiscate, and, where appropriate, return assets before they are dissipated or transferred beyond reach.

Future research should deepen the understanding of the interaction between TBML, corruption, enforcement capability, and technological change. More evidence is needed on the mechanisms through which governance quality affects misinvoicing risk, the extent to which digitalization in customs and payments enhances detection, and the forms of institutional coordination that produce stronger outcomes in investigation, confiscation, and prosecution. There is also a need to examine how environmental risk indicators can be incorporated into anti-money laundering systems without creating excessive false positives or imposing disproportionate burdens on legitimate trade. Advancing this research agenda would strengthen the empirical foundations of policy reform and improve the alignment between regulatory ambition and operational feasibility.

To conclude, TBML arising from environmental crime in Southeast Asia is best understood as a systemic problem shaped by illicit market incentives, institutional fragmentation, and weak observability. The policy challenge does not lie simply in adopting stricter rules. It lies in building governance arrangements that connect environmental enforcement, trade oversight, and financial supervision in a coherent and timely manner. Stronger regional coordination, more integrated data systems, clearer supervisory expectations, and sustained investment in enforcement capabilities are essential for ASEAN member states. Together, these measures can reduce the opportunities through which environmental harm is transformed into laundered wealth. Strengthening the response to TBML is therefore not only a matter of financial integrity. It is also essential to improve governance quality, protect natural resources, and reinforce the credibility of sustainable development commitments.

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The Impact of ASEAN-India Free Trade Agreement on Palm Oil Export Performance: A Comparative Study of ASEAN-3

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Abstract

India is the world's largest importer of palm oil, with a significant share sourced from ASEAN-3 countries—Indonesia, Malaysia, and Thailand. The ASEAN-India Free Trade Agreement (AIFTA), implemented in 2010, aimed to strengthen trade ties by reducing tariffs on palm oil. However, previous studies have produced mixed results regarding AIFTA's effectiveness, highlighting the need for further analysis. This study examined the impact of AIFTA on the palm oil export performance of ASEAN-3 countries by evaluating their competitiveness in the Indian market using Revealed Comparative Advantage (RCA), Export Product Dynamics (EPD), and Ordinary Least Squares (OLS) gravity models. Utilizing secondary data from 2007 to 2021 sourced from UN Comtrade, the World Bank, and CEPII, the study assessed competitiveness, identified export trends, and explored trade creation and diversion effects. Findings from the RCA and EPD

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analyses indicate declining competitiveness for Indonesia and Malaysia, while Thailand shows notable improvement. Despite tariff concessions under AIFTA, the gravity model reveals no significant trade creation effect, suggesting that non-tariff factors—such as India's domestic production policies, export duties, and geographic proximity—play a more influential role. The study concludes that AIFTA's impact on the palm oil trade remains limited. To enhance export performance, ASEAN-3 countries must pursue product diversification, sustainability initiatives, and strategic trade reforms. These insights offer valuable guidance for policymakers aiming to optimize FTA outcomes and navigate evolving market dynamics.

Keywords: AIFTA, gravity model, palm oil

Introduction

India holds the position of being the world's largest importer of palm oil, with significant imports recorded in 2021. Crude palm oil (HS code 151110) accounted for USD 8,317 million, representing 52 percent of the total imports. In contrast, other palm oil (HS code 151190) amounted to USD 1,251 million, accounting for 4 percent of the total imports. Among the exporting countries, Indonesia, Malaysia, and Thailand, collectively known as the ASEAN-3 countries, dominate the palm oil market in India. They hold a substantial market share, accounting for 92 percent of HS code 151110 and 75 percent of HS code 151190 (International Trade Centre, n.d.-b, n.d.-c).

The ASEAN-3 countries have established themselves as key suppliers of palm oil to meet India's growing demand. With the signing of the ASEAN-India Free Trade Agreement (AIFTA) in 2009 and its implementation in 2010, the import duties on palm oil from ASEAN-3 countries have gradually decreased from 80 percent and 90 percent (based on the 2007 Most Favored Nation base rate) to 37.5 percent and 45 percent for HS codes 151110 and 151190, respectively. The tariff reduction is expected to have a positive impact on palm oil exports from ASEAN-3 countries to India. However, a study by Glorius et al. (2021) finds that Indonesia's membership in AIFTA does not have a significant impact on Indonesian palm oil exports. On the other hand, Lakshmi et al. (2024), who examine the overall impact of AIFTA on the export performance of ASEAN-3 countries, discover a positive and significant effect on the palm oil trade between ASEAN member countries and India, indicating trade creation effects.

The two aforementioned studies used the gravity model approach but reached different conclusions when presented in aggregate and disaggregate form. This discrepancy is influenced by multiple factors that affect the impact of a Free Trade Agreement (FTA), including the size of the economy or gross domestic product (GDP), geographical distance (Ramaswamy et al., 2021), language used (Su et al., 2023; Yamanouchi, 2019), historical relationships (Yamanouchi, 2019), infrastructure, and border waiting times (Ijirshar, 2022;

Mao et al., 2024). Furthermore, the competitiveness of a country's industry (Cho & Choi, 2025), the strength and readiness of the national industry to compete with industries from other countries in the resulting free market, also determine the extent of the impact of an FTA.

Against this background, the present study aims to assess and compare the impact of the AIFTA on palm oil export performance in each of the ASEAN-3 countries. To achieve this, the study applies the OLS approach, complemented by the Revealed Comparative Advantage (RCA) and Export Product Dynamic (EPD) methods. By integrating the RCA and EPD approaches within the context of AIFTA, this research aims to address the existing research gap, which has hitherto predominantly relied on gravity model analysis when examining the impact of AIFTA. Given that over a decade has elapsed since the implementation of AIFTA and considering the substantial role of palm oil as a key export product for ASEAN-3 countries, this study aims to provide deeper insights into the impact of AIFTA on the palm oil sector.

Ultimately, the findings of this research are expected to serve as a foundation for government policies concerning the development of trade and industry sectors in the ASEAN-3 countries particularly within the palm oil sector, which is a commodity selected for its status as the primary driver of the trade balance between India and the ASEAN-3 (International Trade Centre, n.d.-b, n.d.-c). While this study provides a regional analytical framework, its findings necessitate country-specific policy applications. Indonesia and Malaysia must prioritize downstream industrialization to mitigate declining competitiveness (Husin et al., 2023), whereas Thailand's trends suggest a need for scaling strategies to leverage its emerging comparative advantage (Sowcharoensuk, 2022). Furthermore, this research identifies a structural tension between AIFTA's liberalization objectives and India's domestic import substitution policies, such as the National Mission on Edible Oils – Oil Palm (NMEO-OP) which was launched in 2021. To reconcile these conflicts, it is proposed that ASEAN-3 nations shift from tariff-focused negotiations toward advocating for the institutionalization of sustainability certifications, especially the Indonesian Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO) standards within the AIFTA framework, thereby aligning export strategies with India's evolving environmental and food security priorities. This becomes particularly relevant in light of the global competition within the palm oil trade. By enhancing our understanding of the impact of AIFTA, this study strives to contribute to informed decision-making and facilitate the formulation of effective strategies in this crucial sector.

Literature Review

International trade constitutes a significant aspect of economic relations between countries. This is based on Ricardo's comparative advantage theory in *Principles of Political Economy and Taxation*, which state that international trade is shaped by disparities in technology, labor productivity, and production costs across sectors in different countries (Kanupriya, 2025). Thus, a country can benefit from international trade by specializing in the production of goods with lower opportunity costs across sectors rather than other countries.

In the context of ASEAN-3 (Indonesia, Malaysia, and Thailand), a country may enjoy a comparative advantage in palm oil production due to abundant natural resources, a suitable tropical climate, and a skilled labor force in the agribusiness sector. These advantages contribute to the prominence of the ASEAN-3 in the global palm oil market, which is experiencing a rise in demand, particularly in developing countries such as India. This is reflected in the high level of palm oil production in ASEAN-3 countries (Food and Agriculture Organization, 2023). As a result, the ASEAN-3 countries have emerged as dominant actors in the global palm oil market, supplying a substantial share of international demand, particularly in rapidly growing developing economies such as India.

Despite the multilateral trade liberalization framework established under the World Trade Organization (WTO), many countries continue to pursue regional and bilateral trade agreements to deepen economic integration (Fontagne et al., 2023; Obradovic, 2012). Furthermore, FTA elucidates the advantages of eliminating trade impediments between nations, thereby stimulating the circulation of commodities, services, and investment capital. The AIFTA represents a significant step towards enhancing economic relations between the member states of the Association of Southeast Asian Nations (ASEAN) and India (ASEAN, 2012). Preferential trade agreements such as the AIFTA allow participating countries to reduce tariffs and non-tariff barriers more extensively and more rapidly than what is typically achieved under the WTO framework. From an economic perspective, such agreements are often motivated by the desire to strengthen regional supply chains, improve market access, and enhance trade competitiveness in strategic sectors (Dixon et al., 2018). The elimination or reduction of tariffs on a range of commodities, including palm oil, offers the ASEAN-3 the opportunity to enhance the competitiveness of their products in the Indian market. The AIFTA enables the ASEAN-3 countries to access the Indian market at a reduced cost, thereby expanding export potential and reducing dependence on other traditional markets (Sudan, 2022).

The effects of the FTA can be observed through two principal mechanisms, namely trade creation and trade diversion. The phenomenon of trade creation occurs when the removal of trade barriers allows a country to import goods from other countries that are more efficient than domestic production. Conversely, trade diversion occurs when trade is diverted from more efficient producers outside the FTA region to producers within the region who benefit more from tariff removal. With AIFTA, it is anticipated that tariffs on palm oil will be reduced, creating new trade opportunities that may increase export volumes from ASEAN-3 to India (Das & Borkakoty, 2022; Glorius et al., 2021). Furthermore, the impact of such trade may afford ASEAN-3 a competitive advantage over palm oil exporters from outside the region, such as those in South America. In the context of AIFTA, tariff reductions on palm oil products potentially facilitate increased exports from ASEAN-3 countries to India by lowering market entry costs and improving price competitiveness (Das & Borkakoty, 2022). However, some studies argue that preferential agreements can also generate trade diversion effects by favoring member countries over potentially more efficient global suppliers (Ornelas et al., 2021). Therefore, evaluating the net trade impact of AIFTA requires empirical analysis of export performance and competitiveness.

A country's competitiveness in international markets is influenced by a number of factors, including quality, product pricing, production process efficiency, company strategy, and government policy. The ASEAN-3 countries have a competitive advantage in palm oil production due to their efficient production costs and proactive export policies. ASEAN-3 countries also account for a significant share of global palm oil production (Food and Agriculture Organization, 2023). However, this competitiveness is also affected by several challenges, including fluctuations in international palm oil prices, pressure from trade protection policies in destination countries, and environmental issues associated with palm oil production. In particular, sustainability concerns and protectionist policies in some importing markets have introduced additional complexities for palm oil exporters.

The performance of ASEAN-3 palm oil exports to India can be seen in terms of export volume, export value, market share in India, and tariff reductions under AIFTA. The performance of ASEAN-3 palm oil exports to India is influenced by a number of factors, both internal and external. Internal factors include the productivity and efficiency of the palm oil sector. In contrast, external factors include the level of demand for palm oil in India and trade policies enacted by the Indian government. With AIFTA, it is anticipated that palm oil exports from ASEAN-3 to India will increase, supported by tariff reductions that will make the product more competitive in comparison to producers outside the region. However, the magnitude of these effects may vary depending on domestic production capacity, international demand conditions, and policy changes in importing countries. Therefore, analyzing export competitiveness and trade dynamics under AIFTA is essential to understand the evolving role of ASEAN-3 in the Indian palm oil market. India represents one of the largest vegetable oil importers in the world, with palm oil accounting for a significant share of its total edible oil consumption. Rapid population growth, urbanization, and rising income have substantially increased India's demand for edible oils, while domestic production remains insufficient to meet national consumption needs. Consequently, India relies heavily on imports from major producers such as Indonesia and Malaysia, making it a strategically important market for ASEAN palm oil exporters (Irshad et al., 2025).

Research Method

This study uses secondary data on palm oil export data (HS codes 151110 and 151190), GDP, population, exchange rates, and economic distance from ASEAN-3, collected from various sources such as UN Comtrade, the World Bank, and CEPII (see Table 1). The data covers 15 years from 2007 to 2021, encompassing the years before and after the implementation of the AIFTA in 2010. This timeframe enables a comprehensive analysis of the impact of the agreement. The collected data will be analyzed within the framework of macroeconomics using various methods to address the research objectives.

Table 1. Data sources

Variable	Description	Source	Website
Palm oil exports (HS 151110 and HS 151190)	Export value (USD)	UN Comtrade	https://comtrade.un.org
Gross Domestic Product (GDP)	Current USD	World Bank	https://data.worldbank.org
Population	Total population	World Bank	https://data.worldbank.org
Exchange rate	Official Exchange Rate (LCU/USD)	World Bank	https://data.worldbank.org
Economic distance	Bilateral distance (km)	CEPII	http://www.cepii.fr

The first method employed is the Revealed Comparative Advantage (RCA) method, introduced by Balassa (1965) to assess a country's competitiveness in the global market. This method compares a country's export share of a commodity to the global export share of that commodity. RCA plays a crucial role in evaluating a country's position in international trade. A high RCA value indicates a comparative advantage in producing and exporting a specific commodity, while a low RCA value suggests a lack of comparative advantage.

Furthermore, RCA is valuable in identifying the competitive position and potential of commodities in international trade. Commodities with high RCA values can be prioritized for development initiatives to enhance their global competitiveness. Monitoring the annual dynamics of RCA values provides a reference for evaluation and informs the formulation of strategic measures to improve global competitiveness. Previous studies have used RCA to measure international competitiveness, particularly in the agricultural sector (Tao et al., 2025; Tapia et al., 2025). Mathematically, RCA can be formulated as in Equation 1 (Tapia et al., 2025):

$$\boldsymbol{RCA} = \frac{(\frac{Xki}{Xti})}{(\frac{Xk}{Xt})} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Xki represents the export value of country i for commodity k, Xti represents the total export value of country i for all commodities, Xk represents the total export value of all countries for commodity k, and Xt represents the total export value of all countries for all commodities.

The RCA index ranges from 0 to infinity. A value less than 1 indicates a lack of competitiveness in the exported commodity, while a value greater than 1 indicates competitiveness. A higher RCA value reflects a higher level of competitiveness for the exported commodity in the target market.

The second method is the Export Product Dynamics (EPD) concept, which measures a country's export performance for a specific market. EPD generates an EPD matrix that combines market attractiveness and business strength information (Faujan & Bachtiar, 2024).

This matrix identifies product position characteristics in four quadrants. Rising Star represents an ideal condition in which demand in the destination market increases while, at the same time, a country's export market share also expands. In this position, the product demonstrates relatively rapid growth in market share, indicating strong competitiveness and reflecting the most favorable or optimal market position (Akbar & Widyastutik, 2022). Falling Star indicates a condition in which a country's total export market share records positive growth (greater than zero), while the export market share of a particular product or commodity declines. This position is considered more favorable than the Lost Opportunity category, as the overall export share continues to grow despite a reduction in the market share of the specific commodity (Destiningsih et al., 2020). Lost Opportunity position refers to a market condition characterized by an unexpected decline in a country's export market share, resulting in the loss of potential export opportunities in international trade. This category is marked by a decrease in market share for a product that is otherwise experiencing dynamic growth in the global market. Such a situation implies that the global supply and demand for the product are expanding faster than the country's ability to supply it, leading to a relative decline in its competitiveness (Ikasari, 2024). Retreat indicates a decline in a country's export market share for a particular product, accompanied by a contraction in total exports, thereby placing the product in a less competitive and stagnant position in the international market (Firdausy et al., 2025). Furthermore, the four EPD quadrants can be seen in Figure 1 (Luhur et al., 2019).

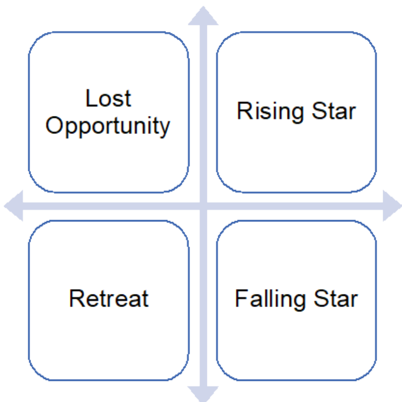

Figure 1. Product Position in EPD

The third method used is OLS approach commonly employed method in gravity models. It analyzes trade creation and the impact of trade diversion within the context of the FTA (Jagdambe & Kannan, 2020). This approach enables a comprehensive evaluation and comparison of the impact of AIFTA on palm oil export performance across ASEAN-3 countries. By employing these methodologies and considering specific factors related to the palm oil trade, this study aims to provide a detailed understanding of the impact of AIFTA on the export performance of palm oil in each ASEAN-3 country.

Analysis

Initiatives to Increase Local Palm Oil and Other Oil Seeds Production in India

With a population of 1.4 billion people in 2021 (World Bank, 2020), India ranks as the world's second-largest consumer of palm oil, accounting for 13 percent of global palm oil consumption. To meet its demand, India imports palm oil from various countries, primarily Indonesia and Malaysia, which held market shares of 63 percent and 30 percent, respectively, in 2020 (International Trade Centre, n.d.-a). In fact, India stands as the largest palm oil importer globally, with imports reaching 8.1 million tons in 2021, representing 18 percent of the total global palm oil imports (WWF-India, 2020; International Trade Centre, 2023).

One of the challenges anticipated due to India's large population is the projected doubling of palm oil imports by 2030 (Lakshmi et al., 2022). To address this, the Indian government has implemented several programs aimed to boost domestic palm oil production. The first program, the Oil Palm Development Programme (OPDP), was launched in 1991 under the Technology Mission on Oil Seeds and Pulses (TMOP). It focused on expanding palm oil cultivation in six states: Andhra Pradesh, Karnataka, Tamil Nadu, Orissa, Gujarat, and Goa. In 2004, the OPDP program was incorporated into the Integrated Scheme of Oilseeds, Pulses, Oil Palm & Maize (ISOPOM), expanding the scope of land expansion to 12 states (Ministry of Agriculture of India, 2011), and extending into the 2010s, further supported this goal by providing subsidies and promoting high-yielding seed varieties (Jha & Kumar, 2019). In addition to palm oil production, India has emphasized increasing domestic oilseed cultivation to reduce its reliance on palm oil imports. The National Food Security Mission (NFSM), initiated in 2007, has consistently designed and implemented various strategies to enhance oilseed productivity, including for mustard, soybeans, and sunflowers. Although the NFSM is recognized for its significant role through its strategic focus and policy interventions, recent data indicate a decline in productivity for soybean and sunflower. This finding suggests that the achievement of productivity gains has not been uniformly realized across all target crops and implementation periods, despite intensive efforts (Patel et al., 2024). Nevertheless, rather than diminishing its importance, this outcome underscores the need to frame its role as a "viable alternative" within a broader strategy, one that contributes to a more diversified domestic edible oil portfolio, collectively aimed at reducing India's overall import dependency, rather than functioning as a direct, volumetric substitute for palm oil, which continues to hold substantial yield advantages.

In 2011, the Indian government initiated the Oil Palm Area Expansion (OPAE) program as part of the Rashtriya Krishi Vikas Yojana (RKVY), a financing scheme to support the agricultural sector and achieve 4 percent agricultural growth. The OPAE program aimed to open at least 60,000 hectares of new palm oil plantations between 2011 and 2012, with a focus on areas near processing plants to enhance technical and economic feasibility. The target production was set at 250 to 300 thousand tons within five years since the program's implementation (National Food Security Mission, 2011). Simultaneously, India's soybean production has also expanded considerably, driven by research and development efforts by the Indian Institute of Soybean Research (IISR) and the Indian Council of Agricultural

Research (ICAR) (Patel et al., 2024). The introduction of high-yielding soybean varieties and improved farming techniques has contributed to increased domestic production, reducing the country's dependency on palm oil imports.

Furthermore, the Indian government's drive towards self-sufficiency in palm oil production is evident in the National Edible Oil Mission-Oil Palm (NMEA-OP), launched in 2021. This initiative aims to expand oil palm cultivation to 1 million hectares by 2025-26, aiming to decrease import dependency and stabilize domestic prices (Mahdi, 2023). This strategy aligns with India's broader goal of achieving edible oil self-sufficiency while addressing the need for a sustainable solution to meet the growing demand for edible oils. The timeline of palm oil production in India is shown in Figure 2. Based on these observations, it is evident that the Indian Government's policy focuses on increasing domestic palm oil production by expanding palm oil areas and reducing imports. This diversification strategy, alongside tariff adjustments, illustrates India's comprehensive approach to balancing domestic production with import needs, aiming to secure a stable and sustainable supply of edible oils. These measures have significant implications for India's commitment to FTAs, which have gained momentum globally through bilateral and multilateral cooperation.

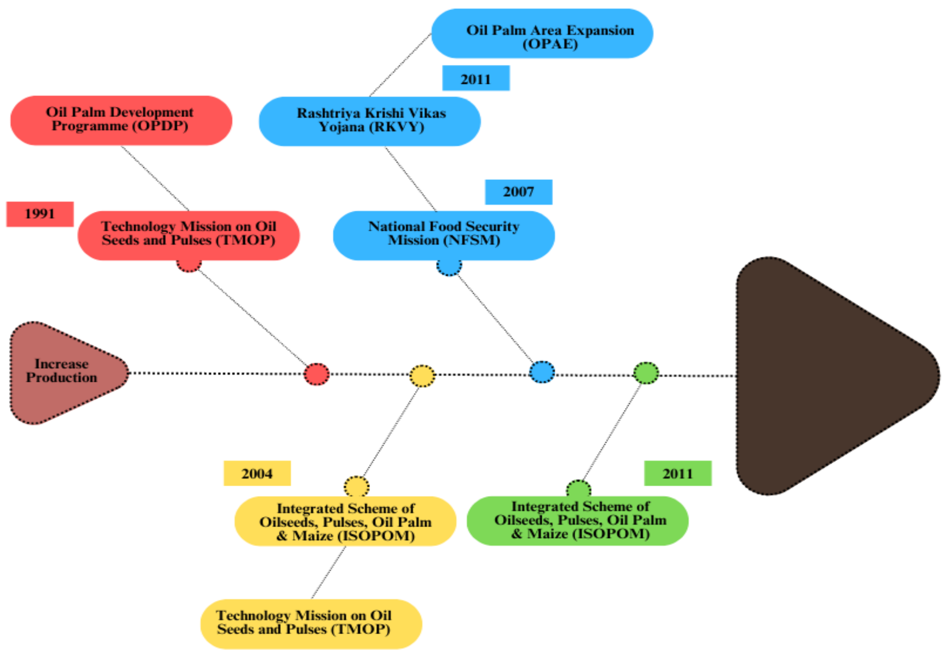

Figure 2. Initiatives to Increase Local Palm Oil Production in India

Import Values of Palm Oil and Its Derivatives by India

According to data published by the Ministry of Commerce and Industry of India (2023), India has ratified at least 51 international cooperation agreements. Among this extensive array of agreements, AIFTA holds a pivotal role in facilitating the establishment of a vast free trade zone. This ambitious endeavor positions India's free trade zone as one of the largest on a global scale. The primary aim of the AIFTA is to minimize and eventually eliminate trade taxes, encompassing an impressive 76.4 percent of total goods coverage (FTA Support Center, 2010).

The Annex 1 schedule of tariff commitments under the AIFTA provides insights into the goods eligible for tariff reductions by India for the ASEAN-5 countries, namely Indonesia, Malaysia, Thailand, Singapore, and the Philippines. Palm oil and its derivatives (HS 151110 and 151190) are classified as special products in this context. As a result, the agreed timeframe for tariff reduction does not reach 0 percent. Nevertheless, import tariffs on these products have gradually declined over the years.

Starting from initial tariffs of 76 percent (HS 151110) and 86 percent (HS 151190) in 2010, notable reductions have been achieved. By 2019, import tariffs had been significantly lowered to only 37.5 percent (HS 151110) and 45 percent (HS 151190). This progressive decline in tariffs reflects ongoing adjustments in line with the AIFTA agreements. Moreover, an analysis of the period since 2010 reveals noteworthy fluctuations in palm oil exports to India, particularly those from Indonesia and Malaysia under HS code 151110 (see Figure 3). On the other hand, exports from Indonesia alone exhibit sharp fluctuations under HS code 151190 (see Figure 4). This disparity in fluctuations can be attributed to the fact that Malaysia imposes a lower export duty on its CPO than Indonesia. Since 2011, Indonesia has introduced a revised export duty system intended to promote increased investment and production in the downstream sector of refined palm oil products, which have greater value than crude oil forms (Husin et al., 2023). This export tax policy has reduced the competitiveness of crude palm oil exports while encouraging local producers to prioritize domestic sales to palm oil refineries (Maulana et al., 2023; Rosyadi et al., 2021).

These observations emphasize the dynamic nature of the palm oil trade between ASEAN-3 countries and India, reflecting various factors that influence export patterns and trade dynamics within the industry. The example of different export duty approaches taken by Indonesia and Malaysia highlights the contrasting strategies employed by these countries and the potential impact on their trade relationships.

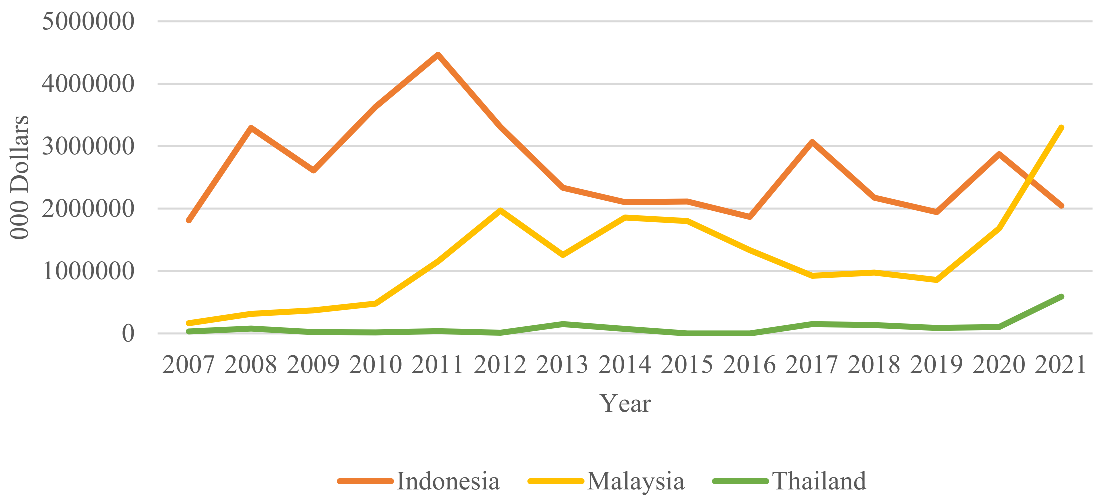

Figure 3. Export Values of HS 151110

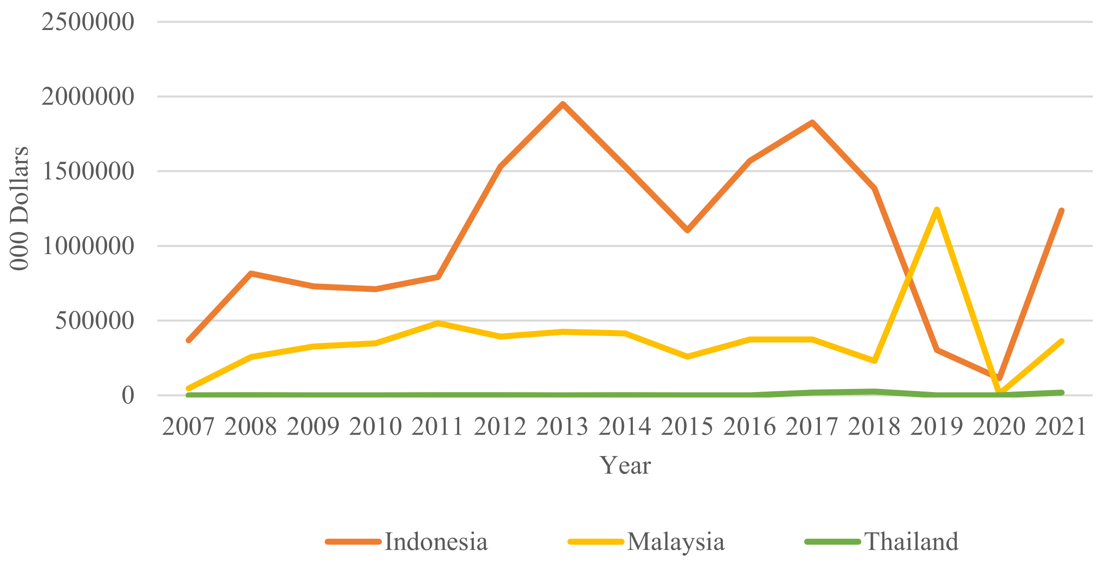

Figure 4. Export Values of HS 151190

Revealed Comparative Advantage

Figures 5 and 6 present the RCA values of palm oil products (HS 151110 and HS 151190). RCA value represents the comparison between a specific country's palm oil exports and the total exports of other products in the Indian market, as well as the comparison between palm oil imports and the imports of other products in the Indian market. In Figure 5, the RCA value of the Indonesian HS 151110 product has declined since 2012, two years after the implementation of AIFTA. In contrast, Malaysia and Thailand have exhibited an upward trend, with Malaysia surpassing Indonesia's RCA value in 2021. It indicates that the impact of AIFTA varies among the ASEAN-3 countries. Several factors contribute to the competitiveness of palm oil exports to the Indian market, including the implementation of Higher CPO for its derivatives in Indonesia, increased demand for Malaysian palm oil in India, and the development of the palm oil industry in India (Arsyad et al., 2020; Tandra et al., 2022).

