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THE STRING OF NODES: HOW THE PROJECTION OF LOGISTICAL POWER  
REDEFINES TRADE IN THE ASEAN

*Leonardo Gioia*

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EU CONDITIONALITY, CHINESE CONTRACTUAL POWER,  
AND PHILIPPINE STRATEGIC AUTONOMY IN FDI

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INDONESIA-IRAN PREFERENTIAL TRADE AGREEMENT

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## THE STRING OF NODES: HOW THE PROJECTION OF LOGISTICAL POWER REDEFINES TRADE IN THE ASEAN

Leonardo Gioia

Geopolitica.info

*The Indo-Pacific region handles 60% of global maritime trade, and control over its territories is contested in strategic doctrine and public debate. Yet the focus on military primacy, alliances, and institutions such as ASEAN often bypasses a fundamental question: how are these exchanges materialised? Politics, economics and strategy converge in an under-theorized element: logistics. Without railways, ports, pipelines, and digital supply-chain platforms, there is no trade, integration, or durable influence. This article introduces logistical power as the capacity to project influence through infrastructure networks that bind economies, shape dependencies, and reconfigure geopolitical space. Moving beyond "debt trap" and the "String of Pearls" rhetoric, it analyses three nodes of Chinese infrastructure expansion in and around ASEAN: the Mekong basin, Kyaukpyu port (Myanmar), and the Chittagong ecosystem (Bangladesh). Extra-ASEAN cases Gwadar (Pakistan) and Hambantota (Sri Lanka) are examined to highlight how institutional density and collective negotiating capacity transform dependence from a liability into a manageable resource. The argument is that ASEAN countries are not passive terminals of Chinese logistical projection. Laos pursues calibrated dependence to escape isolation; Thailand pragmatically negotiates; Vietnam diversifies via bamboo diplomacy; Myanmar clings to Chinese support amid civil war. While logistical power can indeed redefine global hierarchies, the challenge for ASEAN is not to reject foreign infrastructure but to develop collective capacity to manage dependencies, turning its logistical crossroads into strategic leverage rather than passive vulnerability.*

**Keywords:** *Logistical Power Theory, ASEAN, BRI, Infrastructure, Fractal Networks*

## INTRODUCTION

### *Logistical Power Theory (LPT): An Analytical Framework*

To analyse how infrastructure networks reconfigure political space, this article draws on Logistical Power Theory (LPT), an integrated framework that emerges from the synthesis of Classical Seapower Theory (Mahan 1980; Till 2018), Supply-Chain and logistics studies (Cowen 2014; Neilson 2012), and Core–Periphery Theory (Prebisch 1950, pp. 8-10; Friedmann 1967, pp. 20-41; Wallerstein 1974, pp. 347-357). Each of these traditions captures a portion of the phenomenon but presents limitations when applied alone. Mahanian seapower focuses overwhelmingly on the military applications of maritime control, leaving the economic and connective dimensions of infrastructure unexplored. Critical logistics research tends to privilege corporate actors and the biopolitics of circulation over state-driven geopolitics. Core–periphery analysis, while useful in describing structural inequality, struggles to conceptualise relationships between regional nodes beyond functional master-servant dynamics.

LPT overcomes these limitations by introducing the concept of logistical power as *the ability to activate infrastructures – ports, routes, railways, networks – to project global influence, exercise economic coercion, and reconfigure territorial hierarchies*. Ports, in this perspective, are not simple transit points or static symbols of state capacity, but operational engines of power (Notteboom 2022, Chapter 11.1): dynamic nodes where infrastructure, logistical coordination, and strategic ambition converge. They are tangible manifestations of a complex nodular reality formed by interconnected networks (Coeck et al. 1996; Haezendonck et al. 2006), in which logistics acts as a catalyst for geopolitical change.

LPT distinguishes itself from existing theorisations on three levels:

- Beyond Mann (1984, 2008): Infrastructure is not merely a static foundation for the territorial penetration of the state, but an *activating device* for projecting influence beyond national borders.
- Beyond Wallerstein (1974): Centre–periphery hierarchies are not determined solely by the exploitation of resources and labour, but by the capacity to orchestrate flows and control logistical chokepoints.
- Beyond Cowen (2014) and Neilson (2012): Logistics is not only a business practice or an abstract “weapon of empire,” but a specific dimension of

state and supranational power, with measurable effects on regional economies and political autonomy.

LPT distinguishes two forms of logistical power: external and internal. External logistical power is the ability to command and orchestrate cross-border flows, influence standards, interconnections, and the architecture of global supply chains. Internal logistical power is the capacity to resist and absorb shocks through bureaucratic-administrative control over domestic networks.

The distinction between external and internal logistical power is an analytical convenience, not an ontological separation. Logistical networks exhibit fractal self-similarity: the centre-periphery dynamics that structure inter-state relations reappear, with different content, at the intra-state and local levels. A port controlled by a foreign power (external projection) and a municipal bureaucracy that reorients public resources away from export sectors (internal reorganization) are both manifestations of the same underlying mechanism: whoever controls a critical node redefines the hierarchy around it. The difference lies in the substance of the ties, treaty versus labour contract, financial loans versus welfare provision, not in the topology of power.<sup>1</sup>

Empirically, this means that external and internal logistical power must be read simultaneously. Like a book that can be read from right to left and from left to right without changing its structure, the logistical network is shaped by both the outward projection of state and corporate actors and the inward resistance, absorption, or failure of the communities that host the nodes. A collapse of internal logistical power, due to civil war, institutional decay, or local insurgency, is not a separate phenomenon from external projection; it is its condition of possibility and its permanent threat. The two dimensions are co-constitutive: they must be held apart for clarity of analysis, but they never operate apart in reality.

This article therefore focuses on the external dimension, defined as *the ability of a territorial node (city, region, port) – or of a state projecting power through such a node – to orchestrate cross-border flows of goods, capital and information, influencing standards, networks and hierarchies beyond its administrative borders*, while treating the internal responses of host communities not as exogenous frictions, but as constitutive elements of the projection process itself. The

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<sup>1</sup> The fractal nature of the network ensures that the power dynamics observed at the macro level are reproduced topologically at the micro level. For a more detailed discussion of this issue, see Mandelbrot 1982; Barabási 2002.

Arakan Army, the Baloch insurgents, and the displaced villagers along the Boten-Vientiane railway are not outside the network; they are its internal counter-currents,<sup>2</sup> shaping the very flows that external powers seek to orchestrate.

Crucially, the nation-state remains the primary unit capable of projecting external logistical power at scale, but it often does so through extraterritorial nodes: ports, railways, and special economic zones built or financed abroad. This is the mechanism exploited by China's Belt and Road Initiative (BRI). By creating, funding, and operating strategic logistical nodes in other countries, Beijing extends its capacity to orchestrate flows far beyond its sovereign territory. The receiving state, however, does not simply surrender control: it negotiates, resists, or leverages the new infrastructure for its own strategic goals. The result is a dynamic, often asymmetric, but never unidirectional relationship.

LPT models the world as a *Network of Networks* (Buldyrev et al. 2010; Kivelä et al. 2014), exhibiting internal self-similarity, clustering, and robustness to random failure, but also vulnerability to targeted shocks on critical nodes.<sup>3</sup> The three ASEAN cases analysed in this article (the Mekong Corridor, Kyaukpyu, and Chittagong) are examined precisely as critical nodes within this networked architecture, where China's external logistical power meets the strategic responses of Laos, Myanmar, Thailand, Vietnam, and Bangladesh. The two extra-ASEAN comparators (Gwadar and Hambantota) serve to isolate the effect of regional institutional density: in South Asia, the absence of an ASEAN-like fabric transforms infrastructure dependence into a far more acute sovereignty risk.

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<sup>2</sup> This theoretical framework adopts a perspective borrowed from the physics of complex systems (Nicolis & Prigogine 1977) and non-linear fluid dynamics (Ball 2004), where power is not understood as a fixed "quantity" possessed by a single actor, but as the very form of the network. If the logistic projection is a vector "flow", its stability is not an intrinsic property of the origin (the centre), but emerges from the interaction between the inertial thrust of capital (External LP) and the institutional or social "viscosity" of the territory crossed (Internal LP) (Helbing 2012). Non-state actors are not external obstacles, but "vortex" or dissipative structures within the flow that reorganise the energy of the network according to local logic. Using the metaphor of the "network-book", the state reads the system "from the left" (macro projection, large hubs), while local communities read it "from the right" (micro-logistics, resistance). The reality of logistical power emerges exclusively at the meeting point of these two simultaneous readings: it does not belong to either of the two actors, but is the configuration produced by their dynamic interaction within a self-organised system, where the global configuration is inseparable from local micro-fluctuations.

<sup>3</sup> The structure of international logistics networks displays fractal-like properties (Albert et al. 1999; Song et al. 2005), but with a crucial caveat: while mathematical fractals are infinite and identical to themselves at every scale, in international networks the *nature of the bond changes* as one moves across levels. Between states, an arc (a logistical relationship) may be an economic treaty; between firms, a supply contract; between politicians, a patronage tie. The topology remains similar, and vulnerability to external shocks persists, yet the substance of the connection varies, requiring careful analytical scaling. This insight is elaborated in the broader LPT framework (Author, forthcoming).

*Normative Commitment and Empirical Symmetry*

Logistical Power Theory (LPT) does not import its evaluative criterion from any external political preference. If power is not a fixed quantity possessed by one actor but the emergent form of the logistical network itself – a fractal geometry of centres, peripheries, and flows – then the normative standard by which any infrastructure projection must be assessed is topological, not ideological. A network in which multiple nodes retain the capacity to orchestrate flows, renegotiate the terms of connectivity, and generate alternative pathways is structurally resilient and distributes the benefits of circulation broadly. A network in which a single node monopolises orchestration capacity, reducing all others to passive terminals, is structurally brittle and vulnerable to cascading failure.

This criterion is inherently symmetrical. The LPT framework does not single out China: it applies identically to any actor that builds and operates cross-border infrastructure, regardless of its flag. The same centre–periphery dynamics, the same patterns of asymmetric dependency and multi-nodal resilience, are observable in the European Union's Global Gateway initiative (European Commission 2021; Stanicek 2024), in Italy's Mattei Plan for African energy corridors (Camera dei Deputati 2024; Presidenza del Consiglio dei Ministri 2024; Governo Italiano 2024), in India's submarine fibre-optic network linking the Indian Ocean rim (Submarine Networks IEX; Offshore Energy 2017; Projects Today 2021), and in Japan's Global Combat Air Programme (GCAP) as a logistical-industrial node (Prime Minister's Office 2022; BAE Systems; United Kingdom Ministry of Defence 2023). The substance of the ties differs – energy, data, defence – but the topology of power repeats.

This is not an empirical coincidence but a logical consequence of the fractal nature of logistical networks. The ASEAN cases analysed in this article are not exceptional; they are a particularly dense and variegated instance of a planetary phenomenon. The LPT map, once drawn for Southeast Asia, can be redrawn for the Mediterranean, the Indian Ocean, or the Baltic littoral. The flags change; the topology of power does not. The framework's purpose is therefore neither to celebrate nor to condemn any particular state, but to provide a verifiable cartographic instrument for navigating the dissipation of logistical power across any regional network, and, potentially, for anticipating breakdown points before they rupture.