Regarding the HS 151190 product (see Figure 6), both Indonesia and Malaysia have experienced a declining trend in export competitiveness, albeit with different steepness. Indonesia has shown a steeper decline than Malaysia, which exhibits a more gradual downward trend. On the other hand, Thailand has shown an increasing trend, with 2021 marking the first year it achieved an RCA value > 1, indicating a relatively low but improving competitiveness in the Indian market. One contributing factor to this success is Thailand's exemption from imposing export duties or levies on palm oil, setting it apart from Indonesia's policies. In addition, the geographical advantage of Thailand becomes evident as a journey from Phuket to any southern port in India takes only 4-5 days, whereas it takes approximately 10-12 days from both Indonesia and Malaysia. Recent studies show that the distance between production sites and markets can significantly increase transportation costs, ultimately reducing product competitiveness compared to alternative options. Endogenous transport cost models suggest that transport prices are largely influenced by geographic distance and trade volume (Hafner et al., 2023). Furthermore, high transportation costs, often resulting from long distances and extended transit times, can hinder trade volumes, especially when logistics systems are inefficient, and delivery delays are common (Grzelakowski, 2024; Quiroz Villanueva et al., 2025).

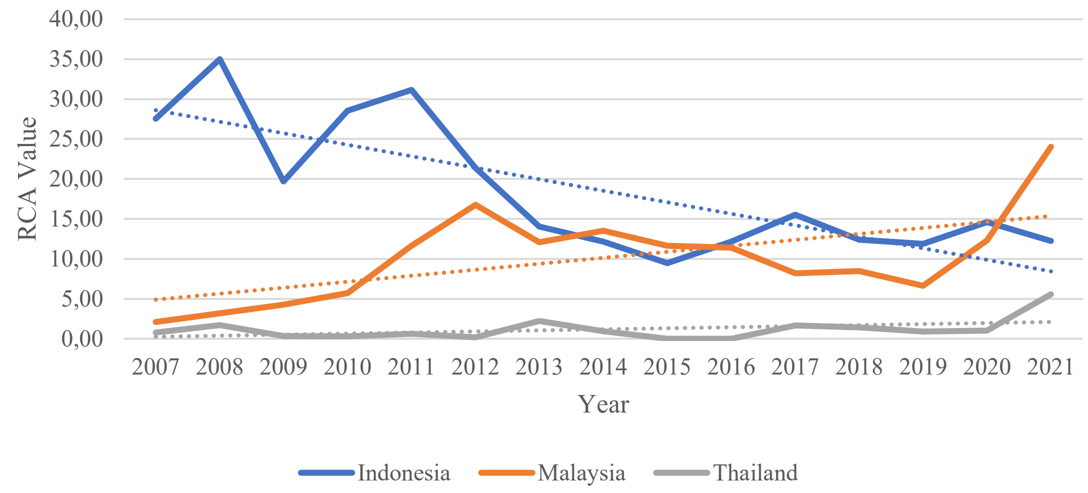

Figure 5. RCA Values of HS 151110

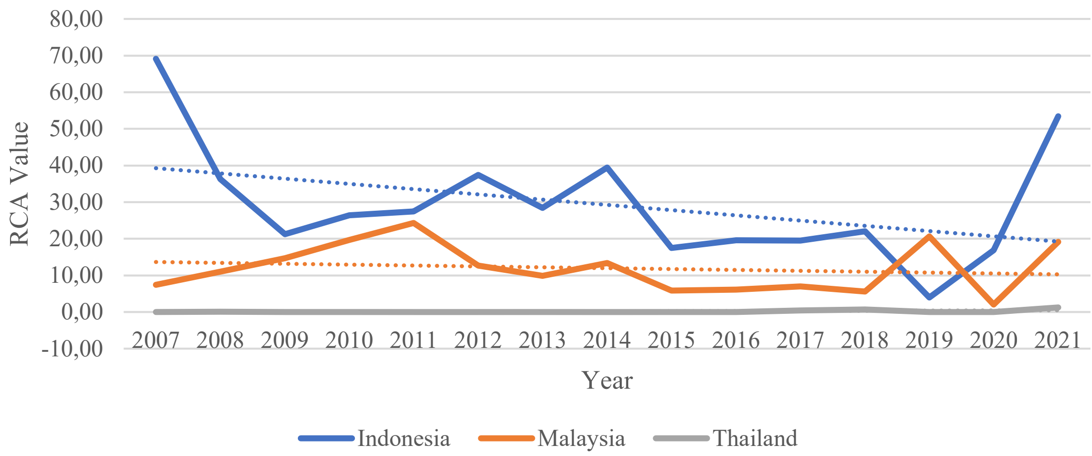

Figure 6. RCA Values of HS 151190

Export Product Dynamic (EPD)

The EPD analysis results for the HS 151110 product, as depicted in Figure 7, highlight the decline in the competitiveness of Indonesian palm oil in the Indian market, placing Indonesia in the Lost Opportunity quadrant. This decline is notable despite the overall growth of the palm oil trade in India during the same period. This indicates an inability to capture export market share in the destination country, resulting in lost opportunities to export to the

Indian market. Strategies that can be carried out to improve the competitiveness of palm oil in India include product diversification with improved quality and specifications to meet consumer preferences in the market. On the other hand, Malaysia occupies the Falling Star quadrant, indicating some improvement in competitiveness, albeit not in a dynamic manner. In contrast, Thailand is positioned in the Rising Star quadrant, signaling increasing competitiveness in the Indian market, accompanied by fluctuating competitiveness of Malaysian palm oil and a decline in the competitiveness of Indonesian palm oil.

Shifting the focus to the HS 151190 product in the Indian market (see Figure 7), Malaysia and Thailand maintain relatively stable positions in the Falling Star and Rising Star quadrants, respectively, similar to the HS 151110 product. However, there is a significant change in the positioning of Indonesia's HS 151190 product, now falling under the Rising Star quadrant. This shift suggests an improvement in the competitiveness of the HS 151190 product in the Indian market (see Table 2).

Table 2. EPD Values for HS 151110 and HS 151190 products in ASEAN-3

EPD	HS 151110			HS 151190		
	Indonesia	Malaysia	Thailand	Indonesia	Malaysia	Thailand
X	-0.31	2.64	0.50	7.63	0.67	0.12
Y	0.01	-0.11	0.04	0.01	-0.11	0.04

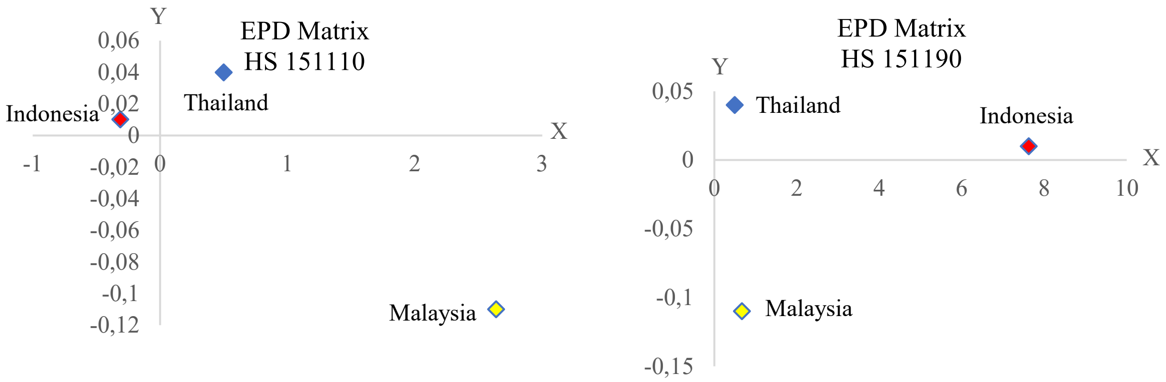

Figure 7. EPD Values of HS 151110 and HS 151190

The results of this study shed light on the dynamic nature of palm oil competitiveness among Indonesia, Malaysia, and Thailand in the Indian market for both HS 151110 and HS 151190 products. They highlight the importance of monitoring and understanding market trends to navigate the evolving landscape and capitalize on emerging opportunities effectively.

Gravity Model

The gravity model equation used in this study is specified in Equation 2.

$$\boldsymbol{Log(EXP_{ij}) = \beta_1 + \beta_2\, log(GDP_i) + \beta_3\, log(GDP_j) + \beta_4 log(POP_j) + \beta_5 log(EXR_i) + \beta_6 log(RDIST_{ij}) + \beta_7 log(AREA_i) + \beta_8(FTA) + \beta_8(Border) + \varepsilon_{ij}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

The variables used in the analysis are defined as follows: EXP_{ij} represents the export value from country i to country j, GDP_i represents the GDP of country i, GDP_j represents the GDP of country j, POP_j represents the population of country j, EXR_i represents the exchange rate of country i, $RDIST_{ij}$ represents the remote distance between country i and country j, and $AREA_i$ represents the land area dedicated to palm oil cultivation in country i. FTA is a dummy variable that indicates whether a country participates in an FTA, where 1 represents participation, and 0 represents non-participation. Border is a dummy variable that takes a value of 1 if country i and country j share a direct border and 0 if otherwise.

This study uses the Poisson Pseudo Maximum Likelihood (PPML). This method of panel data regression is a statistical technique commonly used in the context of the gravity model of international trade. The gravity model explains the flow of trade between countries based on factors such as their economic size, distance, and other relevant characteristics. The PPML approach is specifically designed to address the characteristics of count data, such as the number of trade transactions, which often exhibit a discrete and non-negative nature (Correia et al., 2020; Weidner & Zylkin, 2021).

In the context of the gravity model, the PPML panel data regression aims to estimate the relationships between various variables that influence trade flows. The model assumes that trade flows follow a Poisson distribution, which is suitable for count data. This method is utilized to estimate the parameters and examine the relationships between the variables, as well as their impact on palm oil export value. The results in Table 3 highlight the significant influence of nearly all independent variables on palm oil exports to India. These variables encompass the GDP of the exporting country, the GDP of the importing country, the population of the importing country, the exchange rate of the exporting country, the remote distance between countries i and j, and the border between countries i and j.

The regression results (see Table 3) indicate that a 1 percent increase in the exporting country's GDP leads to a noteworthy 4.21 percent decrease in palm oil exports to India. Conversely, a 1 percent increase in the importing country's GDP corresponds to a substantial 9.76 percent increase in palm oil exports to India. These findings underscore the considerable impact of these factors on palm oil exports to the Indian market and contribute to our understanding of the factors influencing palm oil exports and trade dynamics among the studied countries. POP had a negative coefficient value, so it is quite logical to see a negative relationship between population and exports. An increase in population decreases per capita GDP and, hence, reduces demand for consumption (Kopecky, 2023; Kozlovskyi et al., 2020). In line with this pattern, regression results indicate that a 1 percent increase in the population of trade partner countries leads to a 7.79 percent decrease in exports, a relationship that is statistically significant at the 5 percent level.

Table 3. Results of Poisson Pseudo Maximum Likelihood Panel Data Regression

Variable	Coefficient	Std. Error	z-Statistic	Prob.
GDP_i	-4.216660	2.103295	-2.004788	0.0450*
GDP_j	9.767420	4.627221	2.110861	0.0348*
POP_j	-7.799421	3.532217	-2.208081	0.0272*
EXR_i	12.69696	3.135165	4.049855	0.0001*
$RDIST_{ij}$	-16.04243	8.000287	-2.005232	0.0449*
$AREA_i$	0.394113	0.206290	1.910480	0.0561
FTA	0.199223	0.291994	0.682284	0.4951
$Border$	-2.962711	0.436553	-6.786604	0.0000*

The relationship between exchange rates (EXR) and palm oil exports is noteworthy. The positive value associated with EXR signifies a meaningful connection between the strength of the exporting country's currency and palm oil export volumes. Specifically, a mere 1 percent uptick in the currency's strength translates to a remarkable 12.69 percent surge in palm oil exports. This outcome underscores the intricate interplay between currency valuation and trade dynamics, offering insights into the market's responsiveness to exchange rate fluctuations (Barbiero, 2021; Lal et al., 2023; Yusiana et al., 2022).

Conversely, the impact of geographical distance on palm oil exports emerges through the RDIST variable. This variable assumes a negative value, suggesting an adverse effect of increasing the distance between exporting and importing nations. A minute 1 percent increment in this distance correlates with a substantial 16.04 percent decline in palm oil exports. This revelation underscores the tangible influence of distance in shaping trade patterns and highlights the complexities of international trade logistics.

The analysis of the variables AREA and FTA reveals notable insights into their influence on palm oil exports. Specifically, the coefficients associated with these variables are 0.39 and 0.19, respectively. It suggests that a mere 1 percent augmentation in palm oil cultivation area would yield a proportional uptick of 0.39 percent in palm oil exports. Moreover, the presence of AIFTA is associated with a projected increase of 0.19 percent in palm oil exports. However, it is imperative to exercise caution when interpreting these findings. Despite the seemingly positive relationships between the variables and palm oil exports, further examination indicates that their impacts may not be statistically significant. This implies that while incremental changes in the palm oil area and the presence of AIFTA may lead to marginal increases in palm oil exports, these changes are not robust enough to be considered statistically meaningful predictors of the performance of ASEAN-3 palm oil exports to India. In essence, the observed coefficients underscore the potential influence of the variables on palm oil export dynamics. Nevertheless, the lack of statistical significance prompts a more tempered interpretation of their actual impact within the broader context of ASEAN-3 palm oil exports to India (Glorius et al., 2021; Pratiwi, 2021).

Lastly, the variable "Border" considers the geographical proximity of countries and their connection to palm oil exports. The finding indicates that as the geographical distance between nations' borders increases, the value of palm oil exports decreases by 2.96 percent. This result underscores the significance of physical proximity in shaping trade volumes and highlights the intricate web of factors that collectively determine trade outcomes.

The Mixed Impact of AIFTA

The combination of RCA, EPD, and gravity model analyses reveals a complex picture of AIFTA's impact on the palm oil trade, with both positive contributions and significant limitations. On the positive side, AIFTA has contributed to tariff predictability and provided a stable institutional framework for trade between ASEAN-3 countries and India. The gradual tariff reduction from 76-86 percent in 2010 to 37.5-45 percent by 2019 has likely prevented more restrictive trade measures that might have emerged in the absence of the agreement. The FTA has also fostered closer diplomatic ties and technical cooperation in agriculture between ASEAN and India, creating indirect benefits beyond mere tariff considerations. Furthermore, the agreement has enabled Thailand, a smaller producer, to significantly improve its market position, demonstrating that FTAs can benefit countries that combine tariff advantages with strategic domestic policies. However, the negative impacts and limitations of AIFTA are equally significant and more pronounced, as evidenced by several empirical findings.

First, the "special products" classification of palm oil meant that tariff reductions were never intended to reach zero percent, thereby limiting the agreement's transformative potential compared to other sectors with full liberalization. The non-significant FTA coefficient (0.199, $p > 0.05$) in the gravity model confirms that tariff concessions alone have not generated statistically meaningful trade creation.

Second, the FTA's benefits exhibit significant heterogeneity. While Thailand has solidified its position as a "Rising Star" according to RCA and EPD metrics, Indonesia and Malaysia have seen a marked erosion of competitiveness. This divergence indicates that trade liberalization is insufficient to offset domestic regulatory constraints; for instance, Indonesia's export levies on crude palm oil appear to have weakened its competitive position relative to regional peers.

Third, AIFTA has inadvertently highlighted the primacy of non-trade factors over tariff concessions. India's GDP growth emerged as the strongest positive driver of palm oil exports (a 9.76 percent increase per 1 percent GDP growth), while distance (-16.04 percent) and border proximity (-2.96 percent) exerted far greater influence than FTA membership. India's domestic industrial strategies frequently undermine the efficacy of FTA preferences. These policies, such as OPDP, ISOPOM, OPAE, and NMEA-OP programs, prioritize import substitution and self-sufficiency, thereby creating an inherent structural conflict with the liberalizing objectives of FTAs that tariff reductions alone cannot mitigate.

Fourth, the agreement has not addressed non-tariff barriers, including sanitary and phytosanitary measures, sustainability certification requirements, and technical standards, which increasingly influence palm oil trade. As global attention on sustainable palm oil intensifies, these non-tariff factors may become even more decisive than tariff concessions.

This synthesis reveals that while AIFTA provides a necessary institutional foundation for trade, its impact remains conditional upon complementary domestic policies, geographical factors, and broader market dynamics. Policymakers must therefore recognize both the agreement's enabling role and its inherent limitations in driving export performance. The mixed results across countries and product categories underscore the need for differentiated strategies rather than a one-size-fits-all approach to leveraging FTA benefits.

Conclusions

This study yields three principal conclusions regarding the impact of the AIFTA on palm oil export performance, based on RCA, EPD, and gravity model analyses. First, based on RCA and EPD analyses, it appears that Indonesia and Malaysia have experienced a decline in comparative competitiveness for palm oil exports to India relative to Thailand. Although Indonesia and Malaysia have a strong history in the palm oil industry and are the world's two largest producers, the analysis shows that Thailand has maintained a more competitive position in the Indian market. Factors such as changes in Indonesia's export tax policies, Thailand's geographical proximity to Indian ports, and differences in domestic trade regulations have contributed to this divergence in competitiveness among ASEAN-3 countries.

Even so, the decline in competitiveness is not insurmountable. Indonesia and Malaysia can take strategic steps to reposition themselves in the palm oil export market to India. These steps could include improving product quality, diversifying into innovation-based value-added products, increasing sustainability and ethical practices in palm oil production through certification schemes, and strengthening trade diplomacy to ensure fair trading conditions. By taking a comprehensive approach that addresses multiple aspects, Indonesia and Malaysia have the potential to reverse the downward trend in competitiveness and return to playing an important role in the palm oil export market to India.

Second, the gravity model analysis reveals that even though there is an FTA between ASEAN-3 countries and India, there is no statistically significant influence on palm oil export trade between these parties. The non-significant FTA coefficient indicates that the agreement has not led to meaningful trade creation in palm oil exports, despite over a decade of implementation. On the positive side, the absence of trade diversion effects suggests that AIFTA has not distorted global palm oil trade patterns or disadvantaged non-member producers. However, the lack of significant trade creation suggests that tariff reductions alone are insufficient to overcome structural trade barriers. Instead, the analysis suggests that India's macroeconomic trajectory and geographical positioning are more significant drivers of palm oil trade than preferential trade agreements. The positive impact of India's GDP growth and the logistical advantages of proximity consistently supersede the benefits of FTA membership. Moreover, the efficacy of such agreements is fundamentally constrained by India's domestic industrial policies, which prioritize reduced import dependence. This strategic objective exists in inherent contradiction with the liberalization sought through tariff concessions.

Third, India's pursuit of self-sufficiency in edible oils, particularly palm oil, is poised to play a critical role in shaping the future of its agricultural sector and international trade dynamics. This policy direction negatively impacts ASEAN-3 export prospects by potentially constraining long-term market growth as domestic production increases and import reliance decreases. However, this challenge also creates positive opportunities for technology transfer, investment in India's palm oil sector, and joint ventures in downstream processing that ASEAN-3 countries could leverage as alternative engagement strategies. Rather than viewing Indian self-sufficiency solely as a threat, ASEAN-3 countries can participate in India's domestic industry growth, transforming a potential trade loss into an investment opportunity.

Based on this assessment of AIFTA's impacts, several policy recommendations emerge. For Indonesia and Malaysia, it is essential to address declining competitiveness by reforming domestic export tax policies that disadvantage crude palm oil exports. These countries should pursue product diversification into value-added derivatives and invest heavily in sustainability certification schemes such as ISPO, MSPO, and Roundtable on Sustainable Palm Oil (RSPO) to differentiate their products in an increasingly environmentally conscious Indian market. Strengthening trade diplomacy efforts to ensure fair trading conditions and negotiating for reduced non-tariff barriers in future FTA reviews will also be crucial.

For Thailand, the priority should be to consolidate its gains by maintaining zero export duties and capitalizing on its geographical proximity to Indian ports. Thailand can use its improved market position to negotiate for further concessions in future FTA reviews while continuing to enhance product quality and sustainability standards to sustain its "Rising Star" trajectory.

For all ASEAN-3 countries, developing coordinated negotiating positions for the AIFTA review is recommended, with particular attention to addressing non-tariff barriers, including mutual recognition of sustainability standards, streamlined sanitary and phytosanitary procedures, and improved trade facilitation measures. Establishing an ASEAN-India Palm Oil Dialogue platform would enable these countries to address trade concerns collectively and present unified positions on critical issues affecting the palm oil sector.

For long-term strategy, all ASEAN-3 countries should build resilience through market diversification, reducing dependence on any single destination market while maintaining competitiveness in India through cost efficiency, quality improvement, and strategic positioning as reliable suppliers of sustainable palm oil. Leveraging the Comprehensive Economic Cooperation Agreement framework to expand cooperation beyond trade into investment, technology transfer, and technical assistance for India's palm oil sector development would transform the challenge of Indian self-sufficiency into opportunities for ASEAN-3 companies to participate in India's domestic industry growth through joint ventures, technology licensing, and management contracts.

Overall, AIFTA's impact on the palm oil trade remains limited. The agreement provides an important institutional framework, but cannot substitute for complementary domestic policies and strategic industry positioning. The outcome of India's self-sufficiency efforts will have far-reaching implications for both India's food security and the regional economic relationship with key Southeast Asian exporters.

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Gender-responsive Diplomacy as ASEAN's Soft Power

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Abstract

The study analyzed how ASEAN articulates gender-responsive diplomacy as a soft-power instrument through strategic communication and its role as a norm entrepreneur at the regional and global levels. In the last decade, gender equality issues have become increasingly prominent on ASEAN's agenda, marked by the launch of the ASEAN Gender Mainstreaming Strategic Framework (AGMSF) 2021–2025 and the Regional Plan of Action on Women, Peace, and Security (RPA-WPS) 2022. This study used a qualitative approach with discourse analysis of ASEAN documents from 2015 to 2025, including Chairman's Statements, Joint Communiqués, reports of the ASEAN Commission on the Promotion and Protection of the Rights of Women and Children (ACWC), and ASEAN speeches in global fora. Data was analyzed using document coding techniques using three categories: gender framing (equality, protection, empowerment, inclusion), ASEAN's strategic narrative (moral actor, partner, leader), and normative roles (agenda-setter, norm shaper, norm taker). The study reveals an evolution from normative rhetoric to more proactive diplomacy: in the 2015–2020 period, gender issues primarily emerged in protectionist and socio-cultural contexts, while since 2021, they have become a cross-pillar agenda emphasizing empowerment and regional leadership. However, a gap persists between diplomatic rhetoric and implementation at the national level, driven by political differences, limited institutional capacity, and norm resistance.

Keywords: ASEAN, gender-responsive diplomacy, soft power, norm entrepreneurship

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Introduction

The issue of gender equality is gaining increasing attention in contemporary international relations. Diplomacy is no longer viewed solely as a realist practice focused on material power but as an arena for articulating norms, values, and identities (Finnemore & Sikkink, 1998; Tickner & True, 2018). In the Southeast Asian context, the Association of Southeast Asian Nations (ASEAN) seeks to build its image as a regional organization that prioritizes not only political stability and economic growth but also as a normative actor emphasizing inclusivity, social justice, and gender equality (Acharya, 2014; Clark et al., 2024).

Since its formation in 1967, ASEAN has been known primarily as a consensus-based political and security forum focused on regional stability (Narine, 2008). However, developments in the past two decades have shown that ASEAN is also beginning to address transnational social issues such as climate change, migration, and gender equality. In the gender realm, a significant milestone was the establishment of the ASEAN Commission on the Promotion and Protection of the Rights of Women and Children (ACWC) in 2010, which serves as an institutional platform for advocacy and coordination on gender and children's issues in the region (ASEAN Secretariat, 2010). ASEAN is a powerful actor, demonstrating its power through language in shaping a distinct community and human rights within the region. It is active in contestation and collaboration within the framework of international relations (Stacey, 2020).

The 2015–2025 period marked a significant escalation in ASEAN's gender-focused diplomacy. First, the emergence of various policy instruments, such as the ASEAN Gender Mainstreaming Strategic Framework (AGMSF) 2021–2025, which emphasizes gender integration across ASEAN's three pillars: political-security, economic, and socio-cultural (ASEAN Secretariat, 2021). Second, the adoption of the Regional Plan of Action on Women, Peace, and Security (RPA-WPS) in 2022 as a regional translation of the agenda of UN Security Council Resolution 1325 and its derivatives (ASEAN, n.d.). These two documents mark a shift from a sectoral approach that places gender solely within the socio-cultural domain to a cross-sectoral approach that emphasizes the importance of a gender perspective in regional security and economic diplomacy.

However, there is a significant gap between rhetoric and implementation. On the one hand, ASEAN has increasingly raised gender issues in official documents such as Chairman's Statements and Joint Communiqués, positioning them as an element of soft power to portray ASEAN as a progressive and inclusive region (Nye, 2004). On the other hand, disparities in commitment among member states, limited institutional capacity, and patriarchal cultural resistance prevent many of ASEAN's gender-responsive diplomacy agendas from being consistently internalized at the national level (Qanti et al., 2022; Valerio et al., 2024)

Gender-responsive diplomacy can be understood as part of normative diplomacy that seeks to articulate the value of gender equality not only as a moral goal but also as a source of political legitimacy and international appeal (Aggestam & Towns, 2019; Tickner & True, 2018). More complexly, gender in diplomacy, by adding a dynamic and dialectical perspective on gender identity, shows that a network of women diplomats is not merely a quantitative representation, but a strategic action in confronting and changing structures (Towns, 2022). Thus, ASEAN's gender-sensitive diplomacy can be seen as an effort to construct strategic narratives (Miskimmon et al., 2014) that present ASEAN as a "normative actor" in the Indo-Pacific order.

This article analyzes ASEAN documents from 2015 to 2025, focusing on gender framing, strategic narratives, and normative roles. ASEAN will be examined in terms of how it positions gender-responsive diplomacy within a soft power framework and the dynamics between regional rhetoric and the reality of implementation. This article contributes to the literature on feminist international relations and Southeast Asian studies by providing a map of ASEAN's gender-responsive diplomacy over the past decade, demonstrating a transition from normative rhetoric to more proactive diplomacy. Theoretically, this article integrates the frameworks of soft power (Nye, 2004), feminist constructivism (Tickner & True, 2018), and norm entrepreneurship (Clark et al., 2024; Finnemore & Sikkink, 1998) to understand ASEAN's normative dynamics. Gender-responsive diplomacy is a moral issue and a strategic instrument for ASEAN to strengthen its legitimacy and international appeal.

Literature Review

Previous studies on ASEAN have focused more on the organization's role in regional security, economic integration, or multilateral diplomacy (Acharya, 2021; Narine, 2008). Studies specifically examining ASEAN's gender-responsive diplomacy are relatively limited. Some studies have focused on gender in the context of development or women's participation in the agricultural sector (Qanti et al., 2022; Valerio et al., 2024), as well as a global review of gender-based violence among primary producers (O'Mullan et al., 2024). The issue of migrant workers, with a focus on women, is also discussed in the context of upholding human rights, where ASEAN has formal commitments in key documents such as the ASEAN Charter and the ASEAN Human Rights Declaration, which contain inclusive norms and commitments on human rights, including gender equality, the protection of women, and sexuality (Eriyanti et al., 2022; Häbel et al., 2022; Weiss, 2021). However, studies that treat ASEAN's gender-perspective diplomacy as a soft power strategy and analyze it within the framework of entrepreneurship norms remain rare.