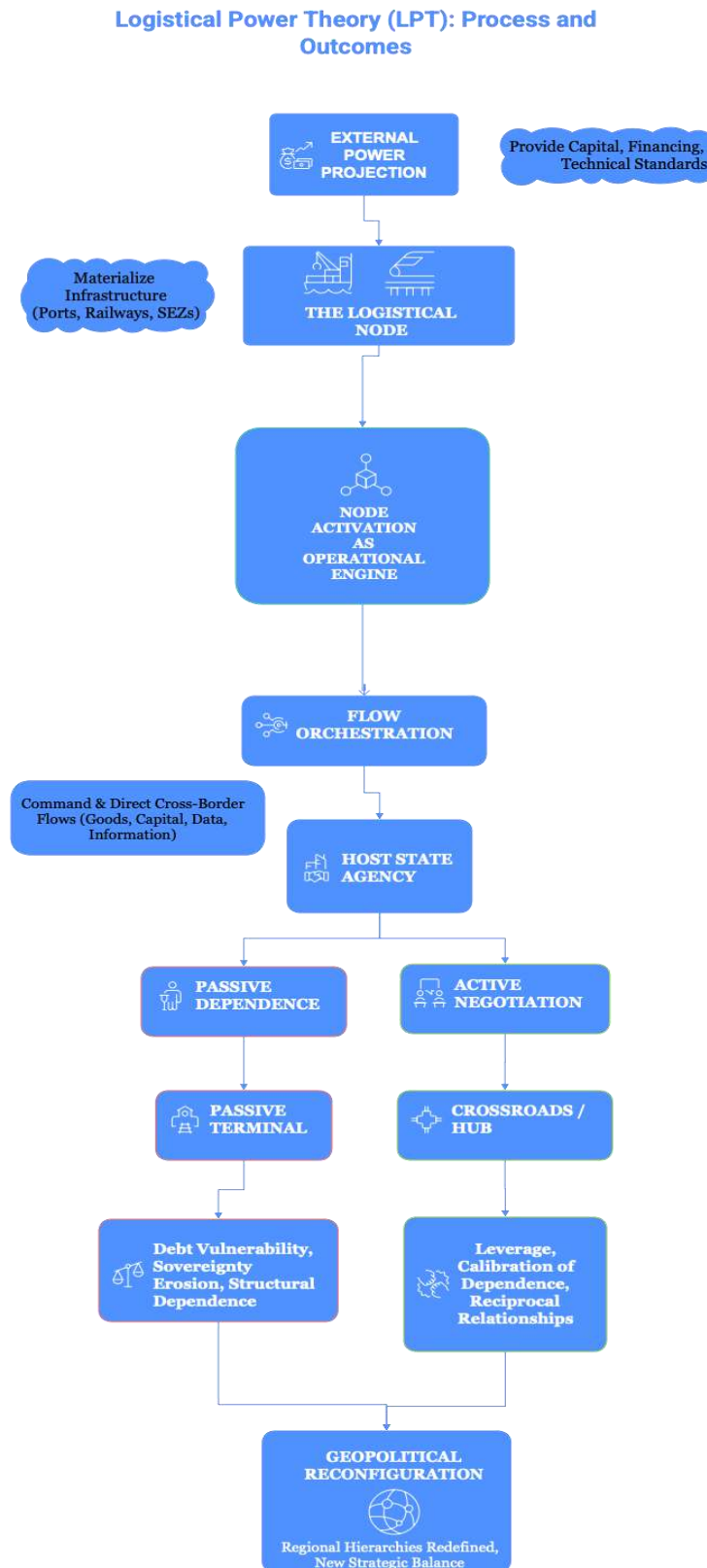
By adopting the LPT lens, the article moves beyond the militarised narrative of the “String of Pearls” (Ghiasy 2021, pp. 265-290) and the simplistic debt-trap accusation. It

shows that logistical power is not merely a weapon of the strong: it creates vulnerabilities and bargaining chips for both sides, and its final configuration depends on the institutional capacity, strategic clarity, and collective coordination of the states that host the nodes.

**Table 1. Theoretical Positioning of Logistical Power Theory (LPT) Against Classical Frameworks**

<b>Theory</b>	<b>Main Focus</b>	<b>Limit according to the LPT</b>
Mahan (Seapower)	Military control of the seas	He neglects the economic and connective dimensions
Wallerstein (Core-Periphery)	Exploitation of resources and labour	Ignore the ability to orchestrate streams and chokepoints
LPT (Logistical Power)	Activation of infrastructure to project influence	—

**Figure 1. Visualization of Logistic Power Theory (LPT)**



Made with Napkin

## RESEARCH METHOD

This study adopts a qualitative, descriptive-analytical research design based on a comparative case study methodology. Its aim is to investigate the causal mechanisms through which external logistical projections interact with the socio-political fabric of host states, generating different outcomes in terms of dependency, agency, and network reconfiguration.

The data are drawn from a combination of primary and secondary sources. Primary sources include official government policy documents (e.g., the EU Global Gateway, Italy's Mattei Plan), corporate reports from key logistical actors, most notably the China National Petroleum Corporation (CNPC) for the Kyaukpyu pipelines and Shanghai Zhenhua Heavy Industries (ZPMC) for port machinery, and international trade databases (UNCTADstat, Clarksons Research). Secondary sources comprise peer-reviewed scholarly articles, strategic reports from international think tanks (IISS, CSIS, PISM), and specialized infrastructure and logistics journals.

Data collection follows a systematic review of infrastructure concession agreements, technical specifications of port equipment (to assess vendor lock-in), and regional integration arrangements within the ASEAN framework. For data analysis, the study employs a *topological process tracing* approach. This method reconstructs within-case causal chains (process tracing) while simultaneously mapping each node's evolving position within the logistical network (topology), paying particular attention to shifts in connectivity, institutional density, and the socio-political viscosity, i.e., the resistance generated by local communities, insurgent groups, and domestic bureaucracies, that conditions the host state's capacity to negotiate, resist, or absorb external logistical power.

Each case study (Mekong corridor, Kyaukpyu, Chittagong ecosystem) is examined through the lens of Logistical Power Theory (LPT), systematically comparing how different geographical positions, institutional densities, and internal fragilities determine the host state's agency within the broader fractal network.

## DISCUSSION

### *Case 1 – Indochina: Navigating Dependence, Negotiating Logistical Power*

The Lancang-Mekong basin is the logistical aorta of mainland Southeast Asia. Stretching 4,800 km from the Tibetan plateau to the South China Sea, the river sustains about 73 million people and pierces six states (Mitra et al., pp. 149-172). It is also the theatre where China's external logistical power confronts the most variegated set of national responses in the entire Belt and Road landscape. Laos, Cambodia, Thailand and Vietnam inhabit the same infrastructural embrace, yet each has developed a distinct strategy for converting connectivity into autonomy, or accepting its erosion.

#### *Historical Background: From Mekong Cooperation to Chinese Nodal Control*

Early attempts to a common basin governance date to the 1957 Statute of the Lower Mekong (Jacobs 2002, pp. 354-364), promoted under UN sponsorship by Cambodia, Laos, South Vietnam and Thailand (Jensen et al. 2013, pp. 354-364). China, isolated during that period, did not participate, and the mechanism wilted during the Indochina wars (Jacobs 2002, pp. 354-364). Beijing filled the institutional vacuum decades later. Through the Asian Development Bank's Greater Mekong Subregion (GMS) Program (Jensen et al. 2013, pp. 354-364), China embedded itself as a development partner; in 2015, with the launch of the Lancang-Mekong Cooperation (LMC) (Wilkins et al. 2024), it acquired a dedicated minilateral platform located in Beijing, designed to run parallel to the older Mekong River Commission.

The LMC is the institutional face of a deliberate Chinese strategy (Singh 2022, pp. 43-49): creating complementary structures that (Economy 2018), without formally dismantling existing ones (Rudd 2022), shift the centre of gravity of regional governance toward Beijing (Lancang Mekong Cooperation 2016; Hillman 2020). Through it, China has linked water resource management, infrastructure finance, and diplomatic alignment into a single policy network. This architecture has enabled Beijing to convert its position as upstream buffer, reinforced by eleven massive dams on the Lancang, into a lever of logistical power over downstream states.

*Nodes And Networks*

Within this framework, three categories of logistical nodes have redefined Indochina's connectivity (Nadin et al. 2023, pp. 13-29):

- I. Water infrastructure: The dams themselves are immense control nodes. By regulating the river's flow, China can affect the Mekong's level, sediment transport, and fisheries, with direct consequences on agriculture and navigation in Laos, Cambodia and Vietnam. This hydrological leverage is a pure form of external logistical power: it allows a node on Chinese soil to orchestrate cross-border flows without a single railway track (Hlaing 2024, pp. 1-15).
  
- II. Terrestrial arteries: The logistical core is the Boten–Vientiane railway (National Development and Reform Commission 2015), completed in 2021. This 414 km, US\$6 billion link integrates Laos into the pan-Asian railway network and connects Kunming directly to the Thai border. The railway is built entirely to Chinese technical standards, with a standard gauge of 1,435 mm, a deliberate engineering choice that enables seamless integration with China's domestic rail network but creates a physical break with Thailand's meter-gauge (1,000 mm) system (China Railway 2022). This gauge discontinuity necessitates a dedicated transshipment yard at Vientiane South Station, where cargo must be unloaded from standard-gauge wagons and reloaded onto meter-gauge rolling stock (UNESCAP 2020). The yard, invested and built by the Laos-China Railway Co., Ltd., is configured with one standard-gauge track and two meter-gauge tracks, with an annual transshipment capacity of approximately 800,000 tons (CIIE 2022). The dependence on Chinese standards extends beyond the rails: the signalling system, comprising 345 signal controllers, 171 rerouting machines, and 425 track circuit sections, was installed by the China Railway Construction Electrification Bureau Group and operates on Chinese proprietary technology (State Information Center of China 2020; CRECG 2023). Moreover, since the line's opening in December 2021, the operation of the Lao section has relied on over 540 Chinese technical specialists dispatched from the China State Railway Group to supervise maintenance, train dispatching, and locomotive upkeep, while more than 1,000 Lao personnel have been trained through Chinese-led programmes. Rolling stock, including the 'Lane Xang' EMU trains, is Chinese-supplied, and replacement parts, software updates, and major repairs all depend on Chinese manufacturing chains (Mangkorndejsakul 2021; SCIO 2022). The railway is the first operational segment of the China-Indochina Peninsula Economic Corridor (CICPEC). In Cambodia, the Phnom Penh–

Sihanoukville Expressway (AidData 2021) and the Sihanoukville Special Economic Zone (SSEZ Official Website) forms an integrated land-sea system facing the South China Sea. Thailand is constructing a high-speed rail link to Nong Khai, with long-term plans to connect to Vientiane.

- III. Maritime infrastructure: China has upgraded Sihanoukville port and holds a *de facto* commercial presence there. In Thailand, the most ambitious logistical prize remains the Kra Canal (Brewster 2017), a project that would sever the Malay Peninsula and bypass the Strait of Malacca, but Bangkok has effectively shelved it. In its place, Thailand has proposed the Land Bridge: two deep-sea ports at Chumphon and Ranong linked by a 90 km highway-rail corridor, a US\$36 billion scheme that would maintain Thai sovereignty over the connecting infrastructure (ThinkChina 2023).

Each of these nodes is a vector of Chinese external logistical power: built, financed or operated by Chinese entities, they extend Beijing's capacity to orchestrate flows of goods and capital beyond its administrative borders. Yet, crucially, each also represents a bargaining chip for the host state, precisely because it is located on sovereign territory.

### *National Strategies: Four Models Of Response To Logistical Power*

#### *Laos Calibrated Dependence's*

For Vientiane, the China-Laos railway is not a trap but a conscious strategic gamble. The goal is to transform the country from land-locked to land-linked, becoming the inevitable transit corridor between China and Thailand (Morris et al. 2020). The government accepts debt levels that have reached 112% of GDP (US\$17 billion, of which US\$5.1 billion owed to Chinese creditors) (Barney et al. 2025) because the railway represents the only real path out of geographical isolation. However, Laos does not place all its eggs in one basket: it maintains historical military ties with Vietnam, carefully monitors land concessions along the route, and has resisted the transformation of Special Economic Zones into Chinese extraterritorial enclaves. The result is what the paper terms *calibrated dependence* – a form of accepted asymmetry, pursued with a sensitivity to red lines and external counterweights (Stec 2023).

### *Cambodia Asymmetrical Alignment's*

Phnom Penh's strategy is less articulated but no less rational. Having long relied on Chinese political cover at the UN Security Council and on massive infrastructure investments, Cambodia has become the most consistently pro-Beijing ASEAN member. The Sihanoukville hub offers China a commercial gateway to the Gulf of Thailand (SEEZ Official Website), while Phnom Penh obtains modern connectivity without immediate debt distress comparable to Laos (AidData 2021). The risk, however, is a progressive reduction of strategic options: Cambodia's economy is heavily dependent on Chinese tourism, construction and energy finance, while its diplomatic space shrinks in parallel with democratic backsliding.

### *Thailand Pragmatic Negotiation with Red Lines*

Bangkok is the most calibrated player in the region. It accepts Chinese infrastructure to modernise its economy and maintains its role as a manufacturing hub (Hardi et al. 2020, pp. 107-121) (the Eastern Economic Corridor), but refuses to cede technical or territorial control. The Kra Canal case is emblematic. Thailand has systematically held back on a Chinese-funded canal cutting through the Kra Isthmus, fearing it would physically divide the country and grant Beijing excessive maritime leverage (Luft & Nye 2017 pp. 19-37). Instead, Bangkok has put forward its own Land Bridge project, keeping sovereignty over both coasts and the connecting infrastructure (ThinkChina 2023). In parallel, Thailand preserves a formal military alliance with the United States, receives the largest flows of Japanese industrial investment, and has signed a global partnership agreement with the European Union. This multi-table game is a survival strategy that transforms logistical dependence into a continuously renegotiated variable.

### *Vietnam Bamboo Diplomacy and Calculated Distance*

Although part of the CICPEC corridors, Hanoi is the most wary partner. Historical disputes in the South China Sea make any Chinese infrastructure loan a potential security risk. Vietnam adopts a "bamboo diplomacy" (Hiep 2024): flexible, resilient, capable of bending without breaking. It accepts Chinese capital only when strictly necessary and technologically advantageous, without ever compromising national security. In 2023, it elevated relations with the United States to a Comprehensive Strategic Partnership (U.S. Department of State 2025), and in early 2026 it signed an analogous agreement with the European Union. This dual elevation has made Vietnam the preferred destination of the

“China Plus One” (FedEx Official Page 2024) strategy, transforming geographical proximity to China from a threat into an opportunity. The result is the lowest degree of infrastructural dependence among the four, a model of diversification that keeps logistical power at arm’s length.

### *Evidence Of Dependence And Asymmetry*

The material indicators of asymmetric dependence vary markedly:

- **Debt:** Laos’ external debt doubled between 2010 and 2023, with China holding the largest bilateral share. The 2022 currency crisis forced Vientiane to request annual debt deferrals from Beijing, creating a structural financial lever that limits future policy autonomy (Nishizawa 2022), a dynamic that can be called *alliance jeopardisation*. Cambodia, by contrast, has managed Chinese loans more cautiously in terms of GDP ratios, but remains exposed to a highly concentrated aid and investment portfolio (China Daily 2020).
- **Operational control:** In Laos, the railway is a joint venture, but Chinese standards, rolling stock, and personnel dominate daily operations. In Sihanoukville, the Chinese commercial footprint is so pervasive that it has raised sovereignty concerns, especially given reports of a possible naval facility. Thailand, conversely, has insisted on Thai-led construction contracts and technology transfer for its high-speed rail, preserving a much higher degree of operational control.
- **Institutional leverage:** Through the LMC, China has institutionalised an upstream riparian advantage that no other Mekong country possesses. The dams’ impact on water flow is both an environmental and a geopolitical fact, and Chinese data on dam operations remains largely opaque to downstream partners.

### *Contradictions And Limits: The Local Face of Logistical Power*

Logistical power looks monolithic from afar; up close, it encounters friction. In Laos, the most vocal resistance comes from communities affected by land concessions

along the railway corridor. There is growing local resentment against SEZs perceived as Chinese enclaves, where labour conditions and land expropriation have fuelled protests. In Cambodia, the concentration of Chinese investment in coastal Sihanoukville has generated social tensions and anti-Chinese sentiment that the government struggles to manage (Government Public Relations Department 2024). In Thailand, public scepticism toward a Chinese-project Kra Canal is so deep that no government has dared to revive it, despite Beijing's recurrent diplomatic overtures. In Vietnam, anti-Chinese nationalism, periodically inflamed by political incidents, imposes a hard political ceiling on any large-scale BRI project. These local dynamics reveal that logistical power is not a smooth transmission belt. It must negotiate terrain, public opinion, and memories of historical entanglement. LPT captures this by recognising that nodes are not inert infrastructure but sites where the substance of the connection (political, economic, social) can shift and even reverse the intended effect.

### *Logistical Power In The Basin: A Preliminary Assessment*

Seen through the LPT lens, the Mekong basin is a *network of networks* in which Beijing has activated dams, railways, and ports to orchestrate cross-border flows and reshape regional hierarchies. But the porosity of state sovereignty and the diversity of national strategies have prevented the emergence of a simple core-periphery pattern. Laos has moved closer to the Chinese core, yet retains a thread of strategic autonomy through its Vietnam counterweight. Thailand has kept the core at a deliberate distance, reinforcing its own bargaining power. Cambodia has aligned closely without apparent short-term cost, at the price of a less measurable long-term loss of options. Vietnam has essentially stopped the core at its border, while still profiting from the dispersal of manufacturing supply chains that the BRI, indirectly, has accelerated. The challenge for the Mekong countries is not the cheap accusation of a debt trap (Himmer & Rod 2022, pp. 250-272), but the deeper, subtler governance of calibrated dependence (Stec 2023). The LPT framework suggests that the final outcome – a region of passive terminals or a community of empowered crossroads – will depend less on the quantity of Chinese concrete poured and more on the capacity of states, individually and collectively, to convert infrastructure into genuinely reciprocal logistical relationships.

### **Table 2. Analytical Matrix Of Host-State Agency And Autonomy Under The LPT Framework**

Country	Strategy Model	Main Objective	Key Risk
Laos	Calibrated dependence	Getting out of geographical isolation	"Alliance jeopardisation"
Thailandia	Pragmatic negotiation	Modernisation without giving up control	Erosion technical control
Vietnam	Bamboo diplomacy	Diversification and national security	Anti-Chinese nationalism
Cambogia	Asymmetrical alignment	Rapid development and policy coverage	Reduction of strategic options

***Case 2 — Myanmar And The Dilemma Of Kyaukpyu: Logistics Hub Or Strategic Trap In Time Of Civil War?***

While the Mekong basin illustrates how ASEAN states can calibrate dependence, Myanmar demonstrates the extreme fragility of logistical power when the host state's internal stability fractures. The port of Kyaukpyu and the China-Myanmar Economic Corridor (CMEC) are among the most strategically logistic nodes in Beijing's Indian Ocean ambitions. Yet they sit in a country ravaged by civil war, where central government's authorities have collapsed precisely within the regions the infrastructure is built to traverse. For both China and Myanmar, Kyaukpyu port has become a geopolitical dilemma: it is indispensable because it is precarious, and precarious because it is indispensable, in energy terms.

*Historical Background: From Periphery To Strategic Back Door*

Until the late 1980s, China was not Myanmar's primary economic partner. Japan was the largest source of Burmese imports, while Southeast Asian neighbours absorbed the bulk of trade (Seekins 1997, pp. 525-539). Chinese commercial influence concentrated in Upper Myanmar, a cross-border economy dominated by low-cost consumer goods exchanged for raw materials. The 1988 military crackdown changed everything (Seekins 1997, pp. 525-539). Western sanctions froze economic ties, and China stepped into the vacuum, becoming Myanmar's principal arms supplier, financier, and diplomatic shield

(Seekins 1997, pp. 525-539). By 1995, 33% of Burmese imports originated from China, and Yunnan province had become the engine of cross-border commerce, aided by Special Economic Zones in Ruili and Wanding (Kudo 2008, pp. 87-110).

Strategic logic followed economic penetration. With 2,000 km of coastline on the Bay of Bengal and a position just 250 km from the Strait of Malacca, Myanmar offers China a partial escape from the “Malacca Dilemma” (Goswami 2021). The British had understood this geography way before the others in the region (Foreign, Commonwealth & Development Office 2015); Japan invaded in 1942 to sever Allied supply lines (Sewell 1945, pp. 496-504). Beijing pursued the same end by economic means, conceiving the China-Myanmar Economic Corridor (CMEC) to connect Kunming directly to the Indian Ocean at Kyaukpyu (Krishnan 2020), bypassing the congested and geopolitically exposed strait (Scott 2019, pp. 94-113).

#### *Nodes And Networks: The Anatomy Of A Corridor*

The CMEC is not a single project but a layered logistical network of systems (Brewster 2014, pp. 71-79)

Kyaukpyu deep-sea port, on Ramree Island in Rakhine State, is the final operational node. Operated by a Chinese consortium led by CITIC under a 50-year concession (renewable in 25-year terms), it is flanked by a planned Special Economic Zone (US\$2.7 billion). The port’s strategic function is to receive crude oil from the Middle East and Africa and pump it inland (Poling et al. 2018, pp.4-6).

The China-Myanmar oil and gas pipelines, an 800 km twin conduit completed in 2013 at a cost of US\$1.5 billion, link Kyaukpyu to Kunming. Built by China National Petroleum Corporation (CNPC) and the Myanmar Oil and Gas Enterprise (MOGE), the pipelines were designed to cut the transport distance for Chinese crude imports by roughly 12,000 km (Abb 2025). The crude oil pipeline is a 771-kilometre artery with a diameter of 1,016 mm ( $\Phi 1016$ ), constructed from X70 steel and coated with a 3PE high-temperature external anti-corrosion layer plus a liquid epoxy internal coat, with a design pressure of 10 MPa (Summers 2018, pp. 480-488). Its designed transmission capacity is 22 million tons per year, equivalent to roughly 440,000 barrels per day, of which Myanmar retains 2 million tons annually for its domestic consumption (Zheng & Tokunaga 2019). The oil terminal on Madè Island is built to accommodate Very Large Crude Carriers (VLCCs) of

up to 300,000 deadweight tons, offloading Middle Eastern and African crude into storage tanks before the pipeline begins its overland journey (Li & Zhang 1991, pp. 267-274; CNPC 2013). Because the crude arriving from the Middle East is predominantly waxy and high-pour-point, it must be heated continuously to remain fluid: the pipeline relies on a chain of heating and pumping stations, stockpile stations and block valve stations spaced along the route (CNPC 2020), all controlled by the Chinese-led joint venture South-East Asia Crude Oil Pipeline Company Limited (SEAOP) (Pipeline Technology Journal 2017; Poling 2018). Any prolonged power interruption would cause the crude to cool, freeze, and potentially block the line, creating an acute dependence on Chinese-supplied energy, spare parts, and technical personnel for uninterrupted operation (Li et al. 2010, pp. 235-242; CNPC 2013; ERIA 2015).