Gender-responsive Diplomacy in International Relations

Gender-responsive diplomacy is a perspective that positions gender as a constitutive dimension of diplomatic practice, determining who is included or excluded, how negotiations are conducted, and what agendas are prioritized (Aggestam & Towns, 2019). Gender shapes and is reproduced in diplomatic practices (Catriona, 2020). Several countries, such as Sweden, Canada, and Mexico, have adopted what is known as a Feminist Foreign Policy (FFP), placing gender equality at the center of their diplomacy. This approach views diplomacy as a traditional foreign policy instrument and an arena for articulating feminist norms emphasizing equality, inclusion, and social justice. Swedish public diplomats negotiate the meaning of feminism abroad by packaging the FFP message for broad acceptance, balancing policy radicalism with diplomatic consensus, and integrating feminism part of the economic development narrative into increase global acceptance (Karlsson, 2022). The European Union also uses gender issues as part of normative diplomacy, emphasizing gender mainstreaming in development policies and external cooperation (Muehlenhoff, 2017). Gender-responsive diplomacy is a moral commitment to human rights and political branding to strengthen the EU's normative image. A critical analysis of gender figurations in diplomacy is important because of its impact on diplomatic practice, the recognition of women's work, and the legitimacy of diplomatic institutions (Towns, 2020).

While the literature on global gender-responsive diplomacy is growing, studies on Southeast Asia remain limited. ASEAN, previously known for its consensus-based and non-interventionist ASEAN Way approach (Acharya, 2014). It is now beginning to articulate gender issues within a diplomatic framework. Research and practice in public diplomacy and nation branding increasingly focus on gender dynamics in critical and ethical ways, recognizing that performance, relationships, and caring are transformative keys that can lead to more equitable and inclusive international relations practices (Kaneva & Cassinger, 2022).

Soft Power and Regional Branding

The concept of soft power, developed by Joseph Nye, is relevant to understanding why ASEAN has raised gender issues in diplomacy. Soft power influences others through attraction, moral legitimacy, and values, rather than coercion or material incentives (Nye, 2004). In the ASEAN context, gender-responsive diplomacy is an instrument for building a regional image that is progressive, inclusive, and committed to human rights. Previous research shows that ASEAN frequently uses normative issues such as human rights, the environment, and gender to enhance its legitimacy in the eyes of international dialogue partners, including the European Union, the UN, and the United States Serikat (Jetschke & Murray, 2012). However, ASEAN's soft power is often criticized for being rhetorical, focusing more on political declarations than on concrete implementation (Jones & Smith, 2007). Therefore, examining whether ASEAN's gender-focused diplomacy is merely rhetoric or part of a regional branding strategy is important.

Feminist Constructivism

Constructivism in international relations stems from the view that international actors' identities, interests, and behaviors are shaped by social interactions and mutually agreed-upon norms (Wendt, 1992). However, this approach has been further enriched by a feminist perspective, highlighting how gender norms shape social structures and international identities. Tickner asserts that international relations cannot be fully understood without considering the gender dimensions inherent in political and diplomatic identity formation. This is where the feminist constructivism approach emerged, which positions gender-based social relations as crucial in shaping global meanings, interests, and norms (Tickner & True, 2018).

The identities of states and international organizations are not fixed but are continuously constructed through social interactions. In this context, gender is not simply a social attribute, but an analytical category that influences how international actors understand security, power, and diplomacy (Tickner & True, 2018). Feminist constructivism demonstrates that international norms are often dominated by masculine values, marginalizing feminine values such as empathy, cooperation, and care. Thus, a feminist analysis of constructivism opens a space for understanding how gender relations shape the structure of international norms and influence diplomatic behavior between states (True, 2013).

In the Southeast Asian context, this thinking helps explain the emergence of ASEAN's gender-responsive diplomacy as part of efforts to build an inclusive, gender-equitable regional identity. Member states interact to shape new norms that place gender equality as a shared regional value. This process is evident in the formation of various policy instruments, such as the ASEAN Commission on the Promotion and Protection of the Rights of Women and Children (ACWC) and the ASEAN Gender Mainstreaming Strategic Framework (ASEAN Secretariat, 2021).

Furthermore, ASEAN's gender-responsive diplomacy can be seen as a strategy to build its image with global partners. An inclusive, gender-equal identity is a source of soft power that enhances ASEAN's appeal at international forums. By presenting itself as a regional organization committed to equality, ASEAN strengthens internal solidarity and expands its moral and diplomatic legitimacy globally. Regional identity is a social construct imbued with gendered meanings. Gender-responsive diplomacy is a policy tool that transforms values and norms, propelling ASEAN toward a more inclusive, just, and responsive community in response to global dynamics. ASEAN diplomacy can be understood as a social project that builds security, identity, and legitimacy based on gender equality at the regional and global levels.

Norm Dynamics: From Emergence to Internalization

The dynamics of international norms occur in three stages: emergence, cascade, and internalization. In the emergence stage, norm entrepreneurs introduce new norms and seek support. In the cascade stage, norms spread and are adopted by multiple actors. In the internalization stage, norms are considered taken-for-granted and are no longer contested (Finnemore & Sikkink, 1998). In the ASEAN context, gender-responsive diplomacy can be seen as part of the emergence and cascade of the gender equality agenda in the region. The ACWC, ACW, and the ASEAN Secretariat are norm entrepreneurs promoting gender integration into regional policies. However, whether gender norms have reached the internalization stage remains questionable, given resistance in some member states.

Norm Entrepreneurship and Organized Diffusion

The concept of norm entrepreneurship highlights the role of actors in driving the adoption of new norms. Organized diffusion is the process by which local change agents disseminate new norms in a structured manner through community and institutional networks (Clark et al., 2024). This concept is relevant to assessing how ASEAN attempts to export gender norms globally through multilateral diplomacy while simultaneously disseminating them to member states through regional policies. In the context of ASEAN gender-responsive diplomacy, the key question is whether ASEAN is truly a proactive norm entrepreneur or a follower adopting global agendas such as the WPS and SDGs.

Research Method

This study applies a qualitative approach, combining discourse analysis and document coding-based content analysis. The goal is not simply to count word frequencies, but to understand ASEAN's meaning, framing, and communication strategies regarding gender issues. Discourse analysis provides a platform for examining how ASEAN constructs strategic narratives about gender. In contrast, document coding provides a systematic basis for identifying patterns, trends, and shifts in ASEAN's gender-responsive diplomacy. This approach aligns with the feminist constructivist research tradition, which emphasizes the role of language, norms, and identity in shaping international practice (Tickner & True, 2018). Thus, this methodology is descriptive and analytical: it assesses how texts and narratives in ASEAN documents function as instruments of soft power.

This study's analysis unit is official ASEAN documents issued between 2015 and 2025. This period was selected because it marks a significant shift: from normative gender rhetoric (2015–2020) to a phase of institutionalization and proactive diplomacy (2021–2025), coinciding with the birth of the AGMSF and the RPA-WPS. The analysis includes (1) Chairman's Statements from ASEAN Summits (2015–2025); (2) Joint Communiqués of the ASEAN Foreign Ministers (AMM) (2015–2025); (3) Institutional documents related to gender that include ASEAN Gender Mainstreaming Strategic Framework (AGMSF) 2021–2025, ASEAN Regional Plan of Action on Women, Peace and Security (RPA-WPS) 2022, and ASEAN Regional Guidelines on Violence Against Women and Girls (VAWG) Services 2016 (updated 2024); (4) Annual reports of the ASEAN Commission on Women (ACW) and the ASEAN Commission on the Promotion and Protection of the Rights of Women and Children (ACWC); and (5) ASEAN speeches at international forums (UNGA, G20, APEC) that address gender issues (2015–2025).

In addition to official ASEAN documents available on the ASEAN Secretariat, ACWC, and ACW websites, data are compiled from development partner reports, speeches, and press releases from the ASEAN Secretariat and the ASEAN Chair each year. Data analysis is conducted using Thematic Coding using a framework of three main categories.

The first category is gender framing and includes four dimensions: equality, emphasizing equal rights for women and men; empowerment, emphasizing women's economic, political, and leadership advancement; protection, emphasizing protection from violence, discrimination, and vulnerability; and inclusion, emphasizing women's participation in decision-making processes.

The second category is ASEAN strategic narrative. This category includes moral actor, portraying ASEAN as a guardian of human rights and equality; partner, emphasizing ASEAN cooperation with external actors such as the United Nations, the European Union, and Japan; and leader, positioning ASEAN as a regional pioneer or champion of gender equality.

The third category is normative role (norm entrepreneurship). The category includes agenda-setter, where ASEAN initiates gender policy; norm-shaper, where ASEAN adapts global norms to the regional context; and norm taker, where ASEAN adopts global norms without significant modification.

The coding process is carried out by thoroughly reading the documents to identify the context of gender issues, highlighting relevant paragraphs and coding them according to the categories above, calculating the frequency of themes to identify trends, and interpretively analyzing how narratives are framed and linked to soft power. To increase coding efficiency, the NVivo application is used.

Analysis

The Evolution of ASEAN Gender-Responsive Diplomacy 2015–2025

An analysis of official ASEAN documents from 2015 to 2025 reveals interesting normative dynamics related to gender-responsive diplomacy. In the initial phase (2015–2020), gender discourse in ASEAN documents tended to be positioned within a protectionist framework. This is evident in the Chairman's Statement of the 27th ASEAN Summit (2015), which emphasized that ASEAN reaffirms its commitment to protect women and children from all forms of violence, exploitation, and discrimination (ASEAN, 2015). This statement portrays women as a vulnerable group in need of protection, rather than as equal political or economic agents.

This tendency is inseparable from ASEAN's view of gender issues within a broader socio-cultural framework. During that period, the main issues raised were human trafficking, the protection of female migrant workers, and domestic violence. For example, in the Joint Communiqué of the 49th ASEAN Foreign Ministers' Meeting, ASEAN mentioned the importance of enhancing protection mechanisms for migrant workers, particularly women and children, who are vulnerable to exploitation and trafficking (ASEAN, 2017b).

However, significant changes occurred in the subsequent period (2021–2025). Establishing the ASEAN Gender Mainstreaming Strategic Framework (AGMSF) 2021–2025 and the Regional Plan of Action on Women, Peace and Security (RPA-WPS) 2022 marked a significant transition from a protectionist paradigm to one of empowerment and inclusion. In the Chairman's Statement of the 38th and 39th ASEAN Summits (2021), for example, it was emphasized that "We underscored the importance of gender equality and the empowerment of women and girls in driving ASEAN's recovery and sustainable development" (ASEAN Secretariat, 2021)

There has been renewed recognition of women as important actors, not simply objects of protection. The growing narrative of empowerment is also evident in the RPA-WPS (2022) document, which states that "ASEAN recognizes women as agents of peace and security, and commits to ensuring their meaningful participation in conflict prevention, resolution, and post-conflict reconstruction" (ASEAN, n.d.-a). This shift does not occur instantly, but is influenced by internal and external factors. Internal factors include pressure from the ACWC and ACW to broaden the scope of gender issues. In contrast, external factors relate to the strong push from development partners such as the European Union, the UN, and Japan, which linked development assistance to the gender equality agenda (Jetschke & Murray, 2012). Thus, ASEAN is adapting to global demands and attempting to build a new normative identity in the region. The coding results of 68 ASEAN documents support this finding. Of the documents from 2015–2020, 72% of gender framings were categorized as protection, while only 20% emphasized empowerment. In contrast, documents published between 2021 and 2025 showed that 51% of documents emphasized empowerment and 36% emphasized inclusion, although protection remained prominent in 55% of documents. This data demonstrates a clear shift in narrative from women as victims to women as leaders.

Gender Framing: From Protection to Empowerment

In the protection phase (2015–2020), gender issues in ASEAN documents predominantly emerged within a protection framework. Women were positioned as a group that must be protected from external and internal threats, such as human trafficking, exploitation of migrant workers, and gender-based violence. In the Chairman's Statement of the 27th ASEAN Summit in 2015, an explicit statement affirmed ASEAN's commitment to "protect women and children from all forms of violence, exploitation, and discrimination" (ASEAN, 2015)

Three things stand out from this framing: (1) Women as victims, where ASEAN views women primarily in their capacity as vulnerable parties. This is evident in the Joint Communiqué of the 49th ASEAN Foreign Ministers' Meeting in 2016, which emphasized the need to enhance protection for female migrant workers (ASEAN, 2017b). (2) Gender issues were placed within the socio-cultural realm. Almost all documents from this period placed gender issues within sub-chapters related to human rights and socio-cultural issues, rarely linking them to security or the economy. (3) The narrative was conservative and defensive. The dominant keywords were protection, vulnerability, and support, indicating a reactive rather than transformative policy orientation. This analysis is consistent with the literature that suggests that ASEAN often adopts normative issues merely as symbolic rhetoric (Jones & Smith, 2007).

Towards the end of transition phase (2018-2020), signs of a shift emerged. The 2018 ASEAN Ministerial Meeting on Women (AMMW) mentioned "promoting women's participation in decision-making" (ASEAN, 2018). While still limited, this mention marked a slight shift toward recognizing women as actors rather than objects of protection. However, this transition phase was not yet robust because it lacked a clear institutional framework. Many clauses were merely declaratory and reiterated global agendas, such as the SDGs, without incorporating Southeast Asia's local context.

A major transformation occurred between 2021 and 2025 in empowerment and leadership phase. Two important documents served as its main pillars. First is the ASEAN Gender Mainstreaming Strategic Framework (AGMSF) 2021–2025. This document affirms gender as a cross-cutting principle in politics, security, and economics. For the first time, ASEAN has incorporated gender into the pillars of the digital economy and post-COVID recovery. Second is the ASEAN Regional Plan of Action on Women, Peace and Security (RPA-WPS) 2022. This document recognizes women as agents of peace, committed to ensuring their participation in conflict prevention, resolution, and post-conflict reconstruction.

Furthermore, the Chairman's Statement of the 38th and 39th ASEAN Summits in 2021 emphasized the importance of gender equality and the empowerment of women and girls in driving ASEAN's recovery and sustainable development (ASEAN, 2021). This shift demonstrates that gender issues are now viewed as part of development and diplomatic strategies.

The shift in framing from protection to empowerment has several important implications. First, it reflects changes in ASEAN's identity. By emphasizing empowerment, ASEAN seeks to build a new identity as a progressive region, consistent with Tickner and True's (2018) feminist constructivism theory, which emphasizes the role of gender norms in shaping identity. Second, the new framing positions gender as an instrument of diplomacy. This strengthens ASEAN's normative appeal in the eyes of partners such as the European Union and the United Nations, reinforcing its position as a soft power actor (Nye, 2004). Third is potential implementation gaps. Despite the shift in narrative, implementation at the national level is not yet uniform.

The shift in framing demonstrates the normative dynamics described by Finnemore and Sikkink (1998): (1) Emergence, where gender norms initially emerge as protection; (2) Cascade, where the empowerment agenda begins to be adopted after 2021; and (3) Toward internalization, which remains questionable, as many member states have not yet fully implemented it. Meanwhile, Clark et al. (2024) refer to this process as organized diffusion, in which ASEAN systematically disseminates gender norms through regional instruments. However, its effectiveness still depends on national commitment.

ASEAN's Strategic Narrative

Strategic narratives are a crucial part of ASEAN diplomacy. Miskimmon et al. (2013) define strategic narratives as efforts by political actors to influence domestic and international audiences through the construction of consistent normative narratives. In the context of gender-responsive diplomacy, ASEAN has developed three main narratives: moral actor, partner, and leader.

Since 2015, ASEAN has frequently used gender issues to portray itself as a moral organization aligned with international human rights norms. For example, the Joint Communiqué of the 52nd ASEAN Foreign Ministers' Meeting in 2019 states that ASEAN reaffirms its commitment to upholding the rights of women and girls as an integral part of human rights (ASEAN, 2019). This narrative portrays ASEAN as a guardian of moral values consistent with international conventions such as CEDAW and the SDGs. In this way, ASEAN seeks to enhance its normative legitimacy on the global stage.

The second dominant narrative is that of ASEAN as a partner to global organizations and donor countries. This is evident in the ASEAN–EU Strategic Partnership Joint Statement in 2020, which emphasized a commitment to advancing gender equality and women's empowerment as cross-cutting priorities in our partnership (ASEAN, 2020). In this context, gender is a "diplomatic currency" that strengthens ASEAN's cooperation with the European Union, the UN, Japan, Australia, and other external partners. Development partners typically demand a gender agenda as a prerequisite for aid, so ASEAN uses it to deepen diplomatic relations. Another example is the ASEAN–UN Joint Statement on Women, Peace and Security in 2021, which affirms ASEAN's commitment to implementing UN resolutions related to women-to-human rights (ASEAN, 2017c). This demonstrates that gender issues are an internal agenda and a negotiating tool in external relations.

The third narrative, which emerged strongly after 2021, is ASEAN as a leader in regional gender-focused diplomacy. The Chairman's Statement of the 42nd ASEAN Summit 2023 emphasized that ASEAN strives to lead by example in mainstreaming gender perspectives across all three pillars of our Community (ASEAN, 2023). This statement marks a significant shift. ASEAN is no longer simply following the global agenda but is seeking to position itself as a normative pioneer in Southeast Asia. By launching the AGMSF and the RPA-WPS, ASEAN claims normative leadership in gender mainstreaming. However, a critical question is how much this leadership narrative is supported by actual implementation. Some member states still resist the gender agenda. Myanmar, for example, is facing a political crisis that has deprioritized gender issues. On the other hand, the Philippines has been relatively progressive in implementing its National WPS Action Plan, which is consistent with the regional agenda.

The distribution of ASEAN narratives can be mapped as follows: (1) Moral Actor (2015–2019): dominant, appearing in almost all Joint Communiqués and Chairman's Statements; (2) Partner (2018–2022): significantly increasing, especially in ASEAN–EU, ASEAN–UN, and ASEAN–Australia cooperation; (3) Leader (2021–2025): emerging strongly, especially after the launch of the AGMSF and RPA-WPS. These three narratives are not interchangeable; instead, theya are layered. ASEAN uses the moral narrative for internal legitimacy, the partner narrative to strengthen external relations, and the leader narrative to build its global brand.

ASEAN's strategic narrative can be seen as a form of soft power diplomacy. By leveraging gender issues, ASEAN seeks to build a positive image as a region aligned with international norms. However, several weaknesses exist. First is the gap between rhetoric and reality, where substantive policies often do not follow the moral narrative. For example, despite ASEAN's stated commitment to women's human rights, some member states still have discriminatory policies. Second is dependence on External Partners, where the partner narrative suggests that the gender agenda is often influenced by donor pressure. This raises questions about whether ASEAN is a norm entrepreneur or a norm taker. Third is weak leadership, where the leader's narrative has only emerged since 2021 and is still in its infancy. The challenge is ensuring that ASEAN is not only a pioneer in rhetoric but also in practical implementation.

From a feminist constructivist perspective, this narrative suggests that gender issues are shaping ASEAN's identity. Its identity as a moral actor, partner, and leader reflects ASEAN's efforts to build legitimacy and international recognition. Meanwhile, from a norm entrepreneurship perspective, ASEAN operates on a dual spectrum: sometimes as a norm taker, sometimes as a norm shaper, and only recently as an agenda-setter.

ASEAN's Normative Role

In the theory of the norm life cycle, Finnemore and Sikkink (1998) divide norm dynamics into three stages: emergence, cascade, and internalization. In the initial stage, norm entrepreneurs introduce new ideas. In the next stage, norms spread and are adopted by other actors (cascade). Finally, norms are internalized and become taken for granted. In the ASEAN context, gender issues are clearly in the emergence and cascade stages, but have not yet reached complete internalization. Differences in commitments among member states mean that gender norms have not yet been fully accepted or automatic across the region. ASEAN can be categorized into three normative roles: agenda-setter, norm-shaper, and norm-taker.

ASEAN has demonstrated its capacity as an agenda-setter in several instances, most notably through the ACWC. In 2016, the ACWC launched the ASEAN Regional Guidelines on Violence Against Women and Girls Services, which were updated in 2024. This document provides service standards for victims of gender-based violence in Southeast Asia, including health, psychosocial, legal, and emergency protection protocols (ASEAN, 2017a; ASEAN, 2024). UN Women recognized these guidelines as good practices in the Asia-Pacific region. ASEAN demonstrated its agenda-setting capacity by developing reference standards and creating new norms grounded in regional experience (UN Women, 2024).

Agenda-setting is also evident in the ASEAN Regional Plan of Action on WPS 2022. Although WPS is a global agenda, the RPA-WPS adds local elements, emphasizing internal conflicts, humanitarian crises, and natural disasters unique to Southeast Asia. This demonstrates that ASEAN is adopting and adding new normative content relevant to its context.

In many cases, ASEAN acts as a norm shaper, adopting global norms and adapting them to its principles, particularly consensus and non-intervention (the ASEAN Way). Adopting the WPS agenda is the most obvious example. UN Resolution 1325 (2000) emphasized the role of women in peacekeeping operations. However, in the 2022 WPS-RPA, ASEAN avoided the term "peacekeeping" as it was deemed too sensitive for member states. Instead, ASEAN used the terms "conflict prevention" and "post-conflict reconstruction," which are more in line with the principle of non-intervention (ASEAN, n.d.). This demonstrates how ASEAN is reshaping global norms to align with regional political culture. Thus, ASEAN acts as a norm shaper, not simply copying norms but adapting them for domestic acceptance.

Despite its achievements as an agenda-setter and shaper, ASEAN still functions as a norm-taker in many instances. For example, the 2018 AMMW essentially replicated the language of the SDGs, such as "leave no one behind" or "achieving gender equality by 2030" (ASEAN, 2018). No significant innovations were indicating contextual adjustments. A similar trend was observed in several Joint Communiqués of Foreign Ministers (2015–2019), reiterating commitments to CEDAW and the SDGs without incorporating regional strategies. In these cases, ASEAN merely adopted international norms to demonstrate symbolic compliance, lacking the capacity to set agendas.

The coding results for the 2015–2025 documents show the following role distribution: (1) Agenda-setters were present in 15% of documents, primarily from the ACWC and RPA-WPS; (2) Norm shapers were found in 40% of documents, primarily in the adoption of WPS and SDGs modified according to the ASEAN Way; (3) Norm takers were found in 45% of documents, primarily in political statements and general declarations. This distribution shows that ASEAN remains more often a norm-taker, although its capacity as a shaper has begun to strengthen since 2021.

ASEAN's normative role can be understood through two dimensions. First is internal cohesion versus external legitimacy. As a norm-taker, ASEAN focuses more on external legitimacy, presenting itself in line with global norms for image purposes. Furthermore, as a norm-shaper, ASEAN seeks to maintain internal cohesion by modifying norms to better align with regional political culture. Second is capacity-building versus symbolic adoption. Agenda-setting requires institutional capacity and resources that are currently limited in the ACWC and ACW. Norm-taking is easier because it only requires a political declaration. This situation highlights ASEAN's dilemma: if it relies too much on normative rhetoric, ASEAN risks being perceived as a symbolic actor. However, if it can strengthen its agenda-setting, ASEAN has the potential to become a global pioneer in gender-responsive diplomacy.

In line with Finnemore and Sikkink (1998), ASEAN is still in the gender norm cascade stage. Internalization has not yet been achieved due to resistance within member states. Refer to Clark et al. (2024), this process is defined as organized diffusion. The ACWC serves as a diffusion agent, but its impact remains limited to harmonization rather than substantive compliance. Furthermore, from a feminist perspective, ASEAN's identity as a normative organization is negotiated through this role.

Comparatively, the 2015–2020 and 2021–2025 periods saw the formation of different normative narratives. In the protection phase of 2015–2020, the narrative was dominated by protection and human rights. Gender was placed solely within the socio-cultural pillar, followed by high rhetoric but low implementation. Meanwhile, in the empowerment and inclusion phase of 2021–2025, gender has been incorporated into the political, security, and economic sectors. The empowerment and inclusion narrative dominates, and ASEAN is beginning to claim normative leadership.

Although ASEAN's narrative is increasingly progressive, implementation at the national level remains variable. The Philippines pioneered the National Action Plan on Women, Peace, and Security (NAP WPS), which aligns with the ASEAN WPS RPA. Indonesia has also progressed through the Ministry of Women's Empowerment and Child Protection. However, Myanmar and Cambodia still lag in integrating the gender agenda. This demonstrates a significant implementation gap. In other words, ASEAN's gender-focused diplomacy is stronger in rhetoric than in practice.

The increasing empowerment and inclusion are also driven by pressure from external partners. The European Union, through the EU-ASEAN Cooperation Facility program, emphasizes gender equality as a prerequisite for development cooperation (ASEAN, 2020). Similarly, the UN, through UN Women, actively supports the implementation of the RPA-WPS. Thus, some of ASEAN's empowerment agendas are more donor-driven than purely internal initiatives. ASEAN uses gender issues as part of its branding strategy. ASEAN strengthens its position in the Indo-Pacific geopolitical competition by presenting itself as a progressive region. Gender is a soft power instrument that enhances ASEAN's legitimacy in the eyes of global partners. However, this branding risks becoming a normative fade if not followed by substantive changes on the ground.

The shift in ASEAN's gender framing aligns with the feminist constructivism perspective, which emphasizes the role of gender norms in identity formation. Mentions of equality, empowerment, and inclusion in official documents shape ASEAN's identity as an inclusive organization. ASEAN's role can be understood through the theory of norm entrepreneurship. Finnemore and Sikkink (1998) state that norm entrepreneurs must link new norms to existing interests. ASEAN has linked women's empowerment to post-COVID economic recovery and regional security stability. However, Clark et al. (2024) caution that norm diffusion requires strong institutional support. The ACWC and ACW play important roles as diffusion agents, but their capacity remains limited.

According to Nye (2004), soft power stems from values and moral legitimacy. ASEAN has attempted to leverage gender issues as a soft power instrument, but its effectiveness remains limited due to implementation gaps. In other words, ASEAN has soft-power potential, but its credibility depends on consistently implementing gender norms across its member states. Many challenges remain for ASEAN to face in this regard, including: (1) political disparities among member states. The Philippines has been a pioneer with its National Action Plan (NAP) for WPS since 2010, which aligns with the ASEAN RPA WPS 2022. The Philippines has consistently included women in peace diplomacy and security operations, so the credibility of ASEAN's gender-responsive diplomacy depends heavily on its contributions. Indonesia has demonstrated a strong commitment through its Ministry of Women's Empowerment and Child Protection (PPPA) and its gender mainstreaming policy in development. However, patriarchal cultural resistance and regional implementation gaps limit effectiveness (Qanti et al., 2022). Vietnam is progressive in international diplomacy, often emphasizing the role of women in sustainable development. However, at the domestic level, policies still place women primarily in family and social roles, rather than political-security roles (Valerio et al., 2024). Meanwhile, Myanmar has experienced severe stagnation since the 2021 military coup. Gender issues have been a low priority, although ASEAN strives to promote a protection agenda through humanitarian assistance (ASEAN, n.d.). This comparison shows that ASEAN struggles to internalize gender norms without a shared national commitment. ASEAN's gender-responsive diplomacy is intense in regional rhetoric but weak in domestic implementation. (2) Patriarchal cultural resistance that conditions society to still view gender equality as a foreign agenda; (3) Limited institutional capacity, where the ACWC and ACW have normative mandates but lack enforcement mechanisms.

However, it must be acknowledged that ASEAN has the potential to become a global norm entrepreneur if it can strengthen its agenda-setting. Furthermore, collaboration with the EU and the UN can strengthen normative capacity. Gender-responsive diplomacy can enhance ASEAN's position in the Indo-Pacific contest with China and the US, which have not prioritized gender agendas. Gender norms shape ASEAN's regional identity. This identity is negotiated through the moral narratives of actors, partners, and leaders, although it remains overshadowed by internal inconsistencies. From a norm entrepreneurship perspective, ASEAN moves between norm taker and norm shaper, with agenda-setting capacity beginning to develop through the ACWC. This process consists of organized diffusion, in which gender norms are disseminated through regional networks but are not yet fully internalized. In practice, ASEAN needs to strengthen the mandate of the ACWC/ACW with clear evaluation and accountability mechanisms. Furthermore, gender-responsive diplomacy should not be donor-driven alone but be linked to the real needs of Southeast Asian communities, such as protecting female migrant workers, climate adaptation, and digital inclusion. If adopted, ASEAN can enhance its credibility as a global normative entrepreneur and strengthen its soft power position amidst the Indo-Pacific contestation.