The Kunming–Kyaukpyu railway, a long-planned 800 km rail link intended to complete the overland corridor, has remained stalled by funding disagreements, security concerns, and the civil war (Abb 2025).

The CMEC blueprint includes connections to Mandalay, the Yangon New City project, and industrial zones along the corridor (Abb 2025).

From an LPT perspective, Kyaukpyu is a quintessential external logistical node: financed, built, and operated by Chinese entities on foreign territory, it extends Beijing's capacity to orchestrate energy and trade flows well beyond its sovereign borders. However, unlike the Mekong cases, where the host states maintain formal control and a degree of bargaining power, Kyaukpyu is integrated in a country where the state itself has partially failed.

### *National Strategy: Contested Dependence*

Myanmar's approach to Chinese logistical power is the most dramatic among the ASEAN cases, definable as *contested dependence*. Before the 2021 *coup d'état*, Naypyidaw attempted a cautious diversification: it cultivated Japanese, South Korean, and EU investment, suspended the Myitsone dam under public pressure, and exhibited a degree of autonomy even as it accepted BRI megaprojects (Belt and Road Portal 2018). The military's seizure of power shattered this balancing act (Ratcliffe 2022). Western sanctions returned immediately, isolating the junta economically and diplomatically (European Union 2013). China, adhering to its principle of non-interference, became the regime's sole

functioning lifeline: arms supplier, fuel exporter, infrastructure partner, and diplomatic buffer in the UN Security Council (International Crisis Group 2024).

The junta thus clings to Chinese investments as an anchor in a deep internal war and international isolation. Yet the dependence is not passive. The generals know that Beijing needs Kyaukpyu and the pipelines (Business & Human Rights Resource Centre 2023; Maung 2025), and they use this reality to extract continued political support and economic relief, even as they resist Chinese pressure to cease hostilities against ethnic armed groups that Beijing itself maintains contact with (Business & Human Rights Resource Centre 2023). The result is a twisted symbiosis: China gets a surviving government that protects its strategic assets; the junta gets a sponsor that cannot afford to let it collapse (Kyaw 2025).

For China, the civil war has forced an uncomfortable dual-track approach: officially it engages the junta to safeguard its corridor (The Irrawaddy 2025), while simultaneously maintaining dialogue with ethnic armed organisations like the Arakan Army (AA) and the Ta'ang National Liberation Army (TNLA) that control territory the energetic corridor must cross (Business & Human Rights Resource Centre 2025; Myint 2025). In October 2023, the “Three Brothers Alliance” (of which the AA and TNLA are members) launched a coordinated offensive that captured the junta’s regional military command in Lashio and other strategic towns along the Sino-Myanmar border. This directly threatened Chinese economic interests and forced Beijing to mediate ceasefires, a role entirely at odds with its non-interference rhetoric.

### *Evidence Of Dependence And Asymmetry*

The pipeline and port concession agreements give Chinese state-owned enterprises dominant management rights. The profit-sharing structure and land lease terms are not publicly transparent, but the 50-year concession on the SEZ mirrors the long-lease models of Gwadar and Hambantota, raising sovereignty concerns (Poling et al. 2018, pp. 4-6). While Myanmar’s total external debt is not as extreme in GDP terms as that of Laos, Chinese lending for BRI projects has grown significantly since 2016 (Yun 2017).

The CMEC framework agreement included pledges of financing for infrastructure worth several billion dollars; however, civil war disruptions have made project completion uncertain and repayment prospects dim (Poling 2018). The World Bank has warned of

growing debt distress, and the junta frequently seeks rescheduling and additional loans from Beijing. Concerning the energy dependence, the Kyaukpyu pipelines supply not only China but also domestic Burmese consumption. The pipelines themselves are a physical umbilical cord: a critical energy node that China must protect at all costs, which paradoxically gives both the junta and the armed groups that threaten it a degree of coercive leverage over Beijing. Finally, Chinese military, including fighter jets, armoured vehicles, and surveillance technology, have been documented entering Myanmar since the coup. This military supply chain creates an additional dependency that blurs the line between logistical and military power (Seekins 1997, pp. 525-539 ; Parameswaran 2017).

### *Contradictions and Limits: The Local and The Insurgent*

The CMEC's trajectory exposes the most significant limitation of external logistical power: it cannot operate in a vacuum of sovereignty. The projects are physically located in conflict zones, and the local population is not only hostile to the junta but increasingly suspicious of Chinese presence.

The Arakan Army, which effectively controls much of Rakhine State, has attacked military convoys and positions near Kyaukpyu. In 2024–2025, fighting intensified, and the CITIC-led projects for the port expansion and SEZ were suspended following diplomatic pressure and security alerts from the EU and US. Beijing has had to dispatch special envoys to negotiate directly with the Arakan Army to secure the safety of its pipelines and personnel – a stark illustration that a non-state actor can hold a logistical superpower hostage (Kyaw 2025). The Myitsone dam suspension in 2011, driven by massive domestic protests and environmental concerns, demonstrated early on that infrastructure friction can derail even the most strategic projects. The Letpadaung copper mine protests further solidified a legacy of local resistance to Chinese extractivism. In Rakhine, the Rohingya crisis and the Myanmar military's scorched-earth campaigns have generated deep-seated communal tensions, making any large-scale infrastructure development a potential flashpoint (International Crisis Group 2024).

Chinese engineers and managers have been kidnapped, attacked, or forced to evacuate multiple times since the coup. These episodes force Beijing to invest heavily in private security and deal-making with local militias, significantly driving up the operating cost of logistical power (Business & Human Rights Resource Centre 2023). The junta cannot guarantee the security of the corridor because it does not control the territory. This

undermines the foundational assumption of LPT: that the host state can provide the bureaucratic-administrative stability necessary for the node to function. When the node's host is a patchwork of contested authorities, external logistical power becomes dangerously exposed.

### *Logistical Power In A Fractured State: Assessment Through LPT*

Kyaukpyu is the place where the promise of Chinese external logistical power confronts its most severe limit. The LPT framework reveals that logistical power is not simply a function of concrete and steel; it is a function of the stability of the relational network that the infrastructure activates. In Myanmar, the arcs of that network are sabotaged by a host state lacking sovereignty, by insurgent groups wielding territorial control, and by a local population with a history of uprising against both the central government and foreign developers. The consequence is that Kyaukpyu, conceived as a *backdoor* to the Indian Ocean, has become a node of contested access (Byrd 2020, pp. 307-316).

China is bound to the junta by its need to keep the pipelines flowing and the port operational, but it is simultaneously bound to the rebels by the reality that they control the ground. This double bind erodes Beijing's negotiating advantage: the junta can extract continued support by leveraging the threat of collapse; the Arakan Army can disrupt operations and demand recognition. Neither is a passive recipient of logistical power. In sum, Myanmar's contested dependence is a cautionary tale for the BRI: where institutional density collapses and armed non-state actors proliferate, logistical power does not simply project outward: it recoils inward, forcing the projecting state into entanglements it never intended.

### *Case 3 – Chittagong: The Bangladeshi Logistics Ecosystem And The Art Of Selective Integration*

Among the BRI nodes examined in this paper, the Chittagong ecosystem stands out as the most mature attempt to transform logistical power into a negotiated, multi-layered *network of networks*. Bangladesh has not merely accepted Chinese investments; it has implanted them within a national strategy of selectivity, diversification,

and institutional balance, creating a model that, while not without tensions, offers a counter-narrative to both the debt-trap alarmism and the Gwadar-style sovereignty erosion, as it will be described furtherly.

### *Historical Background: From Suspicious Distance To Strategic Embrace*

China and Bangladesh established diplomatic relations in 1975, four years after Bangladesh's violent secession from the collapse of united Pakistan. Beijing, a historical ally of Pakistan, initially viewed the new state with suspicion, but quickly recalibrated (Choudhury 1990, pp. 127-156). Bangladesh, encircled by India on three sides, saw in China an alternative pole capable of offsetting New Delhi's overwhelming regional weight (Shabbir 2017, pp. 137-152). The relationship remained low-intensity until the early 2000s, when China began channeling infrastructure finance through concessional loans.

The turning point was the announcement of the Belt and Road Initiative in 2013. Dhaka recognised in the BRI a "golden opportunity" (The Daily Star 2017) to upgrade its crumbling logistics backbone – ports, railways, energy pipelines – without the political conditionality attached to Western lending (Ministry of the Finance of the People's Republic of China 2024). Unlike India, which formally distanced itself from the initiative, Bangladesh embraced it, but with a distinctly cautious hand (Chakma 2019, pp. 227-239; Daily Sun 2020). By 2016, during the Chinese president's visit, agreements worth US\$21.5 billion were signed, catapulting Bangladesh into the top tier of South Asian BRI recipients (Karim & Islam 2018, pp. 283 - 302).

### *Nodes and Networks: An Integrated Ecosystem*

The Chittagong node is unique in China's Indian Ocean expansion: it is not an isolated port project but a full-fledged logistics ecosystem that binds together multiple sectors under a single strategic umbrella.

The port of Chittagong is the central nervous system. Upgraded with Chinese capital and know-how, it remains under the sovereign management of the Chittagong Port Authority, a crucial distinction from the long-lease models of Gwadar and Hambantota. The port handles over 90% of Bangladesh's maritime trade and is a pivotal node in the proposed Bangladesh-China-India-Myanmar (BCIM) corridor (China Daily 2010, 2018).

The Payra deep-sea port, financed with a US\$600 million Chinese loan, is designed to supplement Chittagong's capacity and offer a second maritime outlet on the Bay of Bengal (Mamun 2016).

The Dohazari–Cox's Bazar railway, inaugurated in 2023, connects the southern coastline to the national network, functioning as a piece of the larger BCIM corridor (Belt and Road Portal 2023). The Padma Bridge Rail Link connects the capital to the south-west, integrating once isolated regions. The Bangabandhu Sheikh Mujibur Rahman Tunnel (completed 2022) – South Asia's first underwater road tunnel – was built by a Chinese state firm. These transport corridors are the arteries through which Chinese external logistical power extends inland from the port (Dawood 2018; Sobhan 2023).

Around the port, the Anwara Chinese Economic and Industrial Zone hosts factories in textiles, steel and electronics, exploiting low-cost labour to export to the EU and Asia (Dawood 2018). The Payra coal-fired power plant (built with Chinese and South Korean partners) provides energy for the ecosystem, while Chinese-manufactured equipment and digital platforms are progressively layering the node's material and informational architecture (Wen 2023).