Deconstructing ASEAN's Gender-Responsive Diplomacy Through a Feminist Lens

The evolution of ASEAN's gender-responsive diplomacy from 2015 to 2025 shows a promising shift, from a protectionist framing (72% in 2015–2020) to empowerment and inclusion (51% and 36% in 2021–2025). Documents such as AGMSF 2021–2025 and RPA-WPS 2022 position women as agents of peace in conflict prevention and post-conflict reconstruction, contrasting with prior narratives framing women as vulnerable victims of trafficking and domestic violence. However, from a feminist perspective, this evolution appears as feminist washing, the strategic deployment of progressive gender language to perpetuate patriarchal structures, in which the ASEAN Way's consensus-based non-intervention shields member states from substantive accountability.

In the protection phase from 2015 to 2020, dominant framing reproduced the classic gender dichotomy that women are weak objects requiring masculine protection from states or the international community. The Chairman's Statement of the 27th ASEAN Summit (2015) affirmed commitments to protect women from "violence, exploitation, and discrimination," while the Joint Communiqué of the 49th ASEAN Foreign Ministers' Meeting (2016) highlighted vulnerabilities of female migrant workers. This narrative confines gender issues to the socio-cultural pillar, rarely linking them to masculine domains of security or economy that dominate ASEAN diplomacy. Feminists underscore the destructive implications by positioning women as passive victims (Eriyanti et al., 2024). ASEAN reproduces patriarchal hierarchies that deny women's agency as political actors while evading critique of structural failures such as migrant wage disparities or women's labor exploitation in regional supply chains.

The post-2021 shift to empowerment, marked by AGMSF and RPA-WPS, appears transformative. Gender is now cross-cutting across the three pillars (political-security, economic, socio-cultural), recognizing women as contributors to post-COVID recovery. The Chairman's Statement of the 38th and 39th ASEAN Summits 2021 emphasized "gender equality and women's empowerment" for sustainable development. However, through a feminist lens, this remains a pragmatic reconstruction of ASEAN's identity rather than an emancipatory one. The "leader" narrative in the Chairman's Statement of the 42nd ASEAN Summit 2023 claims gender mainstreaming, yet normative role distributions betray its ambitions. ASEAN acts more as a norm-taker (45%) than an agenda-setter (15%), adapting WPS to avoid "peacekeeping" in line with the ASEAN Way. This reflects half-hearted, organized diffusion, in which global norms (UNSCR 1325) are reshaped for external legitimacy but fail to be internalized amid patriarchal resistance in Myanmar and Cambodia.

ASEAN's strategic narratives as moral actor, partner, and leader bolster feminist critiques of Nye's (2004) soft power as neoliberal hegemony. As a moral actor (ASEAN, 2019), ASEAN aligns with CEDAW/SDGs for global legitimacy; as a partner (ASEAN-EU Statement 2020), gender becomes diplomatic currency to secure aid from the EU, UN, and Japan. The post-2021 leader narrative hinges on external pressures, rendering gender agendas donor-driven rather than authentic. This dependency, as neo-imperialism, ASEAN, representing Global South states, adopts Western feminism for Indo-Pacific branding while neglecting intersectionality, e.g., poor, ethnic-minority female migrant workers from the Philippines and Indonesia remain exploited, untouched by RPA-WPS.

Implementation gaps confirm Finnemore and Sikkink's (2019) norm cycle stalled at the cascade stage, not at internalization. The Philippines leads with its NAP-WPS since 2010, while Indonesia leads via the Ministry of Women's Empowerment and Child Protection. On other hand, post-2021 coup Myanmar sidelines gender amid the political crisis; Vietnam is diplomatically progressive but domestically patriarchal. ACWC/ACW, as norm entrepreneurs, are hampered by institutional capacity and patriarchal cultures that view equality as a foreign agenda. Feminists demand deeper scrutiny, without quotas for female diplomats <20% in ASEAN for currently, or mandatory gender budgets, this diplomacy remains symbolic, reinforcing state masculinity over inclusive femininity (Alami,2023).

Conclusions

An analysis of ASEAN documents for the 2015–2025 period reveals a significant evolution in the region's gender-responsive diplomacy. In 2015–2020, gender issues were primarily framed within the protection framework, positioning women as a vulnerable group needing protection. However, since 2021, with the introduction of the ASEAN Gender Mainstreaming Strategic Framework 2021–2025 and the Regional Plan of Action on Women, Peace and Security 2022, the narrative has shifted significantly. ASEAN has begun emphasizing empowerment and inclusion, positioning women as recipients of protection and as important actors in development, security, and diplomacy.

The terms empowerment and inclusion have increased sharply, while protection remains prominent but no longer dominant. Strategically, ASEAN has developed three main narratives: (1) as a moral actor upholding human rights norms; (2) as a partner leveraging gender issues to strengthen relations with external partners; and (3) as a leader beginning to claim a leadership role in regional gender diplomacy.

However, a gap remains evident between regional rhetoric and national implementation. ASEAN's gender diplomacy often functions as a strategic narrative for external legitimacy rather than as a truly internalized norm across member states. Most member states have not fully adopted the WPS action plan or cross-sector gender integration. This suggests that ASEAN still operates in a norm-shaper and norm-taker role. However, it is beginning to show signs of becoming a norm entrepreneur on specific issues, such as VAWG services and the gender agenda in the ASEAN Agreement on Disaster Management and Emergency Response AADMER.

There is an evolutionary map of ASEAN's gender diplomacy, based on coding official documents from 2015 to 2025, demonstrating a significant shift from protectionist to empowering rhetoric. Theoretically, this article integrates the frameworks of soft power, feminist constructivism, and norm entrepreneurship to explain ASEAN's normative dynamics. This article demonstrates that gender-responsive diplomacy can serve a dual purpose: as an instrument for regional branding and an effort to achieve social justice. However, its effectiveness depends heavily on consistent implementation at the member state level.

ASEAN must ensure that gender-responsive diplomacy is not merely rhetorical but translated into concrete monitoring and evaluation mechanisms. Then, the ACWC and ACW must strengthen their mandate as norm entrepreneurs to accelerate the diffusion of gender norms in the region. Furthermore, ASEAN needs to capitalize on the geopolitical momentum in the Indo-Pacific to position itself as a leader in gender norms, rather than merely a follower of the global agenda. ASEAN's gender-responsive diplomacy is an additional moral issue and part of a soft power strategy that strengthens the region's position in the global order. The question that remains is no longer whether ASEAN will use gender as an instrument of diplomacy, but to what extent this diplomacy can translate into real change that goes beyond rhetoric and truly shapes an inclusive, gender-equitable regional identity.

Unlike state-led FFP in Sweden/Canada, ASEAN exemplifies hybridity, rhetorically progressive yet bound by collective patriarchy. ASEAN needs to be encouraged to: (1) bolster ACWC mandates with enforcement; (2) integrate intersectionality into RPA-WPS for migrants/ethnic minorities; (3) enforce gender quotas in the ASEAN Way consensus. Failure risks a normative fade, undermining ASEAN's soft power amid US-China rivalry in the Indo-Pacific. Theoretically, it enriches feminist constructivism with empirical evidence that ASEAN's regional identity is negotiated via gender norms, yet trapped in global patriarchal structures.

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The Taliban's Victory as a Strategic Catalyst: Radicalism in Indonesia After a Flawed Global Peace Process

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Abstract

The return of the Taliban to power in Afghanistan in August 2021 marked a pivotal moment in global discourse, widely interpreted as a monumental victory for jihadist movements. This event was not a simple military takeover but the culmination of a flawed diplomatic initiative (the 2020 Doha Agreement) and a reflection of a broader U.S. grand strategy of retrenchment. In Indonesia, the principal locus of Jemaah Islamiyah activity, this event was expected to inspire renewed radical mobilization and violent escalation. However, this anticipated surge did not materialize. Instead, the post-2021 period has been characterized by ideological recalibration. This research contends that the reaction to the Taliban's return is best understood through the analytical lens of Social Movement Theory (SMT), situated within the context of a failed peace process. It argued that the Taliban's victory acted as a critical external shock that primarily functioned as ideological validation for the patient, long-term strategies of established groups like Al Jamaah Al Islamiyah (AJAI). The event simultaneously intensified the "framing contestation" with its pro-Islamic State (IS) rivals and, most critically, accelerated AJAI's strategic evolution towards socio-political infiltration (*tamkin siyasi*). This has reshaped the primary radical threat in the region from overt attacks to strategic, long-term subversion, backed by AJAI's profound organizational resilience. The research analyzed these dynamics by examining shifts in political opportunities, resource mobilization, and framing processes, demonstrating how failures in global peacemaking can have complex and unforeseen consequences on regional extremist landscapes.

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Introduction

The re-emergence of the Taliban in Afghanistan in August 2021 was a watershed moment whose repercussions resonated across the global jihadist landscape. The dramatic, televised fall of Kabul was more than just the end of a 20-year American military presence; it was a symbolic shockwave interpreted by a multitude of jihadist groups as a monumental victory against a global superpower and a symbol of divine endorsement for long-term armed resistance (Semple et al., 2021). This event, rich in historical and ideological significance, provided a powerful narrative of triumph against overwhelming odds, a modern-day parallel to foundational stories of faith and perseverance that animate Islamist movements worldwide. The victory was immediately seized upon as a source of inspiration, validation, and potent propaganda.

For analysts and policymakers in Indonesia, this development raised immediate and grave concerns. Indonesia has a long and complex history with Afghanistan, dating back to the anti-Soviet jihad of the 1980s, which saw thousands of Indonesian fighters travel to the Afghan-Pakistan border. These veterans, the so-called “Afghan alumni,” returned to their home countries with military skills, international networks, and a hardened Salafi-jihadist ideology that would form the nucleus of future terrorist organizations, most notably AJAI. AJAI is a Southeast Asian Islamist militant network aiming to establish an Islamic state, with ideological and operational links to transnational jihadist movements (Singh, 2007; Muhammad, 2015). It has been described as a clandestine organization that combines religious outreach with violent extremism, evolving its strategies in response to state repression and changing political contexts (Barton, 2005). Given this deep historical linkage, the expectation was that the Taliban’s 2021 victory would act as a powerful ideological accelerant, inspiring a new wave of radical mobilization, recruitment, and, most worryingly, violent escalation. The fear was that the "euphoria of Islamic victory" would translate into copycat attacks and a dangerous operational resurgence of dormant or weakened terrorist networks across Indonesia, and its neighboring countries, such as Singapore, Malaysia, and the Philippines.

However, this anticipated surge in violence did not materialize. Instead, the post-2021 period in Indonesia has been characterized more by a profound and complex ideological recalibration than an operational resurgence. This presents a critical puzzle: why did an event of such symbolic magnitude fail to produce the expected kinetic consequences? This research contends that the answer lies not in simple causal assumptions linking inspiration to action, but in a deeper understanding of two interconnected factors: the unique nature of the Taliban's victory as the culmination of a flawed global peace process, and the specific internal dynamics of the Indonesian jihadist milieu after the Doha Agreement 2020.

To understand the reaction in the Indonesia, one must first grasp the global context that enabled the Taliban's return. This was not a spontaneous military conquest but the direct outcome of a deeply flawed diplomatic process culminating in the February 2020 Doha Agreement. This accord, negotiated directly and exclusively between the United States and the Taliban, fundamentally excluded the internationally recognized Islamic Republic of Afghanistan, treating it not as a sovereign partner but as a secondary actor (Sadr, 2024). This design is widely seen as a withdrawal agreement for the U.S. rather than a viable roadmap for peace, a process that granted the Taliban immense international legitimacy while fatally undermining the very government it was meant to negotiate with (Center for Dialogue and Progress-Geneva, 2022). This U.S. policy was itself driven by a larger strategic pivot: a grand strategy of retrenchment aimed at reducing costly military engagements in the Middle East and South Asia to redirect resources towards great power competition, primarily with China (Cipto, 2018; Wardoyo, 2024). This geopolitical calculation prioritized U.S. interests over the stability of Afghanistan, creating a power vacuum that the Taliban were poised to fill.

It is against this backdrop of diplomatic failure, strategic realignment, and subsequent humanitarian disaster in Afghanistan that the response in Indonesia must be analyzed. The divergence between the expected violent outcome and the observed ideological recalibration invites a closer examination of how jihadist groups in Indonesia interpret global events and adapt their strategies. One school of thought argues that the Taliban's success would serve as a potent catalyst for recruitment (Adi & Purba, 2021). In contrast, another perspective contends that violence in Indonesia is often catalyzed by news of defeat, injustice, or sad news, specifically in response to direct foreign intervention, such as the U.S. invasion of Afghanistan in 2001 (Wibowo, 2023).

This research applies Social Movement Theory (SMT) as its primary analytical lens to resolve this puzzle and interpret these complex dynamics. SMT provides a powerful framework for understanding how social movements, including radical ones, respond not only to state repression or institutional opportunities but also to symbolic shifts in the global landscape (McAdam, 1982; Tarrow, 2011). It moves the analysis beyond a focus on ideology alone to examine the strategic calculations, organizational capacities, and discursive struggles that shape a movement's trajectory.

The central thesis of this research is that the Taliban's victory did not inspire an immediate return to violence in Indonesia because its primary impact was ideological, not operational. It functioned as a strategic catalyst that validated and thereby accelerated the ongoing strategic evolution of AJAI—the region's most established Al-Qaeda-linked group—towards a more subtle, long-term approach of socio-political infiltration, a strategy known as tamkin siyasi. Simultaneously, the victory deepened the pre-existing ideological rift between AJAI and its pro-Islamic State (IS) rivals, who framed the Taliban's diplomatic engagement as a betrayal of jihadist principles. The research argues that this shift, underpinned by AJAI's sophisticated and proven organizational resilience, fundamentally transforms the group into a hybrid threat that blends political subversion with latent militancy. Consequently, the most significant impact of the Taliban's return was not on violent tactics but on strategic regeneration and the sharpening of internal ideological boundaries, reshaping the primary threat from one of overt terrorism to a more complex and enduring challenge of long-term, strategic subversion.

Literature Review/Analytical Framework

This research situates radical violent groups within the framework of SMT, moving beyond simplistic depictions of them as monolithic criminal entities. SMT is a theoretical framework within sociology that seeks to explain how collective actors mobilize resources, construct shared meanings, and exploit political opportunities to pursue social and political change. Rather than viewing movements as spontaneous or purely grievance-driven, SMT emphasizes structured processes such as resource mobilization, framing strategies, and political opportunity structures that shape the emergence, trajectory, and outcomes of social movements (McCarthy & Zald, 1977; Tarrow, 2011). By focusing on the interaction between agency and structure, SMT allows scholars to analyze how movements adapt to constraints, build legitimacy, and influence broader institutional and normative environments, making it particularly useful for interpreting complex and dynamic sociopolitical phenomena. SMT provides a robust analytical lens by conceptualizing groups like AJAI and Jamaah Ansharut Daulah (JAD), whose splinter networks have weak ideological and historical roots in AJAI, as social movement organizations (SMOs) engaged in "contentious politics" (Tarrow, 2011). This approach allows for a more dynamic analysis of their strategic evolution, organizational resilience, and ideological debates, which are often overlooked in purely security-focused or theological studies. Furthermore, the central argument of this research that the Taliban's 2021 victory acted as a strategic catalyst for ideological recalibration rather than immediate violence in Indonesia. This argument is built upon a careful examination of existing scholarship concerning the global peace process, the historical development of regional radicalism, and the specific implications of the Taliban's return to power.

The Flawed Peace Process as a Critical External Shock

The response of Indonesia radical groups cannot be understood in a vacuum. It is a direct reaction to a global event whose foundations are deeply flawed. The 2020 Doha Agreement, ostensibly a peace accord, is now widely understood by scholars as a principal catalyst for the Afghan Republic's collapse. A critical flaw, identified early on, is its fundamental design as a bilateral negotiation between the United States and the Taliban that deliberately excluded the internationally recognized Afghan government. Malik (2020) argues that this exclusion was the agreement’s essential loophole, rendering it unstable from the outset. By treating the Afghan government as a secondary actor, the U.S. fatally undermined its legitimacy while simultaneously bestowing significant international credibility upon the Taliban insurgency. This transformed the process from a viable peace roadmap into what Malik (2020) describes as a thinly veiled withdrawal agreement for the U.S. It creats a clear timeline for American departure without establishing credible enforcement mechanisms or incentives for the Taliban to engage in sincere intra-Afghan dialogue. This diplomatic failure, driven by a broader U.S. strategy of retrenchment from the War on Terror to focus on great power competition, constituted a critical external shock that would ripple across the global jihadist landscape. The subsequent Taliban victory is, therefore, not merely a military outcome but the political culmination of this flawed international peace process.

Divergent Trajectories in Indonesian Jihadism: A Pre-2021 Baseline

To accurately measure the impact of the re-emergence of Taliban, it is essential to understand the pre-existing conditions within the Indonesian jihadist milieu. By 2021, the landscape was not uniform but was defined by a deep and long-standing ideological schism, primarily between pro-Al Qaeda and pro-Islamic State factions. The pro-Al Qaeda faction refers to militant groups and networks that remain aligned with Al-Qaeda, emphasizing a gradualist strategy, local embedding, and long-term struggle against perceived enemies of Islam (Zenn, 2020). In contrast, the pro-Islamic State faction adopts a more immediate and absolutist approach, prioritizing the rapid establishment of a caliphate, territorial control, and extreme violence against both state and rival Islamist actors (Winter, 2015; Hassan, 2018). Historically, radicalism in Indonesia has deep domestic roots, with movements like Darul Islam (DI), an armed Islamist movement founded in 1949 that sought to establish an Islamic state (*Negara Islam Indonesia*) in opposition to the secular Indonesian republic (van Dijk, 1981). The movement waged a prolonged insurgency across several regions before being largely suppressed in the early 1960s, though its ideological legacy continues to influence later militant networks (Solahudin, 2013). DI provided an ideological heritage for later groups like Jemaah Islamiyah (von der Mehden, 2005). This historical legacy fostered a strategic patience within AJAI, especially after it was decimated following the 2002 Bali bombings.

The contemporary manifestation of this divide is sharpened by the global split between Al Qaeda and IS. Selçuk and Panagiotou (2020) show that the rise of IS and its declaration of a caliphate in 2014 had a profound impact on Southeast Asia, leading to the formation of new allegiances and deepening rivalries. AJAI, on one side, despite being weakened, had adopted a long-term strategy of *tamkin* (consolidation) focused on grassroots infiltration and societal influence, eschewing large-scale violence. *Tamkin* is a concept referring to the gradual consolidation and strengthening of power, where a movement builds social, political, and institutional influence over time as a foundation for establishing broader authority (Hafez, 2003). On the other side is the fragmented but aggressive pro-IS network, chiefly represented by JAD in Indonesia. These groups, inspired by IS's strategy of immediate and spectacular violence, stand in stark ideological opposition to AJAI's patient approach. This internal division creates a competitive ideological marketplace where different strategic paradigms, patience versus immediacy and consolidation versus confrontation, compete for legitimacy. It is into this contested landscape that the shock of the Taliban's victory is introduced.

The Taliban's Victory: A Catalyst for Ideological Validation and Contestation

The Taliban's return to power in August 2021 was immediately interpreted through the competing lenses of this regional rivalry. As a leading analyst on the topic, Singh (2022) notes that the event triggered a sense of euphoria among various jihadist groups in the region. However, this euphoria was not monolithic. For established pro-Al Qaeda groups like AJAI, the victory was framed as a monumental vindication of their own long-term strategy. Singh (2022) highlights that leaders of AJAI-affiliated groups celebrated the Taliban's success as exemplary for its 'consistency in fighting on the path of Allah,' drawing a direct parallel to their own patient struggle. It was seen as tangible proof that a superpower could be defeated not through rash, spectacular attacks, but through decades of persistent, resilient, and strategic struggle.

Conversely, for pro-IS groups, the Taliban's diplomatic engagement with the U.S. in Doha and their focus on governing a nation-state rather than a global caliphate were framed as acts of apostasy and betrayal (Singh, 2022). This divergence demonstrates that the event's primary impact was not to unify the jihadist movement but to intensify the pre-existing "framing contestation" (Snow & Benford, 2000).

Synthesizing the Literature through a Social Movement Theory Framework

The dynamics identify in the literature, namely a flawed global process creating a shock, a divided regional landscape receiving it, and competing interpretations of its meaning, are best analyzed systematically through the tripartite SMT framework.

First is Political Opportunity Structures (POS). The literature demonstrates that the Taliban's victory opened a crucial "window of political opportunity," but not in the traditional, institutional sense. Instead, it is a symbolic and discursive opportunity. The flawed diplomacy detailed by Malik (2020) culminates in a victory that provides what McAdam (1982) calls cognitive liberation for groups pursuing a long-term strategy. It alters their perception of the possibility of success, validating their strategic choices and reinforcing their belief that victory is achievable (Singh, 2022).

Second is Resource Mobilization (RM). The primary resource generated by the Taliban’s victory is not financial or material but symbolic and cultural. As Singh (2022) implies, the "David-versus-Goliath" narrative became a potent new form of symbolic capital. This narrative can be leveraged in propaganda to boost morale, attract recruits, and provide a fresh, emotionally resonant justification for fundraising under humanitarian pretexts, a classic resource mobilization strategy.

Third is Framing Processes. The literature makes it clear that the Taliban's victory became a focal point for an intense framing contest. This contest takes place on the ideological fault lines previously established by the Al Qaeda-IS split, as described by Selçuk and Panagiotou (2020). JI and its allies successfully frame the victory as a vindication of strategic patience, thereby strengthening their own legitimacy and organizational cohesion. Meanwhile, pro-IS groups frame it as a betrayal of jihadist principles, a necessary counter-narrative to maintain their ideological purity and distinguish themselves from their rivals (Singh, 2022). This framework allows for a dynamic understanding of how these groups actively interpret and instrumentalize global events to serve their strategic goals.

Research Method

This research applies a qualitative research design to explore how radical Islamist movements in Southeast Asia responded to the Taliban's return to power in 2021. Moreover, this research is an interpretive analysis grounded in discourse and organizational dynamics, aimed to understand how ideological groups perceive global events, reinterpret their goals, and recalibrate their strategies. The primary source of data is secondary and includes a wide range of materials published between 2020 and 2024.

Data collection techniques involve a comprehensive review of published reports from policy institutes like the Institute for Policy Analysis of Conflict (IPAC) and the S. Rajaratnam School of International Studies (RSIS); academic journal articles focusing on terrorism, political Islam, and Southeast Asian security; expert commentary from think tanks and news outlets; and media coverage from the period immediately preceding and following the Taliban's takeover. The analysis also incorporates data from documents specifically related to the Doha peace process and its aftermath to provide essential geopolitical context.

Data analysis is conducted using a thematic analysis approach, guided by the tripartite framework of SMT. The research identifies recurring themes and patterns related to political opportunities, resource mobilization, and framing processes within the discourse of Southeast Asian jihadist groups. By triangulating these diverse sources, the research identifies patterns of organizational adaptation and ideological contestation across the region's complex radical landscape, ensuring a holistic and well-supported analysis.

Analysis

The strategic response of Indonesian radical groups to the Taliban’s re-emergence must be contextualized within the unique political nature of that victory. The 2021 takeover was not merely a military triumph but the culmination of the deeply flawed 2020 Doha Agreement. This agreement, designed primarily as a mechanism for the U.S. withdrawal, fatally undermined the Afghan Republic by excluding it from direct negotiations, thereby granting the Taliban immense international legitimacy while sidelining Washington's key ally (Malik, 2020). This diplomatic failure provided the ultimate symbolic validation for global jihadist movements.

In Indonesia, the anticipated surge in copycat violence does not materialize. Instead, the external shock functioned as a powerful catalyst for ideological recalibration. For groups like AJAI, the Taliban's success affirmed their long-term strategy of strategic patience and socio-political infiltration (*tamkin siyasi*). Conversely, the diplomatic maneuvering in Doha simultaneously intensified the framing contestation with their pro-Islamic State (IS) rivals, who framed the Taliban as apostates for engaging with the “crusader" United States (Singh, 2022). Thus, the Taliban’s return, engineered by a flawed peace process, reshaped the regional threat from one of immediate, kinetic attacks to one of complex, strategic subversion.

Understanding the catastrophic failure of the Doha Agreement is essential to unlocking the divergent strategic calculus of jihadis thousands of miles away.

The Global Precedent: A Flawed Peace and a Strategic Withdrawal

The response of Indonesian radical groups cannot be understood without first analyzing the nature of the Taliban's victory. It was not merely a military triumph but a political one, engineered through a diplomatic process that many experts now view as a catastrophic failure. The 2020 Doha Agreement, rather than fostering peace, created the conditions for the Afghan Republic's collapse. By negotiating directly and exclusively with the Taliban, the U.S. administration effectively bypassed and delegitimized its ally, the Afghan government. As noted by Sadr (2024), the process suffers from a flawed peace process design from the outset. The exclusion of the Afghan Republic from the first stage of talks and the pre-negotiated release of 5,000 Taliban prisoners are costly concessions that signaled to the Taliban that they could achieve their primary objectives without genuine compromise (Sadr, 2024). The agreement lacks a credible third-party guarantor, with Pakistan unwilling to play the role and other regional powers like Russia and China kept at arm's length, leaving no mechanism to enforce the Taliban’s vague commitments (Khan, 2020). The process became a withdrawal agreement that gave the Taliban a clear timeline and removed any incentive for them to engage in good-faith intra-Afghan dialogue (Center for Dialogue and Progress-Geneva, 2022).

This diplomatic approach is underpinned by a larger shift in U.S. foreign policy. The withdrawal is a key element of a retrenchment strategy, designed to reallocate U.S. military and financial resources away from the War on Terror and towards containing a rising China (Wardoyo, 2024). This pivot represents a major change in the global distribution of power and priorities. As Wardoyo (2024) demonstrates through analysis of defense spending and military deployments, the U.S. has been steadily shifting its strategic focus from the Middle East (periphery) to the Indo-Pacific (core). Afghanistan became a casualty of this larger geopolitical realignment.

The immediate result in Afghanistan is a humanitarian catastrophe. The U.S. freeze on Afghan central bank assets decimated the economy. The World Food Programme (2021) reported in late 2021 that 93% of Afghans were suffering from insufficient food consumption, a 13% increase from before the U.S. exit. The number of people facing acute food insecurity (IPC Phase 3 or higher) nearly doubled, from 10.9 million in March-May 2021 to a projected 22.8 million by late 2021 (Izza & Basuki, 2024). This crisis highlights the profound human cost of a poorly managed peace process and strategic withdrawal.

The Pre-2021 Indonesian Landscape: Divergent Trajectories

To accurately measure the impact of this global event, it is essential to establish a baseline of the radical landscape in Indonesia prior to August 2021. This period was shaped by two decades of counter-terrorism pressure and the territorial collapse of the Islamic State (IS), a transnational jihadist organization that declared a global caliphate in 2014 and sought to govern territory through extreme violence and strict ideological control (Gerges, 2016;

Bunzel, 2015). IS distinguishes itself from other militant groups through its immediate state-building ambition and uncompromising takfiri doctrine, which legitimizes violence against both non-Muslims and rival Muslims deemed insufficiently orthodox.

First is the strategic resilience of the pro-Al Qaeda -AJAI. Decimated by arrests following the 2002 Bali bombings and subsequent security operations, AJAI underwent a fundamental reorientation under its new amir, Para Wijayanto. It shifts from 'jihad now' to 'jihad later,' emphasizing a long-term strategy of *tamkin* through consolidation or the establishment of a solid foundation (Ramakrishna, 2022). This strategy involves three core activities: *dakwah* (preaching) and education through a vast network of Islamic boarding schools (*pesantren*); sophisticated financial mobilization through non-profit organizations (NPOs), such as Baitul Maal Abdurrahman Bin Auf (BM ABA); and pragmatic political engagement by building coalitions (*tansiq*) with other Islamist groups and infiltrating mainstream institutions such as the Indonesian Ulema Council (MUI) (IPAC, 2021). Before the Taliban's return, AJAI was a movement in a state of quiet, strategic hibernation, weakened but resilient, non-violent by choice but retaining its military aspirations (Satria, 2023).

On the other hand, the pro-IS camp, primarily represented by Jamaah Ansharut Daulah (JAD), is characterized by organizational decay and fragmentation. The 2019 territorial defeat of the caliphate and high-profile arrests in Indonesia, including those of its leader Aman Abdurrahman, left the movement operationally decentralized and effectively leaderless (Liow, 2020). The threat shifts from coordinated attacks to low-capacity plots by small, localized cells or inspired lone actors. Thus, on the eve of the Taliban's victory, the pro-IS landscape was a scattered collection of disparate cells, lacking the organizational coherence, strategic patience, and deep societal roots that defined its rival, AJAI.

Strategic Responses in Southeast Asia: An SMT Analysis

The Taliban's victory resonates ideologically across the region, but it does not translate into a uniform wave of violent mobilization. Instead, movement responses are filtered through internal strategic logics and organizational capacities. These dynamics can be best analyzed through three SMT pillars.

First is interpreting opportunity, which emphasizes strategic patience over tactical escalation. For AJAI, the Taliban's victory is not a call to arms but a profound moment of ideological validation and window of political opportunity that affirmed its strategic choices (Meyer, 2004). Having pursued a patient, long-term *tamkin* strategy for over a decade, AJAI interpreted the Taliban's success as tangible proof that a strategy prioritizing resilience and grassroots consolidation could ultimately defeat a superpower. This sense of validation is palpable. Indonesian police interrogations reveal that AJAI detainees express 'euphoria' over the event, viewing it as a direct affirmation of their own strategy and a sign that moving from a stage of weakness (*marhala idtidlaf*) to power through armed struggle (*jihad fisabilillah*) is a viable path (IPAC, 2021). Rohim Bashyir, a pro-Al Qaeda leader, described the Taliban's return as 'exemplary' for its consistency in fighting on the path of Allah (Adyatama, 2022). This perception creates a crucial cognitive liberation, reinforcing the belief that AJAI's long struggle is not futile and that its patient, non-confrontational posture is a calculated and winning strategy rather than a sign of weakness (McAdam, 1982).

Second is mobilizing symbolic capital, which focuses on legitimacy, resources, and networks. The Taliban's return was leveraged to generate new symbolic and material resources. Symbolically, the victory provided a powerful new propaganda narrative. As articulated by Praditya (2024), radical groups are adept at exploiting cultural trends to attract recruits. The Taliban's heroic "David-versus-Goliath" story offered fresh, compelling content for dissemination through social media and sermons, invaluable for attracting a younger generation primed with narratives of global Muslim grievance.

Materially, the event opened new avenues for financial mobilization. AJAI's sophisticated network of NPOs and charities, skilled at exploiting public generosity, found a perfect pretext in the humanitarian crisis unfolding in Afghanistan. As a former AJAI member, Nasir Abbas warned, groups like AJAI are skilled at using humanitarian issues to raise operational funds (Adyatama, 2022). The new situation in Afghanistan offered an emotionally resonant and seemingly legitimate cause, allowing AJAI-affiliated charities to solicit public donations that could be covertly channeled to support the organization's long-term needs, from maintaining its structure to funding its educational networks (Ghoni & Masyhar, 2022). This demonstrates a classic resource mobilization strategy, in which an external event is instrumentalized to acquire necessary financial capital.

Third is framing the victory, which focuses on intra-movement contestation and ideological boundaries. Perhaps the most significant impact was how the Taliban's victory intensified the framing contest between the pro-Al Qaeda and pro-IS camps, sharpening their ideological divide (Snow & Benford, 2000). Each faction frames the event to legitimize its own worldview.

For the pro-Al Qaeda camp (including AJAI), the dominant frame is one of victory and validation. They celebrate the Taliban's success as a triumph for global jihad and a testament to the virtue of strategic patience, a direct parallel to their own *tamkin* strategy. This frame reinforces group cohesion and validates the leadership's long-term vision.

In contrast, the pro-IS camp framed the event as one of apostasy and betrayal. IS supporters in Indonesia labeled the Taliban as *murtad* (apostates) for engaging in diplomacy with the 'crusader' United States, for their perceived nationalism in prioritizing the Afghan state over a global caliphate, and for their alleged tolerance of Shia Muslims (Arianti & Rahmah, 2022). This narrative of betrayal is crucial for IS supporters to maintain ideological purity and distinguish themselves from the Taliban-Al Qaeda axis.

This 'framing of war' is complicated by a third, pragmatic frame promoted by mainstream figures such as former Indonesian Vice President Jusuf Kalla, who portrayed the 'new' Taliban as a moderate actor (Mizuno & Aidulsyah, 2021). This inadvertently bestows a degree of legitimacy on the Taliban, making it harder for governments to counter the celebratory narratives circulating within radical networks and illustrating the complexity of managing public discourse in the wake of such events.

Strategic Implications and the Evolution of Threat

The ideological recalibration catalyzed by the Taliban's victory has profound strategic implications for Indonesia, fundamentally reshaping the nature of the radical threat. The primary consequence has not been a resurgence of spectacular, Bali-style bombings, but rather the acceleration of a more insidious, long-term, and politically sophisticated form of subversion, primarily driven by AJAI. This evolution, validated by the Taliban's success, transforms the threat from a purely kinetic one to a hybrid challenge that blends political infiltration, social engineering, and latent militancy. This shift, combined with AJAI's proven organizational resilience, makes it the most strategic and enduring radical threat in the region today.

The Taliban's victory, a successful transition from a decades-long insurgency to a governing authority, served as the ultimate proof of concept for a strategic paradigm that had been gaining ground within AJAI for over a decade: *tamkin siyasi*, or political consolidation. This strategy represents a pragmatic and calculated evolution from a singular focus on armed jihad (bullets) to a more patient, multi-pronged approach that includes political participation (ballots) (Ashour, 2009; Surwandono & Ahmadi, 2011). The objective of *tamkin siyasi* is not to abandon violence indefinitely but to create a political and social environment conducive to the eventual establishment of a Sharia-based state, thereby making armed struggle a viable option in the future when conditions are right (Arianti,2022).

For years, a faction within AJAI, led by influential figures like Farid Okbah and Abu Rusdan, had advocated for a more direct engagement with the political process. They argued that a purely clandestine, militaristic approach had proven counterproductive, leading to the group's decimation and isolation. Instead, they championed a strategy of infiltrating mainstream society through three primary avenues: *dakwah* (preaching and education), *hisbah* (enforcing social-religious norms), and *siyasah* (politics). The Taliban's ability to outlast a global superpower and seize control of a state not just through fighting but through shrewd diplomacy and political maneuvering provided this faction with an irrefutable argument. It demonstrates that negotiation and political engagement are not ideological compromises, as pro-IS rivals claimed, but were in fact essential components of a winning, long-term strategy. The victory generated a powerful shift in perceived political possibilities, akin to what McAdam (1982) conceptualizes as cognitive liberation and reinforcing AJAI's confidence in gradualist strategies while reshaping internal strategic calculations (IPAC, 2021).

This foray into contentious politics culminated in a more audacious move: the 2021 establishment of the Indonesian People's Dakwah Party (PDRI). While ostensibly a legitimate political entity, analysts widely view PDRI as a front organization designed to serve as AJAI's political vehicle for the 2024 elections and beyond (Ramakrishna, 2022). This is not a sign of moderation but a calculated, long-term strategy to change the Indonesian democratic system into a Sharia-based one from within (Ramakrishna, 2022). By placing cadres in political office, influencing legislation, and shaping public policy, AJAI aims to methodically erode the foundations of Pancasila-based democracy and create a state more aligned with its ideological vision. This shift mirrors the Taliban's own historical trajectory of blending military action with political governance and tribal engagement, a model that AJAI now sees as the blueprint for its own future success.

The strategic shift towards political subversion is made uniquely dangerous by AJAI's profound and time-tested organizational resilience. Unlike the fragmented and personality-driven cells of the pro-IS network, AJAI has deliberately engineered a sophisticated and durable organizational structure capable of surviving intense and sustained counter-terrorism pressure, including repeated leadership decapitations. This resilience is not accidental. It is the product of a meticulous organizational design that functions more like a clandestine state-in-waiting than a simple terrorist group.

Research by Satria (2023) illuminates the key mechanisms that underpin this durability. First is the establishment of a formal, hierarchical structure with clear lines of succession, including contingency leadership bodies like the *Tim Lajnah* (Committee Team), which can immediately assume command when senior leaders are captured. This prevents the organizational paralysis that often cripples other groups. Second is a system of strict internal discipline (*hisbah*) that enforces ideological conformity, maintains operational security, and punishes deviance, ensuring cohesion and preventing internal fragmentation. Third, and perhaps most critically, AJAI has developed a robust ecosystem of support programs that function as a shadow social welfare system for its members and their families. This includes the PERISAI legal advocacy wing, which provides legal aid to arrested members, and the *Matlubin* system, a dedicated fugitive support network that provides safe houses, funds, and logistics for members on the run.

This deep-seated resilience means AJAI's political turn should not be mistake compellingly for genuine moderation or a rejection of violence. Nuraniyah and Solahudin (2024) argue that AJAI is in a state of hybrid deradicalization. It has undergone a partial tactical shift towards non-violence but has crucially not dismantled its military wing; it has merely placed it in reserve. The organization continues to operate clandestine training camps, sends cadres for military training abroad, and maintains hidden weapons caches, all while retaining the theological justification for armed jihad when the conditions are right (IPAC, 2021).

This creates a uniquely dangerous, hybrid threat. The immediate, overt threat of a Bali-style bombing has been replaced by the more insidious, long-term threat of societal and political subversion. AJAI is playing a long game, patiently building its power and influence within the system it aims to overthrow. Its organizational structure allows it to absorb losses, adapt its strategy, and maintain its core capabilities while simultaneously pursuing a political agenda. This combination of political sophistication and latent military potential makes AJAI the most enduring and strategic radical threat in Southeast Asia.

The Taliban's victory did not only empower AJAI, it also threw the pro-IS camp into a state of ideological disarray, thereby widening the chasm between the two main poles of the jihadist movement in the region. The event intensified the intra-movement framing contest, forcing each side to articulate a clear narrative that legitimized its own worldview while delegitimizing its rival. This ideological battle has significant implications for counter-terrorism strategy.

In stark contrast, the pro-IS camp was forced into a defensive and reactive posture. Their entire ideology was predicated on the concept of an extant, expanding caliphate and a rejection of any form of compromise with apostate systems or crusader powers. The Taliban's diplomatic dealings with the U.S. and its establishment of a nationalist emirate were fundamentally incompatible with this worldview. Consequently, pro-IS propagandists in Indonesia and Malaysia framed the Taliban as *murtad* (apostates) and traitors to the global jihad (Arianti & Rahmah, 2022). This narrative of betrayal was essential for them to maintain ideological purity and create a clear boundary between “true” jihadis (themselves) and “compromisers” (the Taliban-Al Qaeda axis).

This intensified framing war creates both challenges and opportunities. The challenge lies in the complexity of the narrative landscape. As mainstream figures like former Indonesian Vice President Jusuf Kalla praised the “new” Taliban as a more moderate and pragmatic force, they inadvertently bestowed a degree of legitimacy on the group that complicated government efforts to counter AJAI's celebratory narrative (Mizuno & Aidulsyah, 2021). It illustrates the difficulty of managing public discourse when a designated terrorist group achieves a semblance of statehood.

However, the opportunity is significant. The deep and irreconcilable ideological rift between the pro-AQ and pro-IS camps is a critical vulnerability that can be exploited. Counter-narrative campaigns can be tailored to the specific ideological weaknesses of each side. For AJAI, narratives can highlight the Taliban's failure to govern effectively and its continued reliance on international aid, questioning the “victory”. For pro-IS supporters, narratives can amplify their own leaders’ accusations of the Taliban's "betrayal," thereby sowing further discord and disillusionment within a camp already suffering from fragmentation and a lack of central leadership. By understanding and leveraging this internal contestation, security agencies can move beyond a monolithic approach and engage in a more nuanced form of ideological warfare.

Conclusion

The re-emergence of the Taliban in Afghanistan in August 2021 was a watershed moment whose impact on Indonesian radicalism was neither immediate nor straightforward. This study has argued that the event’s significance cannot be understood as a simple trigger for violence but must be analyzed as a complex strategic catalyst, understood through the lens of Social Movement Theory and contextualized by the failure of the Doha Peace Process. The flawed nature of the 2020 Doha Agreement, which effectively functioned as a U.S. withdrawal strategy that sidelined the Afghan Republic, created a unique political victory for the Taliban. This victory served as a critical external shock to the Indonesian jihadist milieu, but its effects were filtered through the region’s pre-existing ideological divisions and organizational trajectories.

Through the tripartite framework of SMT, this research has demonstrated how the Taliban's success was interpreted in divergent ways. For Al Jamaah Al Islamiyah (AJAI), it altered the political opportunity structure by providing a powerful window of ideological validation for its patient, long-term strategy. This event generated immense symbolic capital, a potent David-versus-Goliath narrative, that served as a fresh resource for propaganda. Most critically, the victory became the focal point of an intensified framing contestation. AJAI and its pro-Al Qaeda allies successfully framed the event as a vindication of strategic patience, strengthening their legitimacy. In contrast, pro-Islamic State (IS) rivals were forced to frame it as an ideological betrayal to maintain their own distinct identity, thus widening the ideological chasm that defines the regional movement.

Consequently, the most significant implication has not been a resurgence of terrorism but an acceleration of AJAI’s strategic evolution towards a more insidious form of political infiltration, or *tamkin siyasi*. This pivot towards patient, socio-political subversion, now validated by the Taliban's success, is arguably a greater long-term threat than overt violence. This evolution, backed by the group’s proven organizational resilience and latent military capability, repositions AJAI as a formidable hybrid threat. The failure of international diplomacy in Afghanistan, therefore, did not remain contained.t has reshaped the strategic calculus of domestic radical movements thousands of miles away, transforming the region’s most enduring radical threat from a purely kinetic one to a sophisticated socio-political challenge.

Clearly, AJAI has profoundly shaped ASEAN by exposing the transnational nature of violent extremism and compelling regional counter-terrorism cooperation, even against the bloc’s long-standing principle of non-interference. AJAI’s ambition to establish a caliphate across Indonesia, Malaysia, Singapore, and the Philippines culminated in the 2002 Bali bombings, which killed 202 people and laid bare ASEAN’s vulnerability to cross-border terrorism. These attacks destabilized the region, damaged tourism and investment, threatened social cohesion, and discredited governments and the security agencies.

In response, ASEAN members strengthened intelligence sharing, created specialized units such as Indonesia’s Detachment 88, and adopted frameworks including the ASEAN Convention on Counter-Terrorism. AJAI’s activities also exposed gaps in national legal systems and the growing threat of digital radicalization, pushing the bloc to pursue greater coordination. Sustained pressure contributed to JI’s formal disbandment in June 2024, a significant security milestone. Nevertheless, its legacy persists through former members and online extremism, continuing to test ASEAN’s unity and capacity to address evolving threats without compromising its core principles.

The Taliban’s 2021 return to power affected AJAI primarily through psychological inspiration rather than operational revival. The victory generated euphoria among AJAI members, validating their long-term ideological strategy. However, operational impact remained minimal: Indonesian counter-terrorism efforts had already severely degraded AJAI through mass arrests, including the detention of its leader Para Wijayanto in 2020. AJAI also maintained strategic caution and its post-2004 focus on long-term infiltration rather than immediate violence. Ultimately, while the Taliban's triumph boosted morale and propaganda, AJAI's operational capacity in Indonesia stayed significantly diminished.

This research carries significant policy implications that demand an urgent evolution in counterterrorism strategy. First, the ascendance of AJAI's political strategy means that an exclusive focus on kinetic threats is no longer sufficient. Security agencies must develop sophisticated capabilities to monitor and disrupt the subtler strategies of non-violent subversion. This requires a paradigm shift from solely preventing bombings to countering institutional infiltration, the use of political front organizations, and the exploitation of non-profit and charity organizations for fundraising. This new reality demands greater inter-agency cooperation, blending traditional law enforcement with political, social, and financial intelligence.

Second, the intensified framing contest between pro-AQ and pro-IS camps offers a critical vulnerability that policymakers should exploit. Nuanced counter-narratives should be tailored to the specific weaknesses of each camp. For AJAI's sympathizers, this means highlighting the Taliban's failures in governance to question their "victory". For pro-IS supporters, it means amplifying the narrative of the Taliban's ideological "betrayal" to sow further discord within a fragmented camp. Engaging in this nuanced form of ideological warfare is essential to disrupting their appeal.

Third, while the focus of this research has been on AJAI, the Hayat Tahrir al-Sham (HTS) under Abu Mohammed al-Jolani's victory in Syria, a group linked to Al Qaeda and with Indonesian AJAI members having close ties with it, has intensified online extremism in Indonesia, widening ideological divides between pro-HTS and pro-IS supporters. It also presents a security dilemma over Indonesian fighters within HTS, who may pose threats if they return, prompting heightened government surveillance and expanded international counterterrorism cooperation efforts to mitigate risks.

Finally, AJAI's deep-seated organizational resilience underscores the limitations of a purely law-enforcement-based approach. While robust security measures are indispensable, they cannot alone defeat a movement embedding itself within communities, especially ideologically. A comprehensive, whole-of-society strategy is required, incorporating soft approaches to build societal resilience and address the local grievances that make extremist ideologies appealing. The threat in Indonesia has become more complex, more patient, and more political. The response must evolve with it.

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Indonesia's Economic Diplomacy in Comparison with ASEAN Countries: Domestic Institutional Quality and International Factors

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Abstract

This research examined Indonesia's economic diplomacy efforts and outcomes in comparison with those of ASEAN countries, specifically Singapore, Malaysia, Thailand, and Vietnam, focusing on international trade and foreign direct investment (FDI) inflows from 2004 to 2023. Using economic diplomacy as a strategic tool to achieve foreign policy objectives in trade and investment, the research applied a quantitative methodology to evaluate the relationship between economic diplomacy efforts and outcomes across the ASEAN-5 countries. The research hypothesized that increased economic diplomacy efforts lead to improved outcomes, as measured by FDI inflows and trade balance indicators. Economic diplomacy efforts were assessed through the interaction between domestic and international factors, including political stability, regulatory quality, government effectiveness, ease of doing business, participation in regional trade agreements, and bilateral investment treaties (BITs). The research provides statistical evidence to support the hypotheses, indicating that targeted policies aimed at improving regulatory quality, ease of doing business, maintaining political stability, and carefully managing international agreements can bolster economic diplomacy performance for both Indonesia and the ASEAN-4 countries. However, BITs do not significantly affect economic diplomacy outcomes across the model. While the initial model indicates that government effectiveness negatively affects economic diplomacy outcomes, the interaction term reveals that political stability can mitigate this adverse effect. This means that stable political conditions can strengthen the positive aspects of government effectiveness in economic diplomacy.

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Introduction

Developing countries, such as those in the ASEAN region, rely on foreign capital for their growth, prompting them to engage in economic diplomacy to attract FDI and enhance their international trade relations (Ali et al., 2025; Atchadé et al., 2024; Lipsey & Sjöholm, 2011; Pham et al., 2023; Sasana & Fathoni, 2019). Economic diplomacy uses diplomatic tools to foster economic growth and prosperity through strategies such as negotiation, cooperation, and policy alignment, both domestically and with other nations (Prasetyo, 2023; Shrestha, 2023). This approach is essential for developing countries seeking to leverage global resources and markets to accelerate their development.

FDI inflows and outflows serve as indicators of a country's ability to attract and effectively utilize foreign capital, reflecting robust economic fundamentals and an attractive business environment. High FDI inflows indicate that a country is perceived as a favorable investment destination due to factors such as political stability, absence of violence, government effectiveness, the rule of law, and control of corruption (Kechagia & Metaxas, 2022; Kurul & Yalta, 2017; Masron & Abdullah, 2010; Mengistu & Adhikary, 2011; Minović et al., 2020; Nizam & Hassan, 2018). On the other hand, significant FDI outflows indicate that domestic companies are robust enough to invest abroad, seeking new markets, resources, or technological advancements. Both scenarios signal positive aspects of a country's economic health and dynamism.

Among the selected ASEAN countries, Indonesia's economic structure, particularly in terms of trade, investment, knowledge, technology, and production, is relatively suboptimal. Indonesia remains heavily dependent on natural resources, and its manufacturing sector remains weaker than that of other Southeast Asian countries, such as Thailand and Malaysia (Mouna, 2021; Reyhan & Saputera, 2025). Furthermore, data from the Lowy Institute (Denson, 2024) and Asia Power Index from 2018, 2019, 2020, 2021, and 2023 show that Indonesia's economic diplomacy rank score is lower than that of ASEAN countries like Thailand, Vietnam, Malaysia, and Singapore. The Lowy Institute is measured through free trade agreements and outward foreign assistance flows. This indicates that, according to the index, Indonesia has not employed economic strategies to the same extent as other countries to build partnerships and achieve beneficial outcomes for itself and its partners. For instance, it may have fewer successful trade agreements or provide less assistance to other countries than these countries. In this sense, the author highlighted the question of why Indonesia's economic diplomacy ranking is lower than that of the selected ASEAN countries. This research examines Indonesia’s economic diplomacy efforts throughout its history, analyzes their impact on FDI inflows and trade balances in Indonesia, and compares these outcomes with those of the ASEAN-4 countries from 2004 to 2023. In this research, Indonesia serves as the basis for the analysis.

Since 2010, under the leadership of President Susilo Bambang Yudhoyono, Indonesia has started documenting that it wants to strengthen Indonesia's economic diplomacy as a tool to enhance the welfare of the Indonesian people and push economic growth. This emphasis intensified under the administration of President Joko Widodo (2014–2024), as economic diplomacy became the primary policy objective of Indonesia's foreign policy (Andika, 2016; Margiansyah, 2020; Rosyidin, 2017; Simatupang, 2025). Thus, this paper examines the following questions: How have Indonesia's economic diplomacy efforts and outcomes compared to those of other ASEAN countries, particularly in attracting FDI inflows and promoting exports? What factors caused the effectiveness of economic diplomacy initiatives in affecting FDI inflows and trade balances among the ASEAN-5 countries? To address these questions, this analysis will focus on the economic diplomacy efforts and outcomes of the ASEAN-5 countries, specifically regarding FDI inflows and trade balance performance (exports minus imports). According to the Lowy Institute, Indonesia, Thailand, Singapore, Vietnam, Malaysia, and the Philippines constitute the six largest economies in ASEAN (Denson, 2024). However, the Philippines is excluded due to inconsistencies in data throughout the observation period and structural differences that may reduce comparability within the analytical framework.

Building on this comparative design, this research advances the existing literature by providing a systematic cross-country evaluation of the outcomes of economic diplomacy within ASEAN. In doing so, this paper contributes to both the empirical and methodological advancement of the literature on economic diplomacy in Southeast Asia by providing a comparative cross-country analysis of Indonesia and selected ASEAN economies, and by linking economic diplomacy to measurable macroeconomic outcomes using a quantitative regression-based approach.

Literature Review

The factors influencing FDI inflows into a country have been extensively discussed in various studies, including those focusing on ASEAN countries. However, most of these analyses adopt an economic perspective. This research aims to analyze the issue through the lens of economic diplomacy as part of a country's foreign policy. Economic diplomacy has increasingly been conceptualized as a strategic instrument of foreign policy that integrates diplomatic engagement with economic objectives, particularly trade promotion and investment attraction (Moons & van Bergeijk, 2011). Increasing export volumes in international trade and inflows of FDI are two crucial indicators of the success of economic diplomacy efforts. Therefore, this research focuses on analyzing trade balance performance and FDI inflows in the ASEAN-5 countries (Indonesia, Malaysia, Thailand, Singapore, and Vietnam), which are among the largest contributors to regional trade and FDI. For comparative purposes, the ASEAN-4 group in this research excludes Indonesia. FDI involves a combination of capital, expertise, and technology, and its impact on growth in developing countries depends on the efficiency gains transferred to local firms (Hübler & Keller, 2010).

To better understand these dynamics, the existing literature can be categorized into several key strands that explore the relationship among economic diplomacy, institutional factors, and international economic outcomes. Atchadé et al. (2024) highlight that the role of economic diplomacy in attracting foreign capital to emerging countries is statistically significant. Their research stresses how economic diplomacy plays a crucial role in enhancing the attractiveness of economies and increasing the capital stock, which is crucial for economic growth and development. Economic diplomacy works at multiple global levels, from one-on-one engagements to regional and global collaborations that result in trade deals and financial agreements. Its primary goal is to attract sustainable foreign investment by showcasing the potential of developing countries. Diplomatic efforts seek to create attractive socio-economic and institutional landscapes, attract foreign capital, leverage various forms of influence, and strengthen communication with global stakeholders. Ultimately, economic diplomacy serves as a pivotal force in attracting foreign investment and fostering development in emerging markets (Atchadé et al., 2024). For emerging markets like ASEAN countries, economic diplomacy is critical as they strive to transform themselves into modern, industrialized economies with improved standards of living. Through economic diplomacy, these nations can increase their attractiveness to foreign investors, foster trade relations, and strengthen their economic development initiatives.

According to Moons and van Bergeijk (2011), proactive economic diplomacy emerges as a catalyst for positive and statistically significant impacts on international economic dynamics, such as foreign direct investment and trade. Countries that engage in proactive economic diplomacy tend to experience higher levels of trade and investment activity compared to those that do not prioritize it. This finding confirms the notion that economic diplomacy is an effective tool for promoting economic exchange and advancing national interests in the global economic landscape.

Furthermore, Moons and van Bergeijk (2011) conduct a meta-analysis, a statistical technique that synthesizes findings from multiple studies, to examine the relationship between economic diplomacy and international economic flows. The study also identifies several factors that influence the effectiveness of economic diplomacy. These include the level of diplomatic effort invested by states, the quality of diplomatic relations between trading partners, and the presence of institutional frameworks that facilitate economic cooperation.

Moreover, Yakop and van Bergeijk (2011) examine the role of regional trade agreements (RTAs) in economic diplomacy. RTAs have become increasingly common in recent years, with many developing countries entering into these agreements to improve their market access abroad. However, the success of RTAs in boosting trade and economic growth varies depending on the terms of the agreement and the degree of integration achieved among member countries. They highlight the need to design RTAs that account for the specific needs and capabilities of developing countries. Yakop and van Bergeijk (2011) also discuss the role of international organizations such as the World Trade Organization (WTO) in economic diplomacy. The WTO serves as a venue for negotiating trade agreements and settling disputes among its members. However, the authors point out that developing countries often struggle to participate fully in WTO negotiations due to limited capacity and resources. Economic diplomacy can mitigate these challenges by helping developing countries articulate their interests and form coalitions with other member states.

In the context of ASEAN, the levels of FDI inflows and international trade are critical drivers of economic growth and development in member countries, including Singapore, Malaysia, Thailand, Indonesia, and Vietnam. These countries have had varying degrees of success in attracting FDI and engaging in international trade, influenced by several factors such as market size, levels of corruption, inflation rates, infrastructure development, environmental policies, and financial integration. Countries such as Singapore, Malaysia, and Thailand benefit from larger markets that attract more FDI inflows due to their higher per capita GDP growth compared to smaller economies such as Vietnam and Indonesia (Darwis & Baharuddin, 2023; Shaari et al., 2023). High levels of corruption can also discourage FDI inflows by raising costs for investors. Indonesia and the Philippines have encountered difficulties due to corruption, which has undermined their capacity to attract foreign investments (Shaari et al., 2023).

According to Vogiatzoglu (2016), the ease of doing business is one of the significant influences on FDI inflows in ASEAN countries. The study presents strong evidence that improving the ease of doing business is crucial for attracting FDI to the region. Specifically, improvements in areas such as starting a business, dealing with construction permits, obtaining electricity, registering property, and enforcing contracts are closely associated with higher FDI inflows. Additionally, Buracom (2014), Saha et al., (2022), and Masron and Abdullah (2010) highlight the important role of institutional quality in attracting FDI inflows to developing countries, including ASEAN, with the former emphasizing the need for improved governance and the latter emphasizing the creation of a conducive business environment. Improved governance includes transparency, effective regulatory frameworks, and the rule of law, which can enhance investor confidence and reduce the risks associated with corruption and bureaucratic inefficiency. Creating a conducive business environment involves simplifying administrative procedures, ensuring political stability, and incentivizing foreign investors.

Moreover, bilateral investment treaties have significantly boosted FDI flows to developing countries (Neumayer & Spess, 2005; Li & Zhao, 2021). However, the impact of BITs varies across contexts. In particular, BITs are more effective in countries with better governance and a more stable economic environment. Consistent with the study, Teo (2021) finds that while BITs play a key role in attracting FDI, particularly in developing countries, they are not sufficient on their own. Complementary policies and a stable investment environment are essential to maximize the benefits of BITs.