The material fabric of the Chittagong ecosystem embeds Chinese technical standards deep into the node's daily operations. The port's quayside is equipped with gantry cranes procured from Shanghai Zhenhua Heavy Industries (ZPMC) (TBS 2025), the Chinese state-owned manufacturer that commands over 80% of the global container crane market: Chittagong Port Authority purchased four quayside gantry cranes from ZPMC at a cost of Tk 243.58 crore, together with six rubber-tyred gantry cranes for Tk 70.83 crore (Barua 2023; The Business Standard 2024). Meanwhile, at the Patenga Container Terminal, Bangladesh's first privately-operated container facility, RSGT Bangladesh has deployed fourteen hybrid rubber-tyred gantry cranes manufactured by GENMA-KALMAR in Taicang (GENMA 2025; The Observer Bangladesh 2025; Apparel Resources 2025), China, under a 22-year concession agreement signed in December 2023 (Public Private Partnership Authority [PPPA], 2023; Sarder & Hossain 2024; The Daily Star 2026). These cranes feature battery-hybrid power technology but remain dependent on Chinese supply chains for proprietary components, software, and specialised maintenance (Blanchard 2024; Container News 2024). The digital architecture of the port reinforces this dependence: the CPA Sky single-window platform, launched in February 2026, integrates customs, port clearance, and vessel tracking into a unified digital environment with real-time radar monitoring and single sign-on access, tracking 128

vessels simultaneously across 21 berths (New Age Business 2024). CPA Sky's back-end technical support is provided by DataSoft Systems Bangladesh Limited, a local firm, and a US-based company, and the platform itself is not currently supplied by Huawei. However, Huawei's broader penetration of Bangladesh's ICT ecosystem is extensive: the company has completed 5G rollouts in major Bangladeshi cities, reduced data latency by 40%, and showcased smart port solutions at the Belt and Road Initiative in Bangladesh Exhibition as a declared partner in Dhaka's 'Smart Bangladesh' digital transformation programme (Barua 2023). Should Chittagong Port's digital infrastructure migrate toward Huawei's proprietary smart port architecture in the future, a trajectory consistent with the Digital Silk Road's pattern in Sri Lanka, Pakistan and the Gulf, the switching costs would be prohibitive, locking the node into Chinese-controlled data flows, software ecosystems, and hardware supply chains (Nouwens 2021).

From an LPT perspective, the Chittagong ecosystem is a *network of networks* deliberately engineered to be resilient: if one sector (e.g., textiles) falters, others (energy, logistics, digital) compensate. It is a node through which Beijing projects external logistical power, orchestrating cross-border flows of goods, capital and information, but one that Dhaka has retained the capacity to regulate (Belt and Road Portal 2017).

### *National Strategy: Selective Dependence and Strategic Balance*

Bangladesh's approach is best described as *selective dependence*. Dhaka welcomes Chinese infrastructure finance and technology when aligned with its own development priorities, but maintains clear boundaries: no long-term lease of sovereign port facilities, no surrendering of operational control, and continuous cultivation of alternative partnerships (Ghiasy 2021, pp. 265-290).

This selectivity is evident on three fronts:

Unlike Hambantota (99-year lease) or Gwadar (profit-sharing heavily skewed toward Beijing), the Chittagong port upgrade left ownership and operational management firmly in Bangladeshi hands. The Payra port and the Padma Bridge, though Chinese-funded, are sovereign Bangladeshi projects.

Dhaka balances its heavy Chinese investment portfolio with deep and multidimensional ties to India, which remains its largest trade partner in South Asia, its

primary source of electricity imports, and a vital security interlocutor. Japan, the World Bank, and the Asian Development Bank remain major funders of infrastructure, preventing monoculture dependence. Bangladesh, together with Pakistan, is one of the only two South Asian countries hosting both the terrestrial and maritime components of the BRI, but it has done so without severing its dense connectivity with New Delhi (Belt and Road Portal 2019).

Bangladesh has integrated Chinese-funded projects into its own medium-term development plans (the Five-Year Plans and the Delta Plan 2100), rather than passively accepting the BRI project list. This has allowed Dhaka to channel Chinese capital toward pre-identified gaps, enhancing its absorption capacity and strengthening its negotiating position (Belt and Road Portal 2020).

As economist Rashed Al Mahmud Titumir has argued, Dhaka is promoting a *renewed multilateralism*: it transforms great-power competition into opportunities by refusing to choose sides, instead leveraging each partner's interest to extract maximum benefit (Nan 2025).

### *Evidence of Dependence and Asymmetry*

Selectivity does not mean symmetry. The material indicators of Chinese influence are substantial. China is now Bangladesh's largest trading partner, with bilateral trade exceeding US\$12 billion. Bangladesh has granted China special trade concessions, reducing duties on 97% of Chinese exports. This asymmetry, while partially offset by garment exports to Western markets, creates a structural import dependence on Chinese machinery, electronics and intermediate goods (Belt and Road Portal 2020).

Bangladesh is the second-largest BRI recipient in South Asia, with Chinese-linked infrastructure projects totalling around US\$10 billion (Lingqing 2019). While public debt to GDP (around 30%) remains manageable compared to Laos (112%) or Sri Lanka (peak 120%), the absolute volume of Chinese lending has risen fast, and a portion of it is not fully disclosed under sovereign guarantees, raising fiscal transparency concerns. The deployment of Huawei surveillance and smart-port infrastructure creates a less visible but durable form of dependence. Once critical digital systems are built on Chinese standards and hardware, switching costs become prohibitive (Belt and Road Portal 2023) – a pattern that LPT identifies as *network power*, where the ability to set technical standards becomes a

source of enduring influence. Bangladesh's strategic location on the Bay of Bengal – and its potential to serve as a Chinese “pearl” – invites constant scrutiny from India and the United States. Any internal political shift that is perceived as tilting too far toward Beijing risks destabilising this delicate balance, as the recent post-2024 political transition has already demonstrated.

### *Contradictions and Limits: The Local and The Geopolitical*

The Chittagong model, for all its sophistication, faces internal and external pressures. The Anwara industrial zone and large-scale infrastructure have required extensive land acquisition, generating protests from farming communities and accusations of inadequate compensation. The Payra power plant has faced criticism over coal dependence and environmental degradation, feeding a nascent civil-society pushback against the “development at any cost” model.

The dramatic political upheaval of 2024–2025, with the ouster of the long-ruling Sheikh Hasina government and the installation of an interim administration under Muhammad Yunus, has introduced uncertainty (Stommes 2026). China moved quickly to engage the new government, but the internal polarisation and competing factions create an unstable environment for long-term infrastructure planning. The 50th anniversary of diplomatic relations in 2025 was marked by high-level reassurance, but also by heightened caution on both sides (Belt and Road Portal 2025).

Chittagong's logistics ecosystem cannot be understood in isolation from its proximity to India. The BCIM corridor, intended to connect China, Myanmar and Bangladesh to India's north-eastern states, remains effectively stalled by New Delhi's disinterest. India watches Chinese port-building in its eastern neighbourhood with deep concern and has responded by investing in its own connectivity projects (the BBIN corridor, the Sittwe-Paletwa waterway). Dhaka must constantly calibrate its Chinese embrace to avoid provoking New Delhi, whose cooperation is essential for water sharing, energy trade, and security (Masud 2025).

*Logistical Power in A Sovereign Ecosystem: Assessment Through LPT*

The Chittagong ecosystem, seen through the LPT lens, demonstrates that a host state with sufficient institutional capacity, strategic clarity, and diversified partnerships can convert external logistical power into a resource that reinforces, rather than erodes, its own sovereignty. Bangladesh has achieved what isolated nodes like Gwadar (in Pakistan) and Hambantota (Sri Lanka) could not: it has absorbed massive Chinese investment while retaining sovereign control over its critical port infrastructure, avoiding the long-lease trap, and preserving active relationships with India, Japan, and multilateral lenders. The node extends Beijing's capacity to orchestrate Bay of Bengal flows, but Dhaka has kept its hand on the conductor's wand, or at least a firm grip on the score.

Yet LPT also reveals the boundary conditions of this success. Selective dependence is not a steady state but a continuous practice, vulnerable to political shocks, debt accumulation, technological lock-in, and the relentless pressure of great-power competition. The model works so long as the state retains internal coherence and external balancing skills, conditions that the 2024–2025 transition has rendered less certain. Chittagong remains the most promising version of ASEAN-adjacent logistical sovereignty, but it is a work in constant need of recalibration.

***Case 4 – Comparative Perspectives: Hambantota and Gwadar and The Risk of Isolated Logistical Sovereignty***

The ASEAN and ASEAN-adjacent cases analysed so far display a spectrum of negotiated dependence, made possible in part by the dense institutional fabric and multiple partnership options available to states within Southeast Asia's regional architecture. To understand how logistical power operates when such density is absent, it is useful to examine two nodes outside ASEAN that have become iconic and controversial symbols of Chinese infrastructural expansion in South Asia: Gwadar in Pakistan and Hambantota in Sri Lanka. These two cases serve as a control group: they show what happens when a host state faces Chinese external logistical power alone, without the collective bargaining capacity, institutional buffers, or diversified regional alternatives that ASEAN membership can provide.

### *Historical Background: Geostrategic Logic in The Indian Ocean*

China's interest in Gwadar and Hambantota arises from the same fundamental imperative that drove the Kyaukpyu corridor: the need to diversify energy supply routes and reduce exposure to the Strait of Malacca. The Indian Ocean hosts the world's busiest energy sea lanes, and China, as the world's largest oil importer, has systematically sought to establish a network of port nodes that can act as logistical fallbacks and commercial strongholds. This logic, characterised in US strategic doctrine as the "String of Pearls" (Ghiasi 2021, pp. 265-290), encompasses a chain of infrastructure from the Chinese mainland to the Horn of Africa. LPT reinterprets this network not as a proto-military belt but as an archipelago of external logistical nodes designed to orchestrate cross-border flows and reconfigure commercial hierarchies.

Gwadar, situated in Pakistan's Balochistan province, is the westernmost pearl of this imagined chain. Its strategic value is immense: it sits roughly 172 km from the Iranian port of Chabahar (India) and just outside the Strait of Hormuz, through which approximately 40% of global oil traffic passes (U.S. EIA 2026). For China, Gwadar offers direct access to the Indian Ocean, reducing the maritime distance for Middle Eastern crude imports by roughly 12,000 km and completely bypassing the Malacca chokepoint. Hambantota, in southern Sri Lanka, occupies an equally privileged position. It lies only 10 nautical miles from Dondra Head, a critical waypoint on the Europe-Asia shipping route, and sits astride the sea lanes through which 64% of global trade flows (Financial Express 2021). For Beijing, Hambantota was conceived as a refuelling, transshipment, and logistical support node on the long maritime corridor between African energy sources and Chinese manufacturing centres.

### *Nodes and Networks: The Anatomy of Two Isolated Hubs*

#### *Gwadar*

The port of Gwadar is the maritime anchor of the China-Pakistan Economic Corridor (CPEC) (Schwemlein 2019), a US\$70 billion megaproject that includes the Karakoram Highway (CPEC Port Authority n.d.), oil pipelines, power plants (CPEC Energy Authority n.d.), and industrial zones stretching from Xinjiang to the Arabian Sea (CPEC Economic Authority n.d.). Pakistan is the only South Asian state that offers China

direct territorial access to the Indian Ocean without crossing the territory of a third country, making it an irreplaceable partner for Beijing's energy security goals.