The reviewed literature provides a comprehensive understanding of how economic diplomacy efforts, including institutional quality, ease of doing business, bilateral investment treaties, regional trade agreements, and regional cooperation, shape FDI and trade dynamics in ASEAN countries. However, some studies find that not all aspects of institutional quality, including investment treaties, have a significant impact on FDI inflows in developing countries (Saha, et al., 2022; Mengistu & Adhikary, 2011; Neumayer & Spess, 2005). In addition, there remains limited comparative evidence systematically examining these relationships across ASEAN countries using a unified empirical framework. Therefore, this research seeks to address these gaps by providing a comparative analysis of Indonesia and selected ASEAN economies, focusing on how economic diplomacy, through both institutional quality and international economic instruments, affects FDI inflows and trade balance performance.

Economic Diplomacy Framework

Diplomacy and economic diplomacy are essential elements of foreign policy (Okano-Heijmans, 2011) and play complementary roles in promoting a nation's interests both at home and abroad (Flissak & Glukhova, 2021). Diplomacy involves the management of international relations through negotiation and dialogue to resolve conflicts and foster cooperation among nations. Economic diplomacy goes beyond conventional diplomacy by integrating economic strategies and tools to pursue national interests. It involves the use of diplomatic expertise and economic tools to advance a country's economic, political, and strategic objectives, including diverse activities such as promoting exports and imports, facilitating investment, negotiating trade pacts, imposing economic sanctions on undesirable entities, and providing development assistance to partner nations.

According to Bayne and Woolcock (2012), economic diplomacy involves the management of relationships between states and other entities in international economic affairs. It encompasses a wide range of activities aimed at promoting cooperation, advancing economic interests, and addressing global challenges. Economic diplomacy requires a strategic interplay between domestic and international factors, integrating domestic policies and governance with international negotiations and agreements. This approach ensures that national economic objectives are aligned with global economic dynamics, thereby promoting both domestic economic growth and international economic relations.

Rana (2004) defines economic diplomacy as the process through which countries tackle the outside world to maximize their national gain in all the fields of activity, including trade, investment, and other forms of economically beneficial exchanges, where they enjoy a comparative advantage; it has bilateral, regional, and multilateral dimensions, each of which is important. Based on this definition, international trade and investment emerge as the central focus of economic diplomacy (Sabaruddin, 2017). The recent definition quoted from Mursitama (as cited in Kementerian Investasi dan Hilirisasi – BKPM, 2022) is more aligned and completed with this research context, which defines economic diplomacy as an integrated effort to mobilize all available resources using all diplomatic tools employed by the state, businesses, institutions, community groups, and individuals, both domestically and internationally, to achieve national prosperity. Traditionally, diplomacy has focused primarily on political and security concerns, with economic issues often taking a back seat. In recent years, however, economic diplomacy has gained prominence as states recognize the critical role of economic factors in shaping international relations and achieving their foreign policy objectives (Bayne & Woolcock, 2012).

Bayne and Woolcock (2012) state that economic considerations have become central to states' foreign policy actions, driving the need for effective economic diplomacy strategies to navigate the complexities of the global economy and pursue national interests. They highlight the interconnectedness of economic and political objectives in contemporary diplomacy. They also emphasized that economic power and influence are increasingly intertwined with political dynamics, blurring the lines between economic and political diplomacy. As a result, states must integrate economic considerations into their diplomatic engagements to effectively advance their interests on the global stage.

Tracing economic diplomacy as a component of foreign policy can be linked to the concepts of complex interdependence proposed by Keohane and Nye (1987), which provides a nuanced understanding of how economic diplomacy operates in a highly interconnected global system. Keohane and Nye's complex interdependence framework outlines a world in which states and non-state actors are deeply intertwined through multiple channels of communication and a broad agenda of issues, challenging traditional notions of power and security. Economic diplomacy leverages these channels to facilitate economic cooperation and integration. For instance, economic diplomacy initiatives can involve direct negotiations between states (interstate), collaborations between government agencies across borders (trans-governmental), and partnerships between businesses and civil society organizations across national boundaries (transnational). These channels allow for the exchange of economic ideas, and the negotiation of trade agreements, thereby enhancing economic interdependence (Keohane & Nye, 1987).

Complex interdependence is grounded in neoliberal institutional theory, which posits that the state is not the sole dominant actor in international relations; non-state actors also play a significant role (Keohane & Nye, 1987). This concept is particularly relevant in the context of economic diplomacy. Economic diplomacy encompasses a multi-actor and multisectoral approach, necessitating negotiation and collaboration between governments and across borders. No single theory can fully elucidate how states will shape economic diplomacy in specific contexts (Bayne & Woolcock, 2012). Traditional international relations theories strive for predictive accuracy and are testable. However, they often oversimplify by treating states as uniform entities with stable policy preferences. This approach is inadequate for understanding economic diplomacy, which involves the interplay of global and domestic factors, and the convergence of economic and political objectives. Economic diplomacy theory serves as an analytical lens for understanding the complex dynamics of state interactions in the economic realm, emphasizing the need for flexibility, adaptability, and a nuanced understanding of the factors shaping diplomatic outcomes.

In economic diplomacy, it is unrealistic to view states as singular actors or assume negotiators possess exhaustive knowledge of national policy preferences. These preferences are dynamic and subject to influence from market forces. Therefore, any analytical framework for economic diplomacy must recognize the complex and evolving nature of state behavior, including the dynamic interplay of various economic and political factors at both domestic and international levels (Bayne & Woolcock, 2012; Farrell & Newman, 2014; Putnam, 1988). In this context, economic diplomacy also involves managing domestic governance and linking it to external elements or institutions.

This research adopts Bayne and Woolcock's (2012) economic diplomacy framework, which highlights economic diplomacy as a crucial tool for states to pursue their economic interests, address global challenges, and advance their foreign policy objectives in an increasingly interconnected world. This framework emphasizes the need for a two-level approach that integrates both domestic governance and international factors as a strategy for economic diplomacy. Using Putnam's (1988) two-level game theory, the research illustrates how policymakers must skillfully balance and manage domestic political dynamics and constraints while engaging in strategic negotiations on the international stage. This integrated approach ensures that domestic and international factors are harmoniously aligned to achieve optimal economic and diplomatic outcomes.

By integrating Bayne and Woolcock's (2012) framework with Putnam's (1988) two-level game theory, it provides an understanding of how diplomatic strategies, shaped by both domestic and international factors, can influence FDI inflows and trade balances. This is particularly important for understanding economic trends in the ASEAN region and elsewhere. Effective economic diplomacy strategies enable countries to navigate the global economic landscape, addressing both domestic and international challenges and opportunities. For ASEAN countries, including Indonesia, this means using diplomatic channels to secure beneficial trade agreements, attract investment, and promote sustainable economic development, thereby strengthening their position in the global economy.

Hypotheses

Building on the economic diplomacy framework, this research examines how domestic institutional quality and international factors jointly influence the outcomes of economic diplomacy. In this context, performance in economic diplomacy outcomes is measured by FDI inflows and trade balance. The key variables underlying this analysis, including institutional quality, ease of doing business, bilateral investment treaties, and regional trade agreements, have been elaborated in the literature review section. Existing studies suggest that economic diplomacy outcomes are shaped not only by domestic institutional conditions that affect investor confidence and policy credibility, but also by international economic arrangements that facilitate market access and reduce uncertainty (Khan et al., 2025; Ullah & Inaba, 2014). This combined perspective is especially relevant in the ASEAN context, where countries exhibit varying levels of institutional development and external economic integration.

Thus, this research hypothesizes that increased economic diplomacy efforts lead to better performance in economic diplomacy outcomes. This expectation is further detailed through a set of specific hypotheses.

H-1 : Higher regulatory quality leads to better performance in economic diplomacy outcomes.

H-2 : Greater political stability leads to better performance in economic diplomacy outcomes.

H-3 : The greater the government's effectiveness, the better the performance in economic diplomacy outcomes.

H-4 : The greater the ease of doing business, the better the performance in economic diplomacy outcomes.

H-5 : The greater the number of bilateral investment treaties, the better the performance in economic diplomacy outcomes.

H-6 : The greater the number of regional trade agreements, the better the performance in economic diplomacy outcomes.

Methodology

This research applies a quantitative approach to examine Indonesia's economic diplomacy in comparison with selected ASEAN countries. The research's dependent variable is the economic diplomacy outcomes index, derived from aggregating the trade balances (exports minus imports) and FDI inflows of the ASEAN-5 countries from 2004 to 2023. These indicators are selected because they directly reflect the primary objectives of economic diplomacy, as previously discussed: attracting foreign investment and promoting international trade.

To ensure comparability and consistency, the index is standardized using the z-score method (Anusha et al., 2019). This statistical measure expresses the deviation of each data point from the mean of the data set in terms of standard deviation. The z-score formula is Equation (1).

$$Z= \frac{X-\mu}{\sigma} \tag{1}$$

Z is the Z-score, X is the individual data point, μ (mu) is the mean of the dataset, and σ (sigma) is the standard deviation of the dataset. The composite index combines FDI inflows and the trade balance as key outcome indicators of economic diplomacy. Due to the lack of a clear theoretical basis for assigning different weights, equal weighting is applied, consistent with common practice in composite index construction (OECD, 2008). While this approach enhances transparency and reduces subjectivity, it implicitly assumes that both indicators contribute equally and may not fully reflect their relative importance. Alternative weighting methods, such as principal component analysis (PCA), are available. However, equal weighting is adopted here as a neutral baseline.

The independent variables in this research encompass both domestic institutional quality and international factors or economic engagement. Domestic institutional factors include political stability, regulatory quality, and government effectiveness, all of which are derived from the World Bank's (2023) Worldwide Governance Indicators (WGI). Political stability reflects perceptions of the likelihood of political instability and violence, indicating the extent to which a country provides a secure and predictable environment. Regulatory quality refers to the government's ability to formulate and implement sound policies that support private sector development. Government effectiveness captures the quality of public services, the efficiency of policy implementation, and the credibility of government commitments.

In addition, the ease of doing business is included to measure the regulatory environment faced by firms, particularly the procedures, time, and costs associated with establishing and operating a business. A higher score indicates a more conducive business environment with fewer administrative barriers.

To capture international economic engagement as a dimension of economic diplomacy, this study includes BITs and regional trade agreements (RTAs). BITs, as defined by the United Nations Conference on Trade and Development (UNCTAD, 2023), are formal agreements between countries that provide legal protection and reduce risks for foreign investors, thereby encouraging cross-border investment. RTAs refer to agreements between countries aimed at facilitating trade and economic cooperation by reducing trade barriers and enhancing market access. This variable is measured by the total number of agreements in force as notified to the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO, 2024).

Finally, control of corruption is included as a control variable, which represents perceptions regarding the extent to which public power is used for personal gain. This includes both minor and major forms of corruption, as well as the domination of the state by elites and private interests.

The data is collected through historical data on trade balance (imports and exports) and FDI inflows for Indonesia, Singapore, Malaysia, Thailand, and Vietnam from reputable sources such as the World Bank (2023), the United Nations Conference on Trade and Development (UNCTAD, 2023), Transparency International (2023), and the World Trade Organization (WTO, 2024). Table 1 provides a comprehensive overview of the variables, their measurements, data sources, and data types.

Table 1. Operationalization of Research Variables

Variable	**Expected Sign**	**Measurement**	**Data Source and Data Type**
Dependent Variable			
Economic Diplomacy Outcome Index	n.a.	Trade Balances (Export-Imports) + FDI inflows (US$ million), use z-score to standardize the value of trade and FDI	World Bank UNCTAD (Interval data)
Independent Variables			
Political Stability Index	+	0 is lowest rank, and 100 to highest rank. Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism	World Bank (Interval data)

Regulatory Quality	+	Ranges from approximately -2.5 (weak) to 2.5 (strong). Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	World Bank (Interval data)
Government Effectiveness	+	Ranges from approximately -2.5 (weak) to 2.5 (strong). Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	World Bank (Interval data)
Bilateral Investment Treaties (BITs)	+	The total number of bilateral investment treaties that are in force	UNCTAD (Interval data)
Trade Regional Agreements (TRAs)	+	Total regional agreement notified to GATT/WTO and in force	WTO (Interval data)
Ease of Doing Business	+	The score ranges from 0 to 100, where 0 represents the worst and 100 the best.	World Bank (Interval data)
Control variable			
Corruption Perception Index (CPI)	+	100 is very clean, and 0 is highly corrupt. CPI is based on perceived levels of public sector corruption	Transparency International (Interval data)

Source: The author.

From Table 1, the regression equation can be formulated in Equation 2.

$$Yei= \beta1PSI+ \beta2RegQual +\beta3GovEf+ \beta4BITs+ \beta5TRAs+ \beta6Easedo+ \beta7CPI+ e \qquad (2)$$

Ye is the economic diplomacy outcomes index, and i represents each of the ASEAN-5 countries. β1 is the coefficient of the Political Stability Index (PSI); β2 is the coefficient of Regulatory Quality (RegQual); β3 is the coefficient of Government Effectiveness (GovEf); β4 is the coefficient of Bilateral Investment Treaties (BITs); β5 is the coefficient of Trade Regional Agreements (TRAs); β6 is the coefficient of Ease of Doing Business (EaseDo); β7 is the coefficient of the Corruption Perception Index (CPI); and e is the error term.

The data analysis is conducted in three steps. First, a descriptive analysis was performed to examine trends in trade balances and FDI patterns for each country. Second, a comparative analysis was undertaken to identify similarities and differences between Indonesia and the ASEAN-4 countries. Finally, statistical methods, including regression analysis using STATA software version 13.1, are employed to assess the relationship between economic diplomacy efforts and their impact on trade balances and FDI.

Results and Discussions

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Economic diplomacy outcomes index	100	-.018	1.769	-2.643	6.888
Political stability	95	-.019	.861	-1.91	1.6
Regulatory quality	95	.397	.899	-.74	2.25
Government effectiveness	95	.643	.912	-.5	2.47
Ease of doing business	85	78.512	13.56	35.95	98.23
Bilateral investment treaties	100	42	10.308	28	56
Regional trade agreements	100	18.4	4.866	15	28
Control of corruption	95	.144	1.048	-.98	2.3

Source: Data processed by the author (2024).

The descriptive statistics in Table 2 summarize key variables related to the economic diplomacy outcomes of the ASEAN-5 countries: Indonesia, Thailand, Vietnam, Malaysia, and Singapore. The table highlights the variability in key factors such as regulatory quality, government effectiveness, and ease of doing business, all of which play a critical role in shaping economic diplomacy outcomes. Additionally, variations in bilateral investment treaties and regional trade agreements further emphasize the region's diverse approaches to international economic engagement. Understanding these differences is essential for formulating targeted policies to enhance the performance of economic diplomacy. It should be noted that several variables have fewer than 100 observations due to data availability limitations across countries and years, particularly for governance indicators and the ease of doing business index. Missing data are handled using listwise deletion, meaning that only observations with complete data are included in the regression analysis to ensure consistent estimation.

Comparative Analysis

Economic diplomacy plays a crucial role in shaping the economic landscape of nations, particularly within the dynamic context of ASEAN. The researcher examines Indonesia's economic diplomacy efforts and outcomes, comparing them with those of the ASEAN-4 countries. Specifically, the aim is to assess how economic diplomacy efforts have influenced the attraction of FDI inflows and export promotion within the ASEAN-5 countries. Additionally, the research seeks to identify the key factors that contribute to the effectiveness of economic diplomacy efforts in influencing the region's FDI inflows and trade balances.

As a prominent member of the ASEAN community, Indonesia has pursued an active economic diplomacy agenda to attract foreign investment and enhance trade relations.

However, the effectiveness of Indonesia's economic diplomacy efforts must be analyzed by comparing them to those of the ASEAN-4 countries, which encompass diverse economic landscapes and diplomatic strategies (Killian, 2022). Indonesia will be the basis of the analysis. These countries have different levels of economic development, strategic priorities, and diplomatic engagements, providing a rich backdrop for comparative analysis.

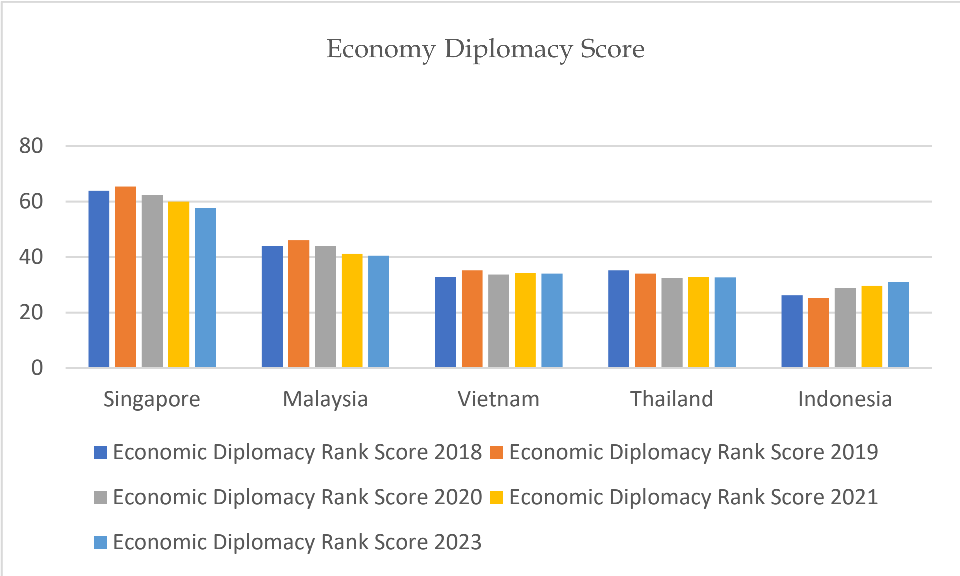

Figure 1. Economy Diplomacy Score

Source: Denson (2024) and the author.

Figure 1 shows that Indonesia's economic diplomacy scores were lower than those of the ASEAN-4 countries in 2018, 2019, 2020, 2021, and 2023. However, Denson (2024) measured economic diplomacy scores based on free trade agreements and outward foreign assistance flows. As noted previously, significant FDI outflows suggest that domestic firms have the strength and capacity to invest internationally in pursuit of new markets, resources, or technological advancements. These scenarios reflect positive indicators of a nation's economic vitality and dynamism.

Figure 2 shows that Singapore has consistently been the leader among the ASEAN-5 countries in FDI inflows, demonstrating a significant upward trend, particularly since 2010. Vietnam also shows a steady increase in FDI inflows, reflecting the success of its aggressive economic reforms and growing appeal as an investment destination. Although Indonesia shows a positive trend in FDI inflows, its performance remains relatively modest compared to Singapore and Vietnam, indicating potential for improvement in its economic diplomacy. Meanwhile, Malaysia experiences moderate and fluctuating FDI inflows. Thailand experiences variability in FDI inflows, with notable peaks in 2010 and 2013, but also significant declines, including negative inflows in 2011 and 2020.

Singapore and Vietnam serve as benchmarks for successful economic diplomacy (UNCTAD, 2023). Indonesia can draw lessons from its proactive policies and strategic reforms to enhance its attractiveness to foreign investors. Continuous efforts to improve the investment climate, reduce bureaucratic hurdles, and promote political stability will be key to improving the results of Indonesia's economic diplomacy and ensuring sustainable FDI inflows.

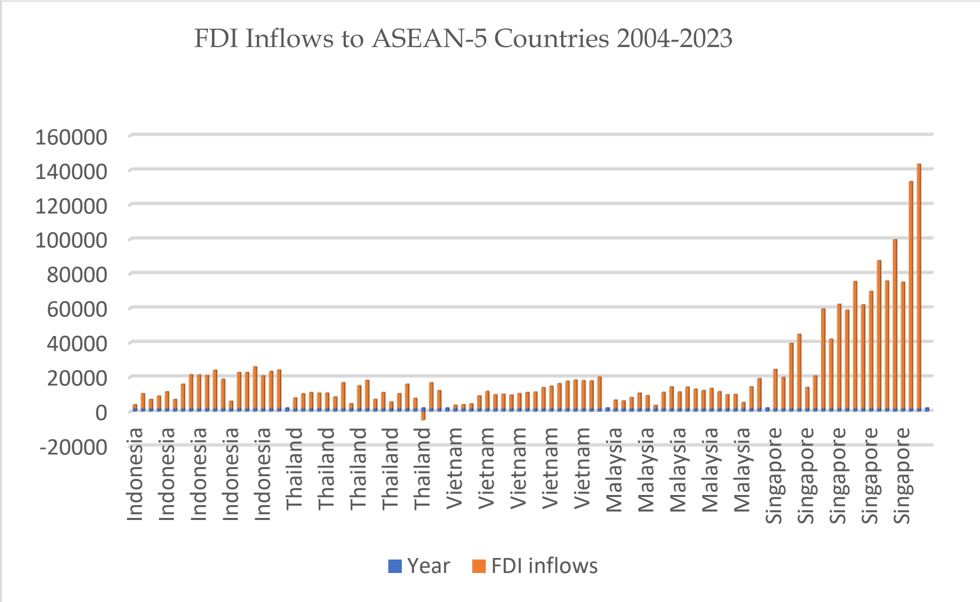

Figure 2. FDI Inflows to ASEAN-5 Countries 2004-2023

Source: UNCTAD (2023) and the author.

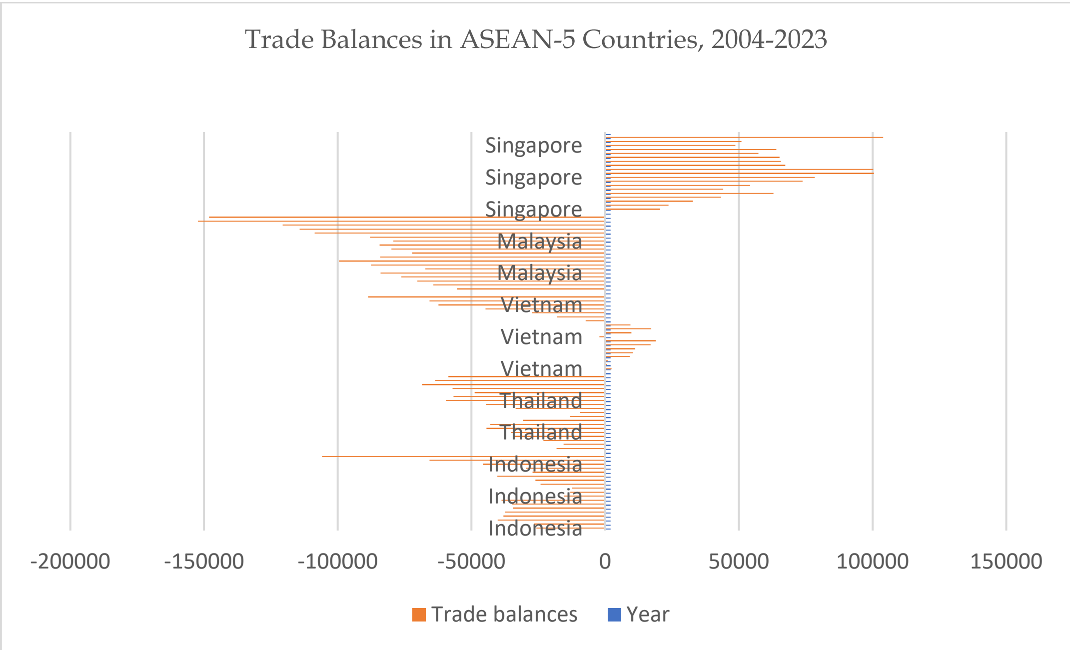

Figure 3. Trade Balances in ASEAN-5 Countries 2004-2023

Source: The World Bank (2023) and the author.

Regarding trade balance performance, as shown in Figure 3, Singapore consistently maintains a positive trade balance, serving as an exemplary model for achieving trade surpluses through efficient trade policies, strategic geographic advantages, and robust export sectors (World Bank, 2023). Vietnam exhibits greater variation, with both positive and negative trade balances, indicating potential for trade rebalancing through strategic industrial policies. This reflects a transitional economy striving to achieve more sustainable trade balances. Meanwhile, Indonesia's persistent trade deficits, similar to those of Malaysia and Thailand, highlight the need for strategic economic reforms to boost exports and manage imports effectively (Wade, 2018).

In conclusion, the descriptive analysis indicates that Indonesia's economic diplomacy performance is comparable to that of the other ASEAN-4 countries. This finding confirms that the FDI inflows and trade balances of the ASEAN-5 countries, except for Singapore, do not align with their capacities to generate FDI outflows and forming free trade agreements, as highlighted by the Lowy Institute. The next step is to continue the analysis using ordinary least squares.

Ordinary Least Squares (Regression Model)

To estimate the determinants of economic diplomacy outcomes, there are five regression models.

1. Model 1 (Baseline model) is specified in Equation 3.

   $$Yei = \beta1PSI + \beta2RegQual + \beta3GovEf + \beta4BITs + \beta5RTAs + \beta6CPI + e \quad (3)$$

2. Model 2 (Full model) is specified in Equation 4.

   $$Yei = \beta1PSI + \beta2RegQual + \beta3GovEf + \beta4BITs + \beta5RTAs + \beta6EaseDo + \beta7CPI + e \quad (4)$$

3. Model 3 (Interaction: Political Stability × Government Effectiveness) is specified in Equation 5.

   $$Yei = \beta1PSI + \beta2RegQual + \beta3GovEf + \beta4BITs + \beta5RTAs + \beta6EaseDo + \beta7CPI + \beta8(PSI\times GovEf) + e \quad (5)$$

4. Model 4 (Interaction: Political Stability × BITs) is specified in Equation 6.

   $$Yei = \beta1PSI + \beta2RegQual + \beta3GovEf + \beta4BITs + \beta5RTAs + \beta6EaseDo + \beta7CPI + \beta8(PSI\times BITs) + e \quad (6)$$

5. Model 5 (Interaction: Political Stability × Control of Corruption) is specified in Equation 7.

   $$Yei = \beta1PSI + \beta2RegQual + \beta3GovEf + \beta4BITs + \beta5RTAs + \beta6EaseDo + \beta7CPI + \beta8(PSI\times CPI) + e \quad (7)$$

Table 3. Regression Model and Interaction Terms

Economic Diplomacy Outcome Index	Model 1 Regression	Model 2 Regression	Model 3 Interaction	Model 4 Interaction	Model 5 Interaction
Political Stability	.599** (.298)	0.216 (0.265)	0.224 (0.247)	-0.291 (1.446)	0.91*** (0.323)
Regulatory Quality	1.782*** (.555)	1.08** (0.476)	0.852* (0.449)	1.069** (0.48)	0.9** (0.45)
Government Effectiveness	-2.746*** (.674)	-1.819*** (0.568)	-1.927*** (0.531)	-1.824*** (0.572)	-1.9*** (0.534)
Ease of Doing Business		0.034*** (0.009)	0.044*** (0.009)	0.037*** (0.012)	0.035*** (0.008)
Bilateral Investment Treaties	-0.011 (.018)	-0.013 (0.015)	-0.01 (0.014)	-0.013 (0.016)	-0.009 (0.015)
Regional Trade Agreements	.418*** (.116)	0.558*** (0.106)	0.22 (0.138)	0.553*** (0.108)	0.141 (0.159)
Control of Corruption	-.165 (.788)	-1.157* (0.691)	-0.641 (0.661)	-1.146 (0.695)	-0.559 (0.672)
Political Stability * Government Effectiveness		--	1.127*** (0.319)	--	--
Political Stability * Bilateral Investment Treaties		--	--	0.014 (0.038)	--
Political Stability * Control of Corruption		--	--	--	1.121*** (0.333)
Constant (_cons)	-6.144** (2.634)	-11.513*** (2.729)	-6.77** (2.878)	-11.725*** (2.807)	-4.838 (3.238)
Observations	95	85	85	85	85
R-squared	0.809	0.854	0.875	0.854	0.873

*Note: Ordinary Least Squares Regression Analysis with standard errors are in parentheses. *** p<.01, ** p<.05, * p<.1*

Source: Data processed by the author (2024).

Table 3 presents the regression results for models 1–5. Although the dataset has a panel structure (2004–2023), pooled OLS is employed as the baseline estimation method due to the limited number of cross-sectional units and the need to preserve variation in key institutional variables. Diagnostic tests suggest that the model reasonably satisfies the assumptions of linearity and normality. However, some degree of autocorrelation is observed, which may affect the efficiency of the estimates.

Furthermore, Table 3 presents the regression analysis and interaction models using models 1–5 to investigate the determinants of economic diplomacy outcomes among the ASEAN-5 countries. By incorporating various factors such as political stability, regulatory quality, government effectiveness, ease of doing business, bilateral investment treaties, regional trade agreements, and control of corruption as a control variable, this analysis aims to uncover the complex interactions and relative impacts of these variables. The goal is to provide a nuanced understanding of how these elements collectively influence the economic diplomacy performance of ASEAN-5 countries. In addition to identifying key drivers of success, this research also highlights areas where targeted policy interventions could improve economic diplomacy outcomes.