The operational model of Gwadar is markedly concessionary. The China Overseas Port Holding Company (COPHC) operates the port and holds 91% of port revenues and 85% of the free zone's earnings under a long-term agreement (Indian Express 2017). The surrounding free zone is intended to host Chinese manufacturing and logistics firms. From an LPT standpoint, Gwadar represents the maximum extension of Chinese external logistical power on foreign soil: a node that Beijing effectively controls, through which it can orchestrate flows of energy and goods, and whose revenue structure generates enduring Chinese commercial interests.

The material dependence of the Gwadar node on Chinese supply chains extends from the seabed to the quayside. The port's navigational channel is maintained by China Harbour Engineering Company (CHEC), which in 2023 began de-silting operations to restore the channel to its original design depth of 14.5 metres, a US\$17.16 million project critical to keeping the port accessible to deep-draught vessels (CPEC Authority n.d). Without this cyclical dredging, siltation rapidly reduces the operable depth, and the Chinese state-owned contractor remains the sole entity tasked with the work. On the quayside, the three Ship-to-Shore (STS) container cranes at Gwadar International Terminal were originally manufactured by Shanghai Zhenhua Heavy Industries (ZPMC) and relocated from Long Beach, California, to Gwadar in 2017, with ZPMC also awarded the contract for designing, planning, and supplementing parts (Dredging Today 2023). The offloading, modifications, testing, and commissioning were carried out by ZMPC Lanka Ltd., a joint venture between ZPMC and Access Engineering PLC (ZPMC Official Page n.d.), deploying a mixed team of Chinese and Sri Lankan specialists to upgrade the high-voltage system from 5 kV to 11 kV and reconfigure the rail track gauge from 30.48 m to 30 m. ZPMC controls an estimated 82% of the global container crane market, and its proprietary components, control software, and maintenance protocols lock Gwadar into a single-vendor ecosystem (ZPMC Port Machinery n.d.): replacement parts, specialised repairs, and technical personnel must all be sourced through Chinese channels (ZPMC Mediterranean n.d.). More broadly, under CPEC procurement practices, the bulk of mechanical, electrical, and crane equipment for Gwadar has been imported from China at concessional rates, a dependency codified by a 23-year tax exemption package granted to COPHC and its four operating subsidiaries for port and free-zone construction (CGTN 2023). The digital architecture of the port does not yet mirror this physical lock-in:

Gwadar's customs clearance operates through the WeBOC (Web-Based One Customs) system developed jointly by Pakistan Customs and Pakistan Revenue Automation Limited (PRAL), a local public-sector entity (Zauba Database n.d.). However, the planned next-generation port community system, intended to link Gwadar with Karachi and Port Qasim in an integrated digital network, remains under design, leaving open the question of whether the future digital backbone will follow a Chinese, indigenous, or hybrid architecture (Kardon et al. 2020).

### *Hambantota*

The Hambantota deep-sea port, financed by two Chinese state-owned enterprises (China Harbour Engineering and Sinohydro Corporation) with a US\$1.4 billion loan from the Export-Import Bank of China, was intended to become a regional transshipment and logistics hub (Wignaraja et al. 2020). The project, however, faced chronic delays, low throughput, and accumulated financial losses. In 2017, unable to service the mounting debt, the Sri Lankan government granted China Merchants Port Holdings Company (CMPHC) a 99-year lease on the port in exchange for US\$1.12 billion, a move aimed at bolstering the country's depleted foreign exchange reserves (Reuters 2018; Carrai 2019).

The Hambantota lease quickly became the global poster child for the "debt trap" narrative (Moramudali 2020; Himmer & Rod 2022, pp. 250-272). Yet the LPT reading is more subtle: the lease was not a coerced surrender but a deliberate, if desperate, renegotiation by Colombo to convert an unproductive liability into a usable asset while preserving formal sovereignty (the Sri Lankan Navy maintains perimeter security (Wignaraja et al. 2020), and the lease explicitly prohibits military use (Cabinet Office of Sri Lanka. (2017)). Still, the outcome concedes operational control of a strategic node to China for nearly a century (Manhas et al. 2023; Frumento 2026), a degree of logistical power transfer unmatched in the ASEAN cases studied.

## *National Strategies: Uneven Bargaining Power*

### *Pakistan's Desperate Embrace*

Pakistan's relationship with China is historically deep, rooted in the two countries' shared rivalry with India (Hillman 2018). CPEC is the flagship of Pakistan-China cooperation, and for Islamabad, the corridor is not merely an infrastructure project but a lifeline for economic revival and strategic depth (Khan et al. 2016; Sharif et al. 2025, pp.

462-481; Government of Pakistan 2026). Pakistan, beset by chronic fiscal crises, energy shortages, and security challenges, has limited alternative sources of large-scale infrastructure finance; Western and multilateral lenders have reduced exposure due to instability and governance concerns (Schwemlein 2019; Center for Research and Security Studies [CRSS]). Chinese capital, delivered rapidly and without conditionalities, is therefore accepted even on highly asymmetric terms. The result is what LPT would describe as *structural dependence without institutional counterweights*: Pakistan needs CPEC, and China needs Gwadar, but the bargaining asymmetry is so severe that Pakistan has effectively traded long-term sovereignty over a strategic node for immediate economic relief and geopolitical insurance against India.

#### *Sri Lanka's Renegotiation*

Colombo's trajectory is different but equally instructive. Unlike Pakistan, Sri Lanka is not in a perpetual rivalry with a giant neighbour, and it attempted a more independent posture. However, domestic economic mismanagement, a balance-of-payments crisis, and the steep financial weight of Hambantota's losses forced its hand. The 99-year lease was a drastic but deliberate choice made by a sovereign government that had failed to commercialise the asset and saw the Chinese offer as the least bad option. In LPT terms, Sri Lanka exercised a residual agency, it converted a broken node into a functional one, but at the price of surrendering future logistical autonomy. The contrast with Chittagong, where Dhaka kept port ownership and operational control, is undeniable.

#### *Evidence of Dependence and Asymmetry*

The material indicators of dependence in both cases are far more severe than in the ASEAN comparators. Concerning concession terms and sovereignty erosion, Gwadar has 91% of port revenue and 85% of free zone revenue accrue to the Chinese operator. The port is, for all practical purposes, a Chinese-administered enclave on Pakistan's sovereign territory. Local fishing communities and businesses have been displaced, and the development model is perceived by many Balochistan residents as extractive colonialism.

In the Hambantota case, the 99-year lease, while not a sale, grants CMPHC majority control over port operations, berth allocation, and commercial development (Reuters 2018). Sri Lanka retains sovereignty on paper, but its ability to use the port

independently is constrained by long-term contractual obligations. The contrast with Chittagong, where the port authority remains fully sovereign, underscores the different outcome that institutional strength and diversified alternatives can produce. Regarding the Debt stock and financial pressure, within the Pakistan case, CPEC loans are a significant fraction of Pakistan's external debt, and repeated delays in industrialisation and export returns mean that the corridor has not yet generated the economic surplus needed to repay Chinese lending on schedule. China has rescheduled some payments, but this merely converts financial debt into long-term geopolitical dependence (Schwemlein 2019; Fanell 2019, pp. 10-55). In the Sri Lanka framework, the Chinese debt accounted for roughly 10–15% of Sri Lanka's total external debt at the time of the 2022 default, but the Hambantota project had become a symbol of perceived Chinese creditor dominance in the island's politics. The IMF bailout in 2023 required Colombo to restructure all bilateral debt, including Chinese loans, which Colombo managed to do – but only after the lease itself had already been surrendered (Wignaraja et al. 2020).

In conclusion, regarding the dual-use anxieties, while both ports are formally commercial, their location and Chinese control fuel persistent concerns about potential military reconversion (Grare 2018). At Gwadar, Chinese naval vessels have visited for goodwill exercises, and the CPEC framework includes security cooperation (Duchâtel & Duplaix 2018; Grare 2018). At Hambantota, the explicit prohibition on military activity in the lease agreement and the absence of any Chinese warship berthing since 2016 underscore that the port's value is logistical and commercial rather than immediately naval. Yet the visible ambiguity surrounding these nodes, amplified by Chinese opacity, generates perpetual mistrust among neighbouring states and external powers, further isolating the host country diplomatically.

### *Contradictions and Limits: Isolation and Internal Fragility*

The most significant vulnerability of both nodes is not financial or military, but political and social. About Gwadar, Balochistan province has been in a state of low-intensity insurgency for decades. Separatist groups and armed militants have repeatedly attacked Chinese personnel, convoys, and infrastructure, viewing the Chinese presence as a colonial extension of Punjabi-dominated Islamabad. In 2021, a suicide bombing targeted Chinese engineers working on a dam in Balochistan; in 2024–2025, attacks on CPEC-related sites intensified. These security threats force China to maintain

private security forces, invest heavily in protection, and negotiate indirectly with local power brokers – a dynamic reminiscent of Kyaukpyu, but with the crucial difference that in Pakistan the central state is not fractured by civil war. Even so, the insurgency raises the operating costs of Gwadar and demonstrates that external logistical power cannot be sustained without local consent.

In Sri Lanka’s domestic contestation, the Hambantota lease became a lightning rod for anti-Chinese sentiment in Sri Lankan politics. Sinophobic narratives, the perception that the country had been “sold” to Beijing, and protests by local communities displaced by the port and industrial zone have placed successive governments under pressure. The 2022 *Aragalaya protest* movement included criticism of the China-Sri Lanka relationship. Colombo has since attempted to recalibrate: it maintains cordial ties with Beijing but has also strengthened security cooperation with India and the US, signalling a desire to restore some balance.

Unlike ASEAN states, which can amplify their voice through a regional bloc, Pakistan and Sri Lanka are largely alone in their negotiations with Beijing. Neither is embedded in a dense institutional architecture that aggregates bargaining power. In South Asia, SAARC is paralysed by India-Pakistan rivalry, and bilateral diplomacy dominates. The absence of a collective mechanism means that Chinese logistical power encounters atomised, easily out-negotiated counterparts – with the predicted LPT outcome: maximum asymmetry, minimum negotiation.

**Table 3. Cross-Node Comparison of Logistical Dependence**

Characteristic	Chittagong (Bangladesh)	Hambantota (Sri Lanka)
Property/Control	Sovereign (Local Port Authority)	99-year lease to China
Financial Model	Chinese capital, local management	Debt converted into equity/concession
Integration	Part of a national ecosystem	Isolated hub

*Logistical Power Without A Regional Fabric: Assessment Through LPT*

The Gwadar and Hambantota cases confirm a core implication of LPT: external logistical power is at its most penetrating when the host node is institutionally isolated,

lacks diversified partners, and cannot pool sovereignty into a collective negotiating bloc. In such contexts, the node becomes less a crossroads and more a terminal – a point where Chinese influence flows in but local agency has limited outlet.

For ASEAN, the comparative lesson is sharp. The Mekong, Kyaukpyu, and Chittagong cases show that even heavily indebted or conflict-stricken states can preserve margins of autonomy when they operate within a regional ecosystem of multiple donors, overlapping institutions, and shared norms. Gwadar and Hambantota, by contrast, are cautionary tales of what happens when such an ecosystem is absent. The difference is not merely one of debt-to-GDP ratios or contract clauses, but of the relational environment in which logistical power is exercised.

LPT suggests that the network topology matters: in a dense *Network of Networks*, nodes can support each other, create alternative pathways, and turn dependence into a negotiable resource. In a sparse network, where the only reliable link is the direct one to Beijing, dependence hardens into structural sovereignty loss. The challenge for ASEAN countries, therefore, is not to reject Chinese infrastructure but to deliberately thicken their own network, multiplying partners, harmonising standards, and insisting on collective clauses, so that the string of nodes becomes a web, not a leash.

#### *The Fractal Depth of Logistical Power: Communities As Normative Nodes*

The fractal architecture of logistical networks implies that the micro-physics of local opposition is not external to the projection of power but internal to it at a different scale. Displaced farmers along the Boten–Vientiane railway, fishing communities displaced by Gwadar's expansion, ethnic armed groups contesting the Kyaukpyu corridor, these are not simply obstacles or 'friction' in an otherwise smooth logistical surface. They are nodes in their own right, carriers of normative claims about land, livelihood, and self-determination that constitute a form of logistical power at the capillary level. Their protests are not only physical interruptions of commodity flows; they are the circulation of a counter-ideology, a logistical movement of dissent that can reconfigure the entire network if it reaches a critical threshold.

A complete LPT analysis therefore grants these communities standing as normative evaluators. Their objections are not externalities to be managed; they are judgments on the legitimacy of the infrastructure project itself. The theory reads them as it

reads any other node: by mapping their position, their connections, and their capacity to orchestrate counter-flows. In this sense, the study of logistical power reaches down to the most elementary relational unit, the person or community whose territory is traversed, and finds there the same dynamics of centre-periphery contestation that structure the inter-state level. The fractal holds all the way down.

## CONCLUSIONS

### *Logistical Power And The Future Of Asean's String Of Nodes*

This article set out to answer a question that the dominant narratives, the militarised "String of Pearls" (Ghiasy 2021, pp. 265-290) and the alarmist "debt trap" (Himmer & Rod 2022, pp. 250-272), have obscured: how do ASEAN and neighbouring states actually respond to China's projection of logistical power? The answer, demonstrated across five cases and three ASEAN nodes, is that they do not respond uniformly, passively, or helplessly. Each host state confronts Chinese infrastructure with a distinct strategic calculus, and the outcome is shaped as much by local agency and regional context as by Beijing's ambitions.

### *A Spectrum Of Response, Not A Binary*

The cases analysed form a spectrum of strategic responses to external logistical power.

Laos has chosen *calibrated dependence* (Stec 2023), accepting high debt levels and Chinese operational control of the Boten–Vientiane railway as the price of escaping land-locked isolation. It has done so with eyes open, maintaining military ties with Vietnam and resisting the transformation of Special Economic Zones into extraterritorial enclaves. The risk is *alliance jeopardisation*: the point at which debt and asymmetric connectivity erode the very autonomy the strategy seeks to preserve.

Thailand embodies *pragmatic negotiation* with red lines. It accepts Chinese railway finance but imposes its own construction standards and technology transfer conditions. It rejected the Kra Canal entirely and proposed the Land Bridge as a sovereignty-preserving

alternative. Playing simultaneously on US, Japanese, EU and Chinese tables, Bangkok has kept logistical power at a deliberate, continuously renegotiated distance.

Vietnam practices *bamboo diplomacy* and calculated distance: flexible, resilient, and deeply wary. It takes Chinese capital only on terms that do not compromise national security, and has diversified its strategic partnerships so successfully – elevating relations with the US and the EU – that it has transformed geographical proximity to China from a threat into the anchor of the "China Plus One" manufacturing boom.

Myanmar is trapped in *contested dependence*. The post-coup junta clings to Chinese investment as an existential anchor, while Beijing clings to the junta as the only entity that can formally protect the Kyaukpyu corridor. Yet the civil war has fragmented territorial control, forcing China to negotiate with ethnic armed groups it does not recognise diplomatically. Kyaukpyu is both indispensable and precarious, and Beijing's logistical power there is exposed in ways that no blue-sky BRI document anticipated.

Bangladesh, though outside ASEAN proper, offers the region a model of *selective dependence*: absorbing over US\$10 billion in Chinese infrastructure finance while retaining sovereign ownership of its ports, diversifying partnerships with India, Japan and multilateral lenders, and integrating Chinese capital into its own development plans. The Chittagong ecosystem shows that a host state with sufficient institutional capacity and strategic clarity can convert external logistical power into a resource that reinforces, rather than erodes, its agency.

### *The Comparative Lesson: Isolation Erodes Sovereignty*

The extra-ASEAN comparators (Gwadar and Hambantota) serve as a control group that sharpens the ASEAN picture. Both are isolated hubs built in contexts of low institutional density, limited partner diversification, and chronic financial vulnerability. The results are stark: a 99-year lease of a strategic port, a profit-sharing model transferring 91% of revenues to the Chinese operator, and persistent security threats from domestic insurgencies hostile to the Chinese presence.

The LPT framework explains this divergence. In a dense *Network of Networks*, composed of the Southeast Asian ecosystem of ASEAN, ADB, GMS, LMC, plus rival Japanese, Indian, and EU connectivity initiatives, host states can create alternative

pathways, multiply partners, and pool sovereignty into collective bargaining without surrendering national autonomy. In sparse networks, where the only reliable link is the direct one to Beijing, dependence hardens into structural sovereignty loss. The lesson for ASEAN is not moral but topological: *thicken the network*.

**Table 4. Summary Table: Logistics Nodes and National Strategies**

<b>Host state (Node)</b>	<b>Strategy</b>	<b>Key infrastructure</b>	<b>Degree of dependence</b>	<b>Primary risk</b>
Laos (Mekong)	Calibrated dependence	Boten–Vientiane railway	Very high	Alliance risk, local resentment
Thailand (Mekong)	Pragmatic negotiation	High-speed rail, Land Bridge	Moderate	Loss of technical control
Vietnam (Mekong)	Bamboo diplomacy	CICPEC segments	Low	Maritime disputes, nationalism
Myanmar (Kyaukpyu)	Contested dependence	CMEC, oil/gas pipelines	Very high	Civil war, insurgent leverage
Bangladesh (Chittagong)	Selective dependence	Port, Payra, Padma rail	Moderate	Instability, tech lock-in
Pakistan (Gwadar)	Structural dependence	CPEC, port, free zone	Extreme	Baloch insurgency, sovereignty loss
Sri Lanka (Hambantota)	Post-default lease	Deep-sea port (99-yr lease)	Very high	Loss of operational control

*Asean's Challenge: From Individual Calibration To Collective Governance*

It is here that a tempered assessment of ASEAN's potential is necessary. The paper's analysis has repeatedly shown that individual ASEAN states possess remarkable strategic creativity. However, the translation of individual success into collective power is not automatic, and enthusiasm should not outrun evidence. ASEAN's institutional architecture (consensus-based, non-interfering, slow-moving) is both a shield and a limitation. It allows member states to aggregate diplomatic weight without ceding sovereign autonomy, and to present a coordinated front in forums like the ASEAN-China dialogue. Yet this same architecture has historically prevented the emergence of a unified infrastructure strategy, a common debt-alert mechanism, or joint negotiating standards for BRI projects. Member states compete for Chinese investment; their red lines differ; and their bilateral relationships with Beijing remain more consequential than any collective ASEAN posture.

For ASEAN to transform *calibrated dependence* into *regional interdependence*, three practical steps are required:

Harmonised standards and transparency: ASEAN could adopt common guidelines for BRI project evaluation, disclosure of loan terms, and environmental and social impact assessments. Such standards would not block Chinese investment but would increase its predictability and reduce the information asymmetries Beijing currently exploits.

Multilateral financing pools: Co-financing infrastructure with Japan, the EU, India, and multilateral development banks (ADB, AIIB, World Bank) would dilute Chinese leverage, embed projects in international norms, and reduce any single state's exposure. The EU's Global Gateway and Japan's Quality Infrastructure Initiative are already available instruments.

A collective debt-monitoring mechanism: ASEAN, perhaps through the ASEAN+3 Macroeconomic Research Office (AMRO), could establish an early-warning system for BRI-linked debt distress, enabling coordinated restructuring rather than bilateral and opaque Chinese-only rescheduling.

These are demanding institutional tasks, and they run counter to ASEAN's instinct for non-interference. Yet the alternative, reliance on purely bilateral, ad-hoc calibration by individual states, leaves the poorer and more fragile members permanently exposed. The string of nodes, if left ungoverned, could become a string of liabilities.

### *The Intra-Asean Distributional Challenge*

The collective governance of logistical dependence, however, is not a uniform public good for all ASEAN members. The very diversity of national strategies documented in this article, from Laos' calibrated dependence to Vietnam's bamboo diplomacy, implies divergent preferences regarding collective bargaining. Laos and Cambodia, whose economic and political ties to Beijing are dense and whose alternatives are limited, have little incentive to pool sovereignty in a bloc that may adopt standards or negotiation red lines that reduce their access to Chinese capital. Vietnam and Indonesia, by contrast, possess more diversified economic bases and greater strategic depth, and would benefit from collective mechanisms that reduce Beijing's ability to exploit bilateral asymmetries.

This distributional conflict is not a theoretical possibility; it is already visible in ASEAN's slow and fragmented response to BRI. Member states compete for Chinese investment, and consensus-based decision-making gives de facto veto power to any state that prefers the bilateral status quo. Any proposal for collective infrastructure standards, joint debt monitoring, or coordinated negotiation with Beijing must therefore reckon with this internal cleavage. The LPT framework does not resolve this tension, but it makes it legible: in a fractal network, the interests of nodes are shaped by their position, and nodes at the periphery of the Chinese-centred network may rationally resist measures that threaten their preferential access to the core. The path from calibrated dependence to regional interdependence thus passes not only through institutional design, but through the harder terrain of intra-ASEAN political negotiation, a terrain this article has mapped structurally, but whose resolution lies in the realm of political choice.

### *Epistemological Reflections: The Limits Of The LPT Framework*

While the Logistical Power Theory (LPT) provides a robust lens to decode the Indo-Pacific's infrastructure, it is essential to acknowledge its inherent ontological and methodological limitations. The use of graph theory and network analysis in International Relations (IR) often risks falling into the "paradox of mathematical simplification." As noted by Kahler, Hafner-Burton and others (2009), transforming complex sovereign entities into "nodes" and diplomatic treaties into "arcs" can lead to a form of geometric reductionism.

In a graph, two interconnected nodes may appear formally equal, yet this mathematical symmetry often masks deep political asymmetries. A logistical link is never just a vector of goods; it is a multidimensional bond where prestige, fear, cultural history, and ideology converge. These are variables that a standard adjacency matrix struggles to quantify. Furthermore, political science has historically struggled with “mathematisation.” Just as the Rational Choice Theory often failed to account for human irrationality and systemic shifts, a purely topological approach to logistics might overlook the “viscosity” of internal politics. The LPT describes the form of the system – how power flows – but it cannot yet fully explain the substance of the choices made by its actors. Therefore, this framework should be viewed not as a predictive mathematical certainty, but as a structural map that requires constant integration with qualitative, historical, and sociological inquiry. In conclusion, the LPT does not align perfectly with any single school of International Relations; rather, it exists in a state of constant tension between them. It shares the Realist obsession with power and structural constraints, yet rejects the 'unitary actor' myth by revealing the fractal and porous nature of the state. It acknowledges the Idealist promise of connectivity but strips it of its perceived neutrality, exposing the power hierarchies embedded in every flow. Finally, it converges with Constructivism by showing how infrastructure physically reshapes national identities and strategic narratives, yet it insists on a materialist grounding that avoids pure social abstraction.