Political stability is statistically significant in Model 1 at the 5% level ($p < 0.05$). However, it is not statistically significant in Model 2 (full model). This suggests that when other variables are included, political stability does not significantly affect economic diplomacy outcomes. Moreover, when political stability interacts with government effectiveness as shown in Model 3, it has a positive and significant interaction (1.127***, $p<0.01$). The result suggests that the effect of political stability on economic diplomacy outcomes is positively moderated by government effectiveness.

Bilateral investment treaties are insignificant in all models, including in the interaction terms, indicating that BITs do not have a significant impact on economic diplomacy outcomes in this context. This finding aligns with previous literature, which suggests that BITs are effective only in countries with robust governance and more stable economic conditions (Neumayer & Spess, 2005; Teo, 2021).

The regression model shows that regulatory quality, government effectiveness, ease of doing business, and regional trade agreements significantly impact the economic diplomacy outcomes of the ASEAN-5 countries. Interestingly, the coefficient on government effectiveness is negatively correlated. Substantively, this result should not be interpreted to mean that more effective government reduces the performance of economic diplomacy. A more plausible explanation is that when multiple institutional indicators are included simultaneously, government effectiveness may capture overlapping institutional variance already accounted for by regulatory quality and related governance measures (Nimon & Oswald, 2013). This finding partially aligns with previous research, which suggests that political stability and government effectiveness do not significantly impact FDI inflows in low- and middle-income countries (Saha et al., 2022). However, in the interaction term as shown in Model 3, political stability can mitigate the negative impact of government effectiveness on economic diplomacy outcomes. This suggests that stable political environments can enhance the positive aspects of government effectiveness or reduce its potential downsides. Therefore, the initially negative coefficient of government effectiveness observed in the baseline model does not imply a detrimental effect per se; rather, it reflects a conditional relationship in which its positive contribution emerges in the presence of political stability (Busse & Hefeker, 2005).

The control of corruption as a control variable in this model has a negative correlation with economic diplomacy outcomes. The finding suggests a complex relationship that may warrant further study. According to Jetin et al., (2024), in regions such as East Asia, Southeast Asia, Australia, and New Zealand, corruption has a "grabbing hand" effect, meaning it hinders FDI. So, corruption has both positive and negative effects on FDI depending on the region. However, in further analysis with interaction terms, between control of corruption and political stability in Model 5, the coefficient became positive, indicating that the combination of the two variables has a synergistic effect, significantly enhancing economic diplomacy outcomes. This suggests that in politically stable environments, better control of corruption can amplify positive economic diplomacy outcomes.

The full model and interaction terms provide the best fit with R-squared values of 0.854 and 0.875, demonstrating a high ability to explain the variance in economic diplomacy outcomes among the ASEAN-5 countries. Overall, the findings underscore the need for a holistic strategy that integrates effective governance, high regulatory standards, strong political stability, a business-friendly environment, and active engagement in international trade agreements to improve the outcomes of economic diplomacy.

Indonesia's Economic Diplomacy Outcomes Compared to ASEAN-4

Table 4 presents the regression analysis comparing Indonesia's economic diplomacy outcomes with those of the ASEAN-4 countries as a group. Indonesia is used as the baseline category (base).

Table 4. Linear Regression of Indonesia Compared to ASEAN-4 as a Group

Economic Diplomacy Outcome Index	**(1)**
Political stability	.583*
	(.297)
Regulatory quality	1.157**
	(.462)
Government effectiveness	-1.676***
	(.554)
Ease of doing business	.016
	(.011)
Bilateral investment treaties	-.045**
	(.02)
Regional trade agreements	.514***
	(.105)
Control of corruption	-1.337*
	(.673)
1b.base	
2.ASEAN-4	.891**
	(.363)
_cons	-8.773***
	(2.87)
Observations	85
R-squared	.865

Standard errors are in parentheses
**** p<.01, ** p<.05, * p<.1*

Source: Data processed by the author (2024).

Based on the dummy variable included in the model, the coefficient for ASEAN-4 is 0.891, with a standard error of 0.363, and is statistically significant. This result indicates that Indonesia's economic diplomacy performance is lower than that of the ASEAN-4 countries as a group. Within the framework of the variables examined in this study, these findings suggest that ASEAN-4 countries are more effective than Indonesia in translating institutional and policy factors into improved economic diplomacy outcomes. Moreover, the results highlight that the effectiveness of economic diplomacy depends not only on the presence of policies and agreements, but also on governments' capacity to implement them consistently and strategically. In this regard, the performance gap between Indonesia and ASEAN-4 countries may reflect differences in policy coordination, institutional coherence, and the ability to align domestic reforms with international economic strategies. This finding somewhat aligns with the Lowy Institute report (Denson, 2024), which noted that Indonesia's economic diplomacy scored lower than those of the ASEAN-4, even when measured by factors such as free trade agreements and outward foreign assistance flows. Although descriptive statistics show that Indonesia's performance is comparable to or better than that of the ASEAN-4 in some areas, the regression analysis reveals underlying issues that impact its overall effectiveness relative to the ASEAN-4 countries.

Further analysis in Table 5 is the comparison between Indonesia's economic diplomacy outcomes and each of the ASEAN-4 countries using a regression model and interaction terms (models 1, 2, and 3). Indonesia is a base (1), and ASEAN-4 are Thailand (2), Vietnam (3), Malaysia (4), and Singapore (5).

Table 5. Linear Regression of Indonesia Compared to Each of the ASEAN-4 Countries

Economic Diplomacy Outcome Index	**Model 1 (regression)**	**Model 2 (interaction)**	**Model 3 (interaction)**
Political Stability (polsta)	-0.052	-0.1	-2.711**
	(0.313)	(0.289)	(1.333)
Regulatory Quality	2.157***	1.933***	2.241***
	(0.489)	(0.456)	(0.48)
Government Effectiveness (govef)	-0.678	-0.801	-0.561
	(0.562)	(0.52)	(0.553)
Ease of Doing Business	0.012	0.023**	0.024**
	(0.01)	(0.01)	(0.012)
Bilateral Investment Treaties (BITs)	-0.055***	-0.052***	-0.059***
	(0.017)	(0.016)	(0.017)
Regional Trade Agreements	0.342***	0.029	0.292***
	(0.108)	(0.131)	(0.109)
Control of Corruption	-1.342**	-0.837	-1.313**
	(0.614)	(0.584)	(0.601)
Interaction: polsta * govef	--	1.044***	--
		(0.281)	
Interaction: polsta * bits	--	--	0.071**
			(0.035)
1b.base			
2.Thailand	-0.026	-0.136	-0.009
	(0.326)	(0.303)	(0.32)
3.Vietnam	2.246***	2.215***	2.534***
	(0.512)	(0.473)	(0.52)
4.Malaysia	--	--	--
5.Singapore	--	--	--
Constant (_cons)	-5.565**	-1.356	-5.883**
	(2.718)	(2.757)	(2.666)
Observations	85	85	85
R-squared	0.889	0.906	0.895

*Standard errors are in parentheses. *** p<.01, ** p<.05, * p<.1*

Source: The author.

Based on country-to-country comparisons, Indonesia's economic diplomacy performance is not significantly different from Thailand’s in any model. While Vietnam significantly outperforms Indonesia in economic diplomacy. Malaysia and Singapore are not directly compared. These countries are used as omitted categories, meaning their impacts are reflected in the baseline comparison. With a high R-squared value of 0.889, the model explains about 88.9% of the variability in economic diplomacy outcomes, indicating a very good fit to the data.

This finding underscores that regulatory quality and RTAs have consistently positive and significant impacts in most models, indicating they are key drivers of economic diplomacy outcomes in these models. The significance of government effectiveness and ease of doing business varies, suggesting that their impact is not straightforward and may depend on their interaction with other variables. The positive and highly significant interaction between political stability and government effectiveness in Model 2 indicates that the effect of political stability on economic diplomacy outcomes is positively influenced by government effectiveness. Similarly, the interaction between political stability and BITs in Model 3 suggests that the negative impact of political stability or BITs on economic diplomacy outcomes is moderated.

More specifically, while BITs exhibit a negative coefficient when considered independently, the positive and significant interaction term indicates that their effectiveness improves in more politically stable environments. This suggests that political stability enhances the credibility and enforcement of investment agreements, enabling them to contribute more effectively to economic diplomacy outcomes. This finding also implies that examining Vietnam's successful strategies and contexts can help identify and adapt elements to improve economic diplomacy outcomes in Indonesia and other ASEAN countries. Consistent with the empirical evidence, the regression results show that Vietnam demonstrates significantly higher economic diplomacy performance than Indonesia across all models. This pattern indicates that Vietnam’s combination of strong regulatory quality and effective utilization of trade agreements plays a critical role in generating superior outcomes. Overall, this finding underscores the importance of aligning domestic institutional reforms with external economic engagement strategies to enhance economic diplomacy performance.

Conclusions

The results of the regression and interaction terms offer valuable insights into the factors influencing economic diplomacy outcomes among the ASEAN-5 countries. Key findings indicate a positive association between higher regulatory quality and improved economic diplomacy outcomes. Furthermore, a more favorable business environment and an increase in regional trade agreements are strongly associated with better economic diplomacy outcomes. However, political stability seems to have a less significant impact when considered alongside other variables. The negative coefficient of government effectiveness on economic diplomacy outcomes can be mitigated by the interaction with political stability.

Similarly, in politically stable environments, improved control of corruption can amplify positive outcomes in economic diplomacy.

However, bilateral investment treaties are found to be insignificant across all models, suggesting that they do not significantly affect the outcomes of economic diplomacy in this context. This finding is confirmed by prior research, which suggests that BITs are most effective in countries characterized by strong governance and stable economic environments. Policymakers should adopt a comprehensive approach that balances different aspects of governance and economic diplomacy efforts to achieve optimal results. Overall, the findings support the main hypothesis that increased economic diplomacy efforts lead to better economic diplomacy outcomes. The findings suggest that success in economic diplomacy depends on the effective management of both domestic and international factors. As articulated in Putnam's two-level game framework, outcomes in economic diplomacy are shaped by the interaction between domestic institutional constraints and international negotiations. Consequently, effective economic diplomacy requires not only active external engagement but also robust domestic institutions capable of supporting, negotiating, and implementing international commitments.

The statistical results show that Indonesia's economic diplomacy performance is lower compared to the ASEAN-4 countries as a collective group. However, when evaluated on a country-by-country basis, Indonesia's economic diplomacy is comparable to that of Thailand. It is important to note that Singapore and Malaysia are not directly compared in this analysis. Notably, Vietnam outperforms Indonesia, suggesting that Indonesia and other ASEAN countries could benefit from examining and adapting elements of Vietnam's successful strategies to improve their economic diplomacy outcomes. Moreover, based on the findings, which underscore the critical role of institutional quality and international integration in enhancing economic diplomacy outcomes, several policy implications emerge for Indonesia. Prioritizing improvements in regulatory quality and simplifying administrative procedures will strengthen investor confidence and reduce transaction costs.

Additionally, deeper participation in high-quality regional and global trade agreements is essential for expanding market access and facilitating integration into global value chains. Institutional reforms should also focus on strengthening policy implementation and improving coordination across government agencies to ensure that economic diplomacy efforts yield measurable results. Finally, Indonesia should adopt a more strategic and targeted approach to economic diplomacy by aligning domestic reforms with external engagement strategies, while drawing lessons from higher-performing ASEAN countries such as Singapore and Vietnam.

This research acknowledges a methodological limitation in the inclusion of three governance variables (political stability, government effectiveness, and regulatory quality), which exhibit multicollinearity as indicated by VIF diagnostics. This result is anticipated, given that governance indicators exhibit conceptual redundancies and demonstrate statistical correlation. From an econometric perspective, multicollinearity does not bias coefficient estimates but reduces their efficiency by inflating standard errors, thereby limiting statistical precision. Despite this, the variables are retained due to their strong theoretical and empirical relevance. Excluding these variables solely due to multicollinearity risks omitted variable bias and model misspecification. Accordingly, this study prioritizes theoretical consistency while transparently acknowledging this limitation.

Future research may address this issue by expanding the dataset to include a broader range of countries and longer time periods, which would enhance external validity, while incorporating additional institutional and policy-related variables could reduce omitted variable bias. Moreover, future studies could adopt qualitative analyses, such as bilateral case studies, to provide deeper insights into policy implementation processes and institutional dynamics that are not fully captured by quantitative models.

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Exploring the Impact of Debit Card Ownership on Financial Inclusion in ASEAN+6 Countries

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Abstract

This study examined the impact of debit card ownership on financial inclusion across ASEAN+6 countries. Using panel data from the Global Financial Inclusion Index (Global Findex) spanning multiple years, the research employed panel regression analysis to examine the relationship between debit card ownership and key financial inclusion indicators. Specifically, the study assessed whether debit card ownership influences the likelihood of owning a formal bank account, accessing formal credit, engaging in financial transactions through regulated institutions, owning a mobile money account, and possessing a mobile phone. The findings reveal that debit card ownership significantly increases the likelihood of having a formal bank account, accessing credit, and engaging in financial transactions through regulated financial institutions. However, while mobile money account ownership and mobile phone ownership show positive associations with financial inclusion, their effects are not statistically significant. These results suggest that debit cards remain an important gateway to formal financial services despite the rapid expansion of digital financial technologies in the region. The study highlights the role of debit cards as an accessible and cost-effective financial instrument that lowers transaction costs, reduces dependence on cash-based transactions, and facilitates broader financial participation. The findings also underscore the importance of financial literacy, supportive regulatory frameworks, and banking infrastructure in ensuring that debit card usage translates into meaningful financial engagement. The policy implications suggest that expanding access to debit card, particularly among underserved and

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rural communities, can be an effective strategy to strengthen financial inclusion and promote inclusive economic development across ASEAN+6 countries.

Keywords: Financial inclusion, account ownership, debit card, digital finance, ASEAN+6

Introduction

ASEAN+6 countries continue to face significant challenges in promoting financial inclusion, particularly among low-income populations and underserved communities. A significant portion of the population, particularly low-income individuals, minority communities, and migrants relocating to urban areas, remains excluded from formal financial services. This financial exclusion often results from structural barriers, including limited access to banking infrastructure and a lack of tailored financial products (Djalante et al., 2020). Recognizing the importance of financial inclusion, policymakers across ASEAN+6 economies have implemented various initiatives to expand access to formal financial services. However, these initiatives have yet to be formally integrated as explicit policy objectives (Ishikawa, 2021). The absence of a unified policy approach suggests that while financial inclusion is acknowledged as a priority, comprehensive strategies are still evolving. Lee et al. (2022) further emphasize that strengthening financial policies and regulatory frameworks will be crucial in ensuring the success of these initiatives. Given the pressing need for inclusive financial systems, the growing commitment of ASEAN+6 countries presents a critical opportunity for policymakers to enhance financial services. By developing targeted interventions, such as improving digital banking access and expanding financial literacy programs, these nations can pave the way for a more inclusive financial landscape that benefits all segments of society.

This study focuses on ASEAN+6 economies, which include the ten ASEAN member stateIndonesia, Malaysia, Thailand, the Philippines, Vietnam, Singapore, Brunei Darussalam, Cambodia, Laos, and Myanmar—together with six key regional partners: China, Japan, South Korea, India, Australia, and New Zealand. These countries are increasingly interconnected through regional economic cooperation frameworks, trade agreements, and financial integration initiatives. Understanding financial inclusion dynamics in ASEAN+6 is particularly important for societal development, as access to financial services supports poverty reduction, enhances household resilience to economic shocks, promotes entrepreneurship, and facilitates participation in digital economic. In emerging economies within the region, improved access to finance can contribute to more equitable income distribution and sustainable economic growth.

Furthermore, the study adopts an ASEAN+6 framework to capture broader dynamics of regional financial integration. These economies are closely linked through regional financial cooperation mechanisms, trade agreements, and digital payment system development initiatives. Examining financial inclusion across this integrated regional grouping provides deeper insights into structural differences in financial access and financial infrastructure development.

Expanding access to financial services, particularly for previously unbanked individuals, is a crucial step toward fostering economic stability and inclusive growth. As Chen et al. (2023) argue, financial access allows individuals to better absorb economic shocks, thereby enhancing financial security at both the household and societal levels. Additionally, Ratnawati (2020) and Hasan et al. (2021) highlight that financial inclusion contributes to broader economic development by facilitating income redistribution and enabling greater participation in formal financial systems. A key area of synergy in the ASEAN+6 region is the growing role of debit card usage in enhancing financial access. However, as financial services expand, an essential question emerges: Is opening a bank account to obtain a debit card merely a theoretical concept that still requires practical validation? If empirical research confirms the effectiveness of debit cards in improving financial inclusion, policymakers can design targeted interventions to promote debit card adoption based on key determinants such as financial literacy, credit affordability, and regulatory support (Erlando et al., 2020).

ASEAN countries have been actively working to expand access to affordable, secure, and reliable financial services. Since 2016, financial inclusion has remained a key priority for Asian leaders, as demonstrated by commitments made in three consecutive ASEAN+3 summits. Erlando et al. (2020) emphasize that financial inclusion plays a crucial role in reducing poverty, increasing food production, and fostering youth development, while Ratnawati (2020) highlights its importance in strengthening financial sector stability and driving overall economic growth. Despite these efforts, achieving full financial inclusion remains challenging for certain segments of the population. Traditionally, individuals were required to open bank accounts to access essential financial services such as credit and money transfers. However, while bank account ownership is often used as a macro-indicator of financial access, its effectiveness as a metric is debatable, given that individuals may hold multiple accounts across different institutions or maintain accounts that are significantly underutilized (Omar & Inaba, 2020). With the widespread availability of ATMs and interbank services, Vo et al. (2021) note that the banking industry has increasingly integrated debit cards into everyday transactions, making them a vital tool in advancing financial inclusion.

Over the last three decades, the global finance sector has witnessed significant advancements in digital finance, particularly with the increasing prevalence of plastic cash, most notably debit, travel, and credit cards, as a core component of retail banking. Nguyen and Ha (2021) highlight that even minor financial transactions can now be completed without a physical visit to a bank, a shift that is particularly beneficial for individuals in rural areas where saving money often comes with higher costs. Traditionally, financial services have been associated with high transaction fees, which have restricted consumer access. However, as Pham & Doan (2020) observe, digital finance trends are gaining momentum, particularly in developing nations, as the global financial landscape transitions from traditional to digital economies. ASEAN, with its diverse and expansive population, holds significant potential to capitalize on these digital finance trends and unlock new economic opportunities, even though the region is still in the early stages of this transformation (Raimi et al., 2021). In the broader context of the Knowledge Economy and the Information Society, Bui & Luong (2023) emphasize the need for empirical research on the barriers influencing community adoption and ownership of debit cards to inform effective policy design and implementation.

As Pandhit (2020) highlights, empirical research on this issue remains particularly scarce in developing countries. The need for further investigation is especially evident in ASEAN+6 nations, where comprehensive studies on financial inclusion and debit card usage are still lacking (Raimi et al., 2021). To bridge this gap, this study employs a panel data regression approach to assess the relationship between debit card ownership and financial inclusion across multiple countries. Furthermore, a country-specific analysis, it explores potential variations in this relationship across ASEAN+6 nations.

The findings aim to offer valuable insights for policymakers and stakeholders in developing economies, helping them design strategies to enhance financial inclusion and drive economic growth. This study addresses this gap through three main objectives. First, it empirically examines the impact of debit card ownership on formal account ownership as a proxy for financial inclusion. Second, it evaluates the roles of other digital access variables, including mobile money accounts and mobile phone ownership. Third, it compares financial inclusion dynamics across countries and over time to identify structural heterogeneity in financial access determinants. These objectives guide the empirical analysis presented in the results section and are further discussed in the policy implications and conclusions.

This study aims to achieve three primary objectives. First, it investigates the extent to which debit card ownership influences financial inclusion, particularly in its role in expanding access to formal financial services (Koomson et al., 2020). Second, it examines the decision-making process behind obtaining a debit card, emphasizing how individuals' intentions to safeguard their economic interests influence their financial behaviors, as explored by Hasan et al. (2021). Third, while prior research has primarily focused on the short-term marginal effects of debit card usage, this study takes a broader approach by incorporating multi-year panel data and country-level observations, an approach supported by Ahmad et al. (2020).

Despite significant progress in expanding digital financial infrastructure, financial inclusion outcomes remain uneven across ASEAN+6 countries. While access to payment instruments such as debit cards has increased, empirical evidence on their effectiveness in promoting formal financial participation remains limited and inconclusive. This study addresses this gap by examining the relationship between debit card ownership and financial inclusion across ASEAN+6 economies. It contributes to the growing literature on financial inclusion by providing empirical evidence on how debit card ownership influences access to formal financial accounts and financial services, thereby extending previous studies on financial access and economic empowerment (Coffie et al., 2020). The findings also provide a foundation for future research on financial literacy and the adoption of technology-driven financial products, as emphasized by Ozili (2021).

From a policy perspective, the findings offer practical implications for governments and financial institutions seeking to strengthen financial inclusion through accessible and affordable payment instruments. Expanding debit card ownership, supported by financial literacy initiatives and enabling regulatory frameworks, can improve access to formal financial services, particularly in underserved communities. This study also contributes to an underexplored area of financial inclusion research in developing and emerging economies, where evidence remains relatively scarce (Erlando et al., 2020; Ahmad et al., 2020). As ASEAN countries continue integrating their financial sectors and promoting digital finance, understanding the role of debit cards in facilitating financial participation is essential for designing effective and inclusive financial policies.

This study offers several novel contributions to the financial inclusion literature. First, it provides a comparative panel data analysis across ASEAN+6 economies, a regional grouping that has received limited empirical attention in previous research. Second, the study conceptualizes debit card ownership as an enabling financial infrastructure variable rather than merely an indicator of financial inclusion, thereby offering a more nuanced understanding of how payment instruments facilitate formal financial participation. Third, the inclusion of multiple digital access variables within a unified empirical framework allows the study to identify regional heterogeneity in financial inclusion drivers. These contributions provide new insights for policymakers seeking to design targeted strategies to enhance financial inclusion in rapidly digitizing economies.

Literature Review/Analytical Framework

Financial inclusion requires the development of financial systems that effectively deliver high-quality and affordable services to all individuals, ensuring accessibility across diverse socioeconomic groups. As Ozili (2020) explains, an inclusive financial system is not solely defined by access but also by the presence of well-functioning financial markets, institutions, and regulatory frameworks, both public and private. Buckley et al. (2019) further emphasize that such systems must exhibit three essential attributes. First, financial products must be tailored to meet a broad spectrum of needs, varying in maturity, costs, and risk levels. This flexibility allows individuals and households to manage unexpected financial shocks while also supporting long-term financial planning, a necessity outlined by Hasan et al. (2021). Second, secure formal payment channels play a pivotal role in ensuring seamless transactions, enabling both deposits and commercial exchanges to occur with minimal risk, as Javaid et al. (2022) highlight. Lastly, financial inclusion must provide diverse savings mechanisms and lump-sum transaction options that cater to individuals across different income and wealth brackets, thereby promoting broader participation in the financial ecosystem. More importantly, as observe, financial inclusion extends beyond individual financial stability by enabling greater social, physical, and human capital accumulation, ultimately driving economic participation at a macro level (Chang et al., 2020; Ozili, 2021).

Numerous theories have been developed to explain the relationship between financial inclusion and economic development, each offering distinct perspectives on how financial access influences economic growth. Among the most widely recognized models are the Kalecki Model, Harrod Model, Lewis Model, Vogel Model, New York Model, McKinnon-Shaw Hypothesis, Government Hypothesis, Maximizing Shareholder Wealth Model, Agency

Model, and Income Maximization Model. Of particular relevance, the McKinnon-Shaw Hypothesis highlights the pivotal role of formal credit markets and financial institutions in fostering economic participation. Obinna (2020) explains that access to formal financial services allows low-income individuals to invest in critical areas such as education, healthcare, and productive sectors. This, in turn, facilitates long-term income growth, overcoming financial constraints that previously hindered economic advancement.

Within this context, debit cards play a crucial role in advancing financial inclusion by reducing both time and financial burdens for users. By eliminating the need to travel to distant payment terminals, they provide a cost-effective service while enhancing the security of cash holdings, as noted by Bachas et al. (2021). However, despite these advantages in facilitating access to bank accounts, several factors continue to shape their widespread adoption. Wong et al. (2020) highlight the role of private retailers in the distribution process, particularly the impact of profit margins and commission structures within the retail sector. Furthermore, as T. T. H. Nguyen (2020) observes, debit card usage in developing countries remains a relatively new phenomenon, with limited comprehensive research addressing the challenges associated with adoption. Nonetheless, Abdelghaffar et al. (2023) suggest that expanding debit card distribution among low-income populations could offer substantial benefits, reinforcing their role as efficient bank account-based payment tools that hold significant potential for both policy implementation and practical applications.

The growing relevance of debit cards is also evident in their increasing use across ASEAN+6 countries over the past decade, reflecting broader digital financial transformation. The expansion of automated teller machines (ATMs), point-of-sale (POS) infrastructure, and mobile banking services has contributed to higher debit card penetration rates. In several countries, government initiatives promoting cashless transactions and financial inclusion strategies have accelerated the adoption of debit cards as a primary payment instrument. This trend highlights the growing importance of transaction-enabling financial products in supporting formal financial participation and deepening financial systems.

At the same time, financial inclusion is a multidimensional concept encompassing accessibility, affordability, usability, and the quality of financial services (Kling et al., 2022; Hasan et al., 2021). These dimensions are closely interconnected and jointly determine the extent to which individuals can meaningfully participate in the formal financial system. Financial literacy further shapes this process, particularly in developing economies where limited knowledge, low trust in financial institutions, and behavioral constraints may hinder the effective use of financial services. As a result, increased access to financial infrastructure does not automatically translate into sustained financial engagement.

Although a growing body of literature highlights the role of digital financial services in promoting financial inclusion, empirical evidence remains mixed and, in some cases, contradictory. Several studies document a positive relationship between electronic payment adoption, including debit cards, and financial inclusion outcomes such as account ownership and savings behavior (Ahmad et al., 2020; Liu et al., 2022; Siano et al., 2020). Conversely, other studies find that debit card ownership does not always lead to increased financial participation, particularly in contexts where institutional and behavioral barriers persist (Carpio-Pinedo et al., 2022; Le & Ngo, 2020).

Similarly, while mobile financial services and digital technologies are often regarded as key drivers of financial inclusion, their effects are not consistently observed across countries. In some cases, access to mobile money accounts or mobile phones does not result in active use of formal financial services due to limited interoperability, regulatory constraints, or low levels of financial literacy (Nurhayati et al., 2022). These inconsistencies point to an important gap in the literature: the relative effectiveness of different financial access channels, such as debit cards, mobile money, and mobile infrastructure, remains unclear, particularly in the ASEAN+6 context, where institutional and structural conditions vary significantly.

To address these gaps and inconsistencies, this study adopts a structured analytical approach that distinguishes between financial inclusion outcomes and access-enabling factors. Financial inclusion is proxied by formal account ownership, reflecting participation in the formal financial system. Debit card ownership is conceptualized as the primary explanatory variable, representing a transaction-enabling financial infrastructure that facilitates access, reduces costs, and increases convenience. In addition, mobile money account ownership and mobile phone ownership are included as control variables capturing broader dimensions of digital access. This framework assumes a unidirectional relationship in which access to financial tools and infrastructure influences financial inclusion outcomes, while also allowing for cross-country heterogeneity shaped by institutional and behavioral factors.

Building on the theoretical arguments and empirical evidence, this study proposes several hypotheses.

H1: Debit card ownership has a positive and significant effect on financial inclusion.
H2: Mobile money account ownership has a positive effect on financial inclusion.
H3: Mobile phone ownership has a positive effect on financial inclusion.

These hypotheses aim to clarify the roles of financial infrastructure and digital access in shaping financial inclusion outcomes within the ASEAN+6 context.

Research Method

This study employs a research design that draws on data from the Findex, a widely recognized source for evaluating financial access and usage (Bachas et al., 2021). To comprehensively assess the financial inclusion landscape in ASEAN+6 countries, key variables and indicators have been carefully selected. It is to ensure a robust evaluation of financial accessibility across the region. Among the various demographic factors considered H. V. Nguyen et al. (2022) emphasize the proportion of adults who own debit cards as a crucial explanatory variable, given its significant role in expanding financial participation. Furthermore, the proportion of banked individuals is designated as the dependent variable, offering a measure of financial inclusion across these nations. By employing an empirical regression model, this study provides critical insights into the relationship between debit card ownership, banking participation, and the broader financial inclusion framework within ASEAN+6 economies.

In this study, financial inclusion is proxied by formal account ownership, defined as percentage of the population aged 15 and above who own an account at a formal financial institution. Debit card ownership is treated as a primary explanatory variable representing access to transaction-enabling financial infrastructure. This distinction reflects the conceptual understanding that payment instruments such as debit cards facilitate participation in the formal financial system but do not constitute financial inclusion per se. Additional control variables include mobile money account ownership and mobile phone ownership, which capture broader dimensions of digital financial access.

To provide a comprehensive discussion, this study adopts a structured research design that begins by assessing the nature and quality of the data, recognizing that the reliability of financial inclusion data is fundamental to drawing meaningful conclusions (T. T. H. Nguyen, 2020). The dataset is then systematically presented and described, with careful selection of key indicators to examine financial inclusion levels across ASEAN+6 countries. Identifying the primary determinants of financial inclusion, enables a more nuanced understanding of disparities both within and across regions (Koomson et al., 2020). The empirical analysis employs a panel data regression model, ensuring a robust framework for addressing key empirical considerations (Ratnawati, 2020). In line with best practices outlined by Omar and Inaba (2020), the study further enhances methodological rigor by detailing sample selection criteria, the time range covered, and panel data diagnostic tests. Additionally, the study critically evaluates the chosen empirical technique, acknowledes potential limitations, and explores alternative data sources to reinforce the validity of its findings.

The analysis utilizes secondary data from Findex, which provides comprehensive insights into financial inclusion trends across ASEAN+6 countries for 2011, 2014, 2017, and 2021. These years correspond to the official survey waves conducted by the World Bank, ensuring methodological consistency and cross-country comparability. The use of three-year intervals reflects data availability rather than arbitrary selection and is consistent with established empirical studies on financial inclusion. This dataset offers key financial access metrics, with debit card ownership serving as a crucial indicator of financial participation (M.-L. T. Nguyen & Bui, 2021). Given the regional scope, most data are specific to ASEAN+6 countries. They are cross-verified against national banking and financial statistics, including bank account ownership, deposit levels, and access to financial services (Darusalam et al., 2021).

Recognizing that financial inclusion is shaped by both structural and behavioral factors, Thach and Ngoc (2021) highlight the importance of selecting diverse indicators that reflect its multifaceted nature. Accordingly, this study carefully selects variables based on their availability and relevance to effectively capture regional financial inclusion patterns. In addition to the previously discussed indicators, this study incorporates key economic measures such as account ownership, debit card possession, mobile money account ownership, and mobile phone ownership. These data points, sourced from credible institutions, provide a comprehensive analysis of financial inclusion. However, data limitations and gaps persist in certain countries due to variations in the availability and scope of these secondary indicators (Janssens et al., 2021). The study's coverage period aligns with existing research on financial inclusion in ASEAN and globally, with several key indicators being published around the same timeframe (Papageorge et al., 2021). While statistical data collection methods ensure accuracy and consistency, specific case-based limitations have emerged in individual components, requiring careful interpretation of the findings.

To estimate the relationship between financial infrastructure and financial inclusion, this study employs panel data regression techniques, specifically fixed effects (FE) and random effects (RE), which differ in how they account for unobserved heterogeneity. The key distinction lies in whether these effects are treated as constant parameters or as arising from random variation. In this study, the choice between FE and RE models is guided by empirical considerations, where an RE model is particularly useful when the estimated effects stem from a random process rather than being strictly determined by observed factors (Baetschmann et al., 2020). Additionally, this approach allows for potential associations between estimated effects and other relevant aspects of the financial inclusion process.

The RE model has several advantages, as it accounts for differences in indicators over time and across cross-sections while providing robust estimations. Unlike the pooled ordinary least squares (OLS) approach, which does not differentiate between time periods and cross-sectional units, the RE model leverages both sources of variation, yielding more efficient estimates. However, when addressing individual-specific effects, the FE approach is generally preferred, particularly when individual and temporal fixed effects are not independent. The FE model treats individual effects as parameters to be estimated, ensuring they are not correlated with independent variables. In contrast, the RE model captures cross-country heterogeneity by pooling random samples and estimating a regression that allows for broader generalizations. This study employs both approaches to assess the impact of debit card ownership on financial inclusion, using two distinct RE model equations. To ensure the robustness of the panel data regression model, multiple diagnostic tests were conducted to detect potential violations of underlying statistical assumptions (Breuer & deHaan, 2024; Su et al., 2021).

In this study, financial inclusion is proxied by formal account ownership, while debit card ownership is treated as a key explanatory variable reflecting access to payment infrastructure. First, the study used debit card ownership as a proxy for financial inclusion. Second, the study used panel data regression. The FE and RE models are used to calculate the relationship between X and Y (see Equation 1 and Equation 2). The conceptual framework illustrates the hypothesized relationship between access to financial infrastructure and financial inclusion outcomes. Debit card ownership, mobile money account ownership, and mobile phone ownership are treated as explanatory variables influencing formal account ownership, which serves as a proxy for financial inclusion. The framework follows a conventional econometric structure, with independent variables on the left and the dependent variable on the right, and directional arrows indicating the expected causal relationships.

The indicator "Debit-card ownership (percentage of age 15+)" captures the prevalence of various types of debit cards among individuals aged 15 and above, including ATM cards, VISA and MasterCard prepaid cards, as well as Islamic and conventional banking cards. These financial instruments play a crucial role in enhancing financial security by reducing risks associated with cash transactions, such as theft, fraud, and robbery (Wang et al., 2022). Furthermore, debit cards serve as a key enabler of financial inclusion by facilitating access to essential banking services. They improve accessibility to cash withdrawals and electronic payment systems, thereby lowering barriers to financial participation (Alabdulatif et al., 2023). In this study, the term "account" refers to financial facilities managed by banks, securities exchanges, cooperatives, or other financial institutions, providing individuals with a formal mechanism for managing funds. The relationship between debit card ownership and financial inclusion has been widely discussed, with existing literature suggesting a strong positive association. By empirically examining this link across ASEAN+6 countries, this study aims to build on previous research and offer new insights into the role of debit cards in expanding financial access.

$$Y_{it} = \alpha_{oi} + \beta_1 x_{1it} + \beta_2 x_{2it} + \beta_3 x_{3it} + \varepsilon_{it} \ldots.. \quad (1)$$

$$Account\ ownership = \alpha_{oi} + Debit\ card\ ownership + Mobile\ money\ account + Mobile\ phone\ ownership + \varepsilon_{it} \ldots.. \quad (2)$$

Y_{it} represents the dependent variable (financial inclusion indicator) for country i in year t. i denotes the cross-sectional unit (ASEAN+6 countries), while t denotes the time period. α_o is the intercept (constant term). x_{1it} represents debit card ownership (% of population aged 15+). x_{2it} represents mobile money account ownership (% of population aged 15+). x_{3it} represents mobile phone ownership (% of population aged 15+). $\beta_1, \beta_2, and\ \beta_3$ are the estimated regression coefficients that measure the effect of each independent variable on the dependent variable. ε_{it} the error term, capturing unobserved factors affecting financial inclusion.

Equation 1 and Equation 2 are the hypothesized direction of influence from the independent variables (X) to the dependent variable (Y). Specifically, debit card ownership, mobile money account ownership, and mobile phone ownership are treated as independent variables that are expected to influence the dependent variable,account ownership as an indicator of financial inclusion.

Analysis

By analyzing how debit card possession corresponds with bank account ownership, the study provides critical insights into the mechanisms that facilitate broader financial access, as highlighted by Koomson et al. (2020). The significance of these findings is twofold. First, they are assessed in relation to the study's objectives to determine the extent to which debit card ownership influences financial inclusion, a relationship previously explored by T. T. H.

Nguyen (2020). Second, the results are contextualized within the broader empirical literature and theoretical frameworks that shape financial inclusion research, including those discussed by Erlando et al. (2020) and Vo et al. (2021). From a policy perspective, these findings offer valuable empirical evidence on financial behaviors, particularly the role of debit cards in reducing financial exclusion. As Omar and Inaba (2020) suggest, understanding these dynamics can inform strategies to bridge financial gaps. Moreover, the inclusion of control variables strengthens the robustness of the results, enhancing the study's overall reliability and validity.

Financial inclusion extends beyond the mere ownership or use of debit cards, encompassing sustained engagement with formal financial services. However, the extent of debit card usage varies significantly based on factors such as age, income, and education (Daragmeh et al., 2021). While debit cards are widely accessible in countries undergoing economic transformation, cultural and behavioral barriers often hinder their adoption (Kokorović Jukan et al., 2020). Moreover, despite high ownership rates, Midões & Seré (2022) and Hasan et al. (2021) emphasize that actual usage does not always align with engagement in formal banking services, suggesting that financial inclusion extends beyond mere access to financial tools.

Prior to conducting the panel regression analysis, descriptive statistics were examined to understand the distribution and variation of the key variables across ASEAN+6 countries. The descriptive results indicate substantial cross-country variation in financial inclusion levels. On average, formal account ownership shows an increasing trend over the study period, reflecting improvements in financial access in the region. Debit card ownership exhibits considerable variation, suggesting differences in financial infrastructure development and digital payment adoption among countries. Similarly, mobile phone ownership demonstrates relatively high average values, although its variability indicates uneven digital penetration across economies. These descriptive insights provide an important empirical foundation for interpreting the regression results, as they highlight structural differences in the determinants of financial inclusion within ASEAN+6 countries.

The panel data regression analyzes the indicators of account ownership which is measured by debit card ownership, mobile money account ownership, and mobile phone ownership. Table 1 displays the results of a common effect regression on panel data. Table 1 also presents the effects of debit card ownership, mobile money account ownership, and mobile phone ownership on formal account ownership. Debit card ownership, mobile money account ownership, mobile phone ownership when control variables and time common effects are present. Debit card ownership has a positive and statistically significant effect on formal account ownership across ASEAN+6 countries. Table 1 shows that debit card ownership has a positive and statistically significant effect on formal account ownership ($p < 0.01$)

Table 1. Panel Least Squares (common effect)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.241	0.035	6.744	0.000
Debit card ownership	0.875	0.064	13.596	0.000
Mobile money account ownership	0.151	0.238	0.634	0.528
Mobile phone ownership	-0.043	0.063	-0.685	0.496
R-squared	0.777			
F-statistic	65.180			

Note: C represents the regression constant (intercept).

Table 2 displays the results of the panel data fixed effect regression. It shows that debit card ownership has a positive and significant impact on the account ownership when control variables and time-fixed effects are included. ASEAN+6's account ownership is positively impacted by mobile money account ownership and mobile phone ownership, but not statistically significant ($p > 0.01$).

Table 2. Panel Least Squares (fixed effect)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.528	0.042	12.580	0.000
Debit card ownership	0.185	0.095	1.947	0.058
Mobile money account ownership	0.292	0.177	1.643	0.107
Mobile phone ownership	0.067	0.041	1.622	1.112
R-squared	0.940			
F-statistic	39.235			

Note: C represents the regression constant (intercept).

To determine which of the common effect and fixed effect models better fits the data, a Chow test is conducted. As indicated by the Chow test's Cross-section Chi-square result with $p < 0.01$ (see Table 3), the best model is fixed effect. Therefore, next analysis and comparison with random effect are necessary.

Table 3. Redundant Fixed Effects Tests (Chow test)

Effects test	Statistic	d.f.	Prob.
Cross-section F	8.274	(14.42)	0.000
Cross-section Chi-square	79.436	14	0.000

Note: df denotes the degrees of freedom. For the Cross-section F test, the degrees of freedom are (14, 42), where 14 is the numerator degree of freedom and 42 is the denominator degree of freedom. For the Cross-section Chi-square test, the degree of freedom is 14.

The outcomes of a random effect regression on panel data are shown in Table 4. When control factors and time random effects are included, Table 4 illustrates the impact debit card ownership, mobile money account ownership, mobile phone ownership on the account ownership. It shows that debit card ownership have a positive and significant impact on the account ownership in ASEAN+6 ($p < 0.01$)

Table 4. Panel EGLS (Cross-section random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.332	0.035	9.303	0.000
Debit card ownership	0.659	0.061	10.650	0.000
Mobile money account ownership	0.120	0.164	0.736	0.464
Mobile phone ownership	0.003	0.040	0.091	0.927
		Weighted statistics		
R-squared	0.585			
F-statistic	26.395			

Note: C represents the regression constant (intercept).

To determine which fixed effect and random effect models best fits the data, a Hausman test is conducted. The fixed effect model is the best one, according to the cross-section random outcome of the Hausman test with $p < 0.01$ (see Table 5).

Table 5. Correlated Random Effects – Hausman Test

Test summary	Chi-Sq. Statistic	Chi-Sq. d. f.	Prob.
Cross-section random	45.563	3	0.000

Panel data fixed effect regression as a best fit model for account ownership, debit card ownership, mobile money account ownership, and mobile phone ownership in ASEAN+6. Account ownership is positively and significantly impacted by debit card ownership ($p < 0.1$). Then, although not statistically significant, mobile money account ownership and mobile phone ownership have a positive effect on the account ownership ($p > 0.01$). With a positive constant of 0.528, the R-squared result is 94%. This indicates a relationship between debit card ownership and the success of financial inclusion.

The regression results indicate that debit card ownership has a positive and statistically significant effect on formal account ownership across ASEAN+6 countries. The magnitude of the estimated coefficient suggests that improvements in access to debit card services are associated with substantial increases in the likelihood of individuals participating in the formal financial system. This relationship may reflect the role of debit cards in reducing transaction costs, improving accessibility to financial services, and facilitating routine financial transactions. By enabling easier withdrawals, electronic payments, and account management, debit cards may strengthen incentives for individuals to open and maintain formal financial accounts.

The positive association between debit card ownership and financial inclusion outcomes may operate through several transmission channels. First, debit cards expand access to financial infrastructure by connecting individuals to automated teller machines, point-of-sale terminals, and digital payment networks. Second, the convenience and perceived security of card-based transactions may encourage individuals to shift from informal cash-based practices to formal banking services. Third, debit card usage may improve financial awareness and engagement, particularly in economies undergoing digital financial transformation. However, the extent of these mechanisms likely varies across countries depending on institutional quality, financial literacy, and the maturity of payment systems.

Beyond merely reflecting each country's financial landscape, this study provides empirical evidence of the impact of debit card usage on financial inclusion. The findings indicate that debit card use has a significant and positive effect on bank account ownership, underscoring its role in expanding financial access, as demonstrated by Bachas et al. (2021). While mobile money account ownerships and mobile phone ownership also exhibit a positive correlation with account ownership, Aracil et al. (2022), Xu et al. (2018), and Zheng et al. (2023) suggest that their effects are not statistically significant.

The empirical findings provide important insights into the determinants of financial inclusion across ASEAN+6 countries. The positive and statistically significant relationship between debit card ownership and formal account ownership supports the argument that access to transaction-enabling financial instruments plays a critical role in facilitating participation in the formal financial system. This finding is consistent with financial intermediation theory, which emphasizes the importance of financial infrastructure in reducing transaction costs and enhancing access to financial services.

However, the insignificant effects of mobile money account ownership and mobile phone ownership highlight the complexity of digital financial inclusion dynamics. While digital access has expanded rapidly in many ASEAN+6 economies, technological availability alone does not guarantee active engagement with formal financial services. Structural constraints such as limited financial literacy, regulatory fragmentation, uneven interoperability of digital payment, and persistent reliance on cash-based transactions may reduce the effectiveness of digital access variables in promoting financial inclusion outcomes.

These findings also reflect regional heterogeneity in financial development. In more advanced economies within ASEAN+6, debit cards are deeply integrated into payment systems and daily financial transactions, thereby strengthening their impact on financial participation. In contrast, in developing economies, digital infrastructure gaps and institutional barriers may limit the effectiveness of mobile financial services.

From a policy perspective, the results suggest that financial inclusion strategies should not focus solely on expanding access to digital devices or mobile financial platforms. Instead, policymakers should prioritize strengthening payment system infrastructure, improving financial literacy, enhancing consumer protection frameworks, and promoting interoperability across financial service providers. Such integrated policy approaches are essential for ensuring that increased access to financial technology translates into meaningful and sustained financial inclusion.

Discussion

Beyond reflecting each country's financial landscape, this study provides empirical evidence that debit card usage positively influences financial inclusion. Debit card ownership shows a significant association with bank account ownership, highlighting its role in expanding access to formal financial services, consistent with Bachas et al. (2021). However, the coefficient declines substantially from the common effects model (0.875) to the preferred fixed-effects model (0.185), indicating that cross-country heterogeneity strongly influences this relationship.

Two mechanisms could explain this effect. First, debit cards increase the usability of bank accounts. By enabling access to ATMs, point-of-sale terminals, and digital payment systems, they allow individuals to withdraw cash, make payments, and conduct routine transactions without visiting bank branches. This reduces practical barriers to using formal financial services and encourages both account opening and active use, lowering the likelihood of dormant accounts. Second, debit cards enhance convenience and liquidity. Immediate access to funds and the ability to conduct frequent transactions create tangible benefits for account holders, encouraging regular deposits and reliance on formal banking for daily financial activities. Over time, repeated use may strengthen trust in financial institutions and deepen engagement with the formal system. In this sense, debit cards not only reflect financial inclusion but may also reinforce it by increasing the practical value of account ownership.

Nevertheless, the analysis captures primarily access rather than the depth of financial inclusion. The dataset does not measure broader financial behaviors like regular saving, formal borrowing, digital transfers, or investment activities. Therefore, the results should be interpreted as evidence of improved financial access rather than comprehensive financial participation.

The empirical results strongly support H1. Across all model specifications, particularly in the preferred fixed-effects model, debit card ownership exhibits a positive and statistically significant effect on formal account ownership. This finding confirms that debit cards play a critical role as an enabling financial infrastructure, facilitating access to the formal banking system.

From a theoretical perspective, this finding is consistent with financial intermediation theory, which emphasizes the importance of transaction instruments in reducing access barriers and transaction costs. Debit cards enhance the usability of bank accounts by enabling withdrawals, payments, and participation in digital transaction networks. As a result, individuals are more likely not only to open accounts but also to actively use them. However, the coefficient magnitude declines when controlling for country-specific effects, suggesting that institutional and structural factors, such as financial literacy, banking infrastructure, and regulatory quality, moderate the strength of this relationship. This indicates that while debit cards are effective drivers of financial inclusion, their impact is context-dependent across ASEAN+6 countries.

The results do not provide statistical support for H2, although the estimated coefficients remain positive. This suggests that while mobile money accounts may contribute to financial inclusion in theory, their impact is not sufficiently strong or consistent across the ASEAN+6 sample. One plausible explanation is the functional substitution effect. In several countries, mobile money platforms operate as parallel financial systems rather than gateways to formal banking. Individuals may use mobile wallets for payments and transfers without necessarily opening a formal bank account. As a result, mobile money expands financial activity but does not always translate into higher formal account ownership.

Additionally, the effectiveness of mobile money in promoting financial inclusion depends on institutional integration, particularly interoperability between mobile platforms and banking systems. In contexts where such integration is weak, the contribution of mobile money to formal financial inclusion becomes limited.

The empirical findings do not support H3, as mobile phone ownership shows no statistically significant relationship with financial inclusion. Although mobile phone penetration is generally high across ASEAN+6 countries, this variable does not directly translate into increased participation in formal financial systems.

This result highlights an important distinction between access to technology and the use of financial services. While mobile phones provide the necessary infrastructure for digital finance, they do not guarantee engagement with formal financial institutions. Factors such as financial literacy, trust in banking systems, and regulatory frameworks play a more decisive role in determining whether individuals utilize financial services. Moreover, this finding reinforces the argument that digital access alone is insufficient to drive financial inclusion. Without supportive ecosystems, such as user-friendly financial products, consumer protection, and financial education, technology adoption may not lead to meaningful financial participation.

These findings suggest that traditional banking instruments remain more effective than purely digital access variables in promoting formal financial inclusion within the region. While digital finance continues to expand, its impact appears to depend heavily on institutional readiness and integration with the formal banking sector.

A notable finding is the absence of a statistically significant relationship between mobile-based indicators, like mobile money accounts and mobile phone ownership, and account ownership in the ASEAN+6 sample. This contrasts with many prior studies (e.g., Koomson et al., 2020; Aracil et al., 2020; T. T. H. Nguyen, 2020; Zheng et al., 2023) that identify digital financial services as key drivers of inclusion. One explanation is functional substitution. In some countries, mobile money systems operate as alternative financial ecosystems rather than complements to traditional banking. Individuals may rely on mobile wallets for payments and transfers without opening or maintaining formal bank accounts. In such cases, digital finance facilitates financial activity while weakening the statistical link between technology adoption and bank account ownership. Institutional and regulatory conditions may further shape these outcomes. Differences in regulatory frameworks, interoperability between digital platforms and banks, and the integration of fintech services into the broader financial system can determine whether digital technologies promote formal financial participation. Where interoperability is limited or regulatory fragmentation persists, digital services may remain disconnected from the banking sector.

These findings suggest that the drivers of financial inclusion are highly context-dependent. In the ASEAN+6 region, traditional banking instruments, particularly debit cards, remain more consistent predictors of formal account ownership. Despite rapid digitalization, foundational banking infrastructure continues to play a central role in expanding financial inclusion.

Policy Recommendations for ASEAN+6

The results carry important policy implications. Strengthening basic banking access should remain a priority, as the strong association between debit card ownership and formal account ownership indicates that foundational financial tools continue to underpin inclusion outcomes. Expanding access to low-cost bank accounts bundled with debit cards should remain a priority, particularly for low-income, rural, and migrant populations. The effectiveness of such accounts depends on usability. Therefore, maintaining adequate ATM and point-of-sale networks is essential. Linking debit card–based payments to government transfers, public wages, and subsidies can further accelerate account adoption by creating routine transaction needs.

At the same time, digital financial services should be better integrated with the formal banking sector. The weak relationship between mobile money and account ownership suggests that mobile platforms often function as parallel systems. Enhancing interoperability between mobile wallets and bank accounts, introducing tiered regulatory pathways from basic wallets to full banking services. Furthermore, promoting bank–fintech partnerships can help transform digital users into formal banking clients. Third, structural and behavioral barriers must be addressed through context-specific policies. Financial literacy programs that promote effective use of accounts and digital tools, strong consumer protection frameworks, and improved regulatory coordination across countries are essential for building trust and sustaining participation.

Overall, a dual-track approach is required. Strengthening traditional banking foundations, particularly debit card usage, while integrating digital innovations into the formal financial system. This strategy offers the most viable path toward broad, sustainable financial inclusion in ASEAN+6.

Conclusions

This article explores how debit card ownership affects financial inclusion in ASEAN+6 nations. Empirical studies show that owning a debit card considerably enhances the likelihood of opening a bank account, acquiring formal loans, saving for business, and transferring money through a financial institution. Debit cards play a critical role in enhancing financial accessibility by lowering transaction costs and facilitating participation in formal payment systems and increasing access to financial services. Financial products like debit cards help reduce dependence on cash-based transactions, thereby promoting improved financial stability. Aside from basic account ownership, this study discovers that debit card usage is associated with better financial behaviors, such as greater savings and credit availability. These findings are consistent with prior research, indicating that debit card ownership promotes formal financial engagement and economic participation. Furthermore, the shift to digital financial services is especially important in emerging nations where informal banking systems remain prominent.

This study provides empirical evidence that debit card ownership plays a significant role in promoting formal account ownership in ASEAN+6 countries. However, the analysis does not directly examine other financial behaviors such as borrowing, business savings, or remittance transfers. These dimensions represent important avenues for future research aimed at developing a more comprehensive understanding of financial inclusion dynamics. This study examines the relationship between debit card ownership and financial inclusion in ASEAN+6 countries using Global Findex panel data (2011–2021). The results show that debit card ownership has a positive and statistically significant effect on formal account ownership. After controlling for country-specific differences using a fixed-effects model, a one-unit increase in debit card ownership is associated with a 0.185-unit rise in account ownership, confirming the important role of debit cards in expanding access to formal financial services. However, the strength of this effect varies across countries, indicating that national characteristics, like financial infrastructure, regulatory frameworks, and institutional quality, influence financial inclusion outcomes. In contrast, mobile money accounts and mobile phone ownership do not show a significant relationship with formal account ownership, suggesting that digital finance in this region may function as a parallel system rather than a gateway to traditional banking.

From a theoretical perspective, the findings underscore that access to usable banking instruments reduces transaction costs and encourages sustained participation in the formal financial system. At the same time, the results challenge technology-centric views of financial inclusion by demonstrating that digital adoption alone does not guarantee integration into formal finance. Institutional and behavioral conditions remain decisive in determining whether individuals move beyond access to active participation.

The policy implications are clear. Expanding affordable bank accounts linked to debit cards should remain a priority, particularly for underserved populations. Effectiveness, however, depends on complementary investments in ATM networks, payment infrastructure, and interoperable systems. Digital financial services should be integrated into the banking sector rather than allowed to operate in isolation, and policy design must be tailored to each country's institutional capacity and financial landscape. Linking government transfers and public payments to debit-card-based accounts may further accelerate inclusion by promoting regular account use.

This study contributes to the literature by providing region-specific evidence for ASEAN+6 and highlighting the continued relevance of traditional financial instruments in an era of rapid digitalization. Nonetheless, the analysis focuses primarily on access indicators, relies on aggregated national data that may mask within-country disparities, and covers a limited time span. Future research should incorporate micro-level data, broader measures of financial usage, and longer time horizons to better understand distributional effects and the interaction between digital finance and formal banking. Overall, the findings indicate that debit cards remain a key driver of financial inclusion in ASEAN+6, and that sustainable progress will require coordinated development of both traditional banking infrastructure and digital financial systems within supportive institutional frameworks.

Promoting debit card ownership is an important policy step toward increasing financial inclusion. In nations where informal financial services are prevalent, activities focused on encouraging financial card adoption may encourage households to shift to digital banking alternatives. However, financial inclusion policies should be supplemented by initiatives to promote financial literacy to ensure that debit card possession leads to meaningful financial engagement. Finally, by affecting important financial behaviors such as transaction patterns, savings habits, and credit availability, debit cards have the potential to form an inclusive and fair digital financial ecosystem in ASEAN+6 countries. Given the importance of financial products in fostering economic participation, additional investment in financial infrastructure and literacy initiatives is required to realize the benefits of debit card use fully.

On the supply side, the government and relevant authorities in financial institutions should collaborate to develop policies for establishing solid regulatory frameworks that foster an inclusive financial ecosystem. To ensure the effectiveness of financial inclusion, the government can implement a financial literacy program in conjunction with the expansion of debit card ownership among people with low incomes. The syllabus is planned to include some local content to help existing and potential cardholders understand the different types of accounts and the actions involved in opening one. It is believed that with the knowledge and skills learned, households will be able to choose the most cost-effective service accounts. This policy specifically encourages regulatory improvements to remove barriers to owning ATM cards and Visa/Mastercard debit cards, while promoting close collaboration between financial service provider and the needs and willingness of those they seek to introduce to the service. By highlighting the differentiated roles of transaction instruments and digital access variables, this study contributes to a deeper understanding of financial inclusion dynamics in integrated regional economies.

This study provides a more conceptually consistent and empirically grounded assessment of financial inclusion dynamics in ASEAN+6 economies. By clarifying the role of debit card ownership as a financial infrastructure variable and strengthening the theoretical and analytical discussion, the paper contributes to a deeper understanding of how access to transaction-enabling instruments influences formal financial participation in integrated regional contexts. This study has several limitations that should be acknowledged. First, the analysis relies on macro-level panel data from the Global Findex database, which may not fully capture individual behavioral aspects of financial inclusion, such as transaction frequency, savings patterns, or borrowing decisions. Second, financial inclusion is proxied by formal account ownership, which may not reflect the quality or intensity of financial service usage. Third, variations in data availability across countries and survey years may affect the comparability of certain indicators. These limitations suggest that the findings should be interpreted with caution, particularly when generalizing across diverse institutional and socio-economic contexts within ASEAN+6 economies.

Future research could address these limitations by incorporating micro-level household or individual survey data to better understand financial behavior and usage patterns. Longitudinal studies with a longer time horizonz may provide deeper insights into the dynamic relationship between digital financial infrastructure and financial inclusion. Additionally, further research could explore the roles of financial literacy, regulatory quality, and fintech innovation in shaping inclusive financial ecosystems across integrated regional economies.

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9 772338 136003