### *Logistical Power As A Permanent Feature of The 21st Century*

The LPT framework has enabled this article to see past the military-commercial binary that dominates Indo-Pacific analysis. What China is constructing through the BRI is not a colonial empire nor a purely philanthropic connectivity scheme. It is a new architecture of logistical power: a *Network of Networks* that can orchestrate flows of goods, capital and information, influence standards, and reconfigure hierarchies, all without firing a shot or deploying a warship.

But logistical power, as LPT insists, is relational. It does not operate in a vacuum; it requires host nodes, and those nodes have their own agency, strategies, and red lines. The countries of Southeast Asia are learning to play this game, each with its own rules and objectives. Laos of today, land-linked, is not the isolated Laos of a decade ago. Vietnam of today, a manufacturing powerhouse courted by both Washington and Brussels, is not a passive terminal of Chinese corridors. Thailand, Myanmar, Bangladesh, and even the

isolated nodes of Pakistan and Sri Lanka all reveal that the projection of logistical power is a negotiation, not a dictation.

The future of the Indo-Pacific will be written not only in the chanceries of Beijing and Washington, but node by node, connection by connection, in the logistical networks that physically bind the region together. The question is whether ASEAN can write its own chapter collectively, or whether each member will continue to draft its lines alone. The string of nodes is not yet complete; its final shape depends on the choices that Southeast Asian states will make, individually and together, in the years to come.

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# LAW AS GEOPOLITICAL INSTRUMENT: EU CONDITIONALITY, CHINESE CONTRACTUAL POWER, AND PHILIPPINE STRATEGIC AUTONOMY IN FDI

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*This paper investigates the relationship between foreign direct investment (FDI) and its impact on strategic autonomy of the Philippines. The research advocates for FDI to be considered holistically rather than just economic discourse. The legal mechanisms utilized in the FDI process are important when considering the geopolitical influence of FDI. The research uses a New Legal Realist approach to analyze EU regulatory conditionalities in comparison to Chinese contractual structures to investigate the impact upon Philippines strategic autonomy without formally infringing upon Philippine state sovereignty. The research will answer the question; How do EU regulatory conditionalities and Chinese contractual structures affect the strategic autonomy of the Philippines in the critical minerals sector without formally undermining its sovereignty? The research utilises legal instruments, policy documentation and case studies such as the EU Global Gateway and Chinese-led mining projects in the Philippines to show that both foreign investment approaches from the EU and China limit domestic policy formation in the Philippines. EU investment shapes governance through gradual regulatory alignment and ESG conditionalities, while China constrains the Philippines contractually, creating operational dependence. The findings show that strategic autonomy is not eroded by a loss of sovereignty, but rather through legal and institutional limitations, reconfiguring domestic decision-making. The research shows that FDI is an infrastructural form of geopolitical power, projected through law, rather than just market exchange.*

**Keywords:** Foreign direct investment; legal conditionality; Chinese investment; EU external governance; Philippines

## INTRODUCTION

Globally, the demand for the diversification of energy resources has never been more critical than it is now in 2026. In prior years, the push towards diversification of energy resources had given it an air of theoretical importance. Goals like achieving net zero, diversifying away from fossil fuels, etc., had weight to them. However, with the extent of global energy vulnerability now more clearly apparent in the world's need for fossil fuels - oil and gas, the situation is now of particular importance due to setbacks in the global energy systems. For example, persistent issues remain globally in areas such as geopolitical stability, climate and economy (World Economic Forum, 2025). Economies of the international community should not wait to diversify their economies further towards alternative energy resources (Månberger & Stenqvist, 2018; International Energy Agency, 2025). This new reality of potential energy scarcity is a particularly important factor for the nations of East and South East Asia, a region bereft of traditional energy resources such as oil and gas (Zhang & Bach, 2022).

However, despite the lack of oil and gas in this region, countries in South East Asia, such as the Philippines, have plentiful mineral deposits of nickel and cobalt, minerals which are critical in the energy transition process and are heavily utilized in renewable energy generation technology (Mudd & Jowitt, 2018).

The Philippines has a variety of deposits of critical minerals available within the country, which are at different stages of development and exploration (Camba, 2015).

However, overall, the capacity to mine these minerals has not been exploited, and the Philippine government at present has also not fully implemented and undertaken legislative measures to regulate foreign direct investment (FDI) (Camba, 2015) from countries that have differing strategic objectives, which are not always in the best interests of the Philippines.

Overall, it is important to consider the question of the status of critical mineral extraction in the Philippines in relation to foreign direct investment due to the country being at quite an early stage of legislating how foreign companies will undertake activities (Cust & Harding, 2020) within the country to extract minerals.

The main issue under consideration here is that despite the Philippines formally retaining *de facto* sovereignty over its critical mineral deposits. Its institutional and legislative frameworks do not at this moment fully protect strategic autonomy from

external influence. An ideal situation would be a governance system which pushes foreign direct investment to contribute to mineral development without any impact on domestic policy autonomy. However, the empirical reality shows us that EU and Chinese investment models mould governance through regulatory conditionalities and contractual dependencies. This creates a gap between formal sovereignty and effective autonomy.

It is always worth considering how foreign direct investment impacts a country. It can, on the one hand, develop sectors of the economy which are in great need of financial aid. But at what cost to the strategic resources of the host nation, and what effects can this investment have on the national strategic autonomy of the host country.

This study will answer the following questions: How do EU regulatory conditionalities and Chinese contractual structures differ in their effects on Philippine strategic autonomy in the critical minerals sector? To what extent does each investment model preserve formal sovereignty while constraining substantive policy autonomy? Finally, how do Philippine institutional vulnerabilities mediate the impact of foreign direct investment on domestic mineral governance?

This research intends to investigate the impact of foreign direct investment on the strategic autonomy of the national government and political institutions of the Philippines. Specifically, the research will focus on better understanding the impact of foreign direct investment from China and the European Union (EU) (Chinese/EU-sponsored companies) and their impact upon the critical mineral extraction in the country and how these international capital flows affect the strategic autonomy of the Philippine government and national institutions.

The research outlined here will further strengthen the argument which advocates for the notion that foreign direct investment functions as more than just an economic measure. More so, it should be seen as a form of legal governance. Through a variety of measures such as contracts, regulatory frameworks and financial measures, external actors are able to influence domestic policy makers without the need to formally meddle with the host state's sovereignty.

Specifically, this research will utilise New Legal Realism to examine and interpret the legal mechanisms at play in this discussion of Philippine strategic autonomy and their ability to further or hinder the nation's strategic autonomy in the face of these foreign capital inflows.

This research is an important angle to consider within the current discourse surrounding foreign direct investment and critical minerals within the region. This is because it allows for a greater understanding of the impact of national legislative efforts of the host country towards protecting the strategic autonomy of institutions within the host nation. Furthermore, within the conceptual framework of greater power projection, there have been limited studies regarding the relationship between the EU and China in relation to critical mineral acquisition in the Philippines. An area of greater geopolitical competition within an angle of power projection imbalance in this case (Namahoro et al., 2025). With the Philippines being directly adjacent to China and the EU being a distant power, this focus will make for a useful comparative tool and serve as an example of how the EU can better understand the ups and downs of foreign direct investment within the region.

As part of this paper, foreign direct investment will be conceptualised as a form of legal governance whereby contracts, regulatory frameworks and financial arrangements have an impact upon state decision-making. Conceptualising this research through a legalistic lens will offer a nuanced approach towards this topic of research, due to being a primarily legal approach, differentiating the research from the usual political-economic approach. Legal interpretation here will be crucial in defining the significance of the role of legal instruments in both the domestic Philippine setting and the international contractual setting.

This research approach hinges upon the core thesis that law as a tool is not specifically in this case, utilized as a neutral framework to govern foreign direct investment. Law in this context must be seen as a critical tool of geopolitical influence, rather than simply a framework in which financing and funding should be governed in this cross-border setting. Law is a crucial component of the infrastructure of power, the key method to shape the conditions of state engagement with foreign entities. The EU and China represent two differing approaches to this legal power. The EU approaches this legal framework through regulatory governance and embedded conditionalities related to ESG, institutional alignment and policy harmonisation (Ionaşcu et al., 2025). Whilst comparatively, China imposes its foreign direct investment upon a country through heavier reliance upon contracts, with influence being embedded in project agreements, financing structures and operational procedures (Gelpern et al., 2021). These models differ in their execution, but both functions to deepen dependency and impact domestic policy through legalities.

## LITERATURE REVIEW

The literature on the topic of foreign direct investment and strategic autonomy in relation to critical minerals, with a focus on the Philippines, highlights critical factors which can help us understand how economic engagement and legal regulations intersect with geopolitical power. This focus will investigate and review significant aspects of scholarship relevant to the topic within the Philippine context, while focusing on three key areas: 1) FDI as a tool of governance and power projection, 2) EU and Chinese investment, and 3) Institutional capacity and vulnerability within the Philippines.

### *Foreign Direct Investment as an Instrument of Governance and Geopolitical Nature*

Traditionally, from the perspective of economically orientated individuals and interests, FDI has been considered a mechanism for economic development through capital transfer (Organisation for Economic Cooperation and Development, 2016; Maiti & Mukherjee, 2013). However, recent scholarship has challenged this narrative by highlighting the legal and political dimensions of FDI as equally relevant angles to consider. New Legal Realism serves as a framework for investigating law as a set of practices that mould economic and political outcomes, this is done through institutions, contracts and regulatory enforcement. (Nourse and Shaffer, 2009).

Within this approach, FDI can be considered through its operative nature as a form of governance, embedded within legal instruments such as contracts, bilateral investment treaties (BITs) and regulatory frameworks (Dolzer & Schreuer, 2012). The function of these instruments is not only limited to defining the terms of investment, but also the boundaries of admissible state action. As a consequence, legal instruments associated with FDI can constrain domestic policymakers without the need to formally infringe upon state sovereignty (Simmons, 2009).

Resource control can be seen as a critical component of strategic competition, and therefore, the dimension of governance must be considered particularly relevant in such cases. The increasing strategic importance of critical minerals such as nickel and cobalt in the energy transition has elevated the relevance of FDI from an economic tool to an aspect of greater strategic importance within global power competition (Hira, 2025; United Nations Conference on Trade and Development, 2025). As a result of this, the legal aspect

governing the implementation of FDI has become ever more important as a central point of relevance to shape long-term geopolitical outcomes.

### *Investment Models of the European Union and China*

The distinct models of external economic engagement of the EU and China have led to the creation of a substantial body of literature. EU external economic engagement is widely portrayed as a regulatory power, projecting influence through the imposition of legal norms, standards and conditionalities, a phenomenon often described as the 'Brussels Effect' (Bradford, 2019; Damro, 2012). Furthermore, EU investment can also consist of ESG requirements (environmental, social and governance) alongside transparency obligations and institutional reform (European Parliament, 2022; Maybee et al., 2023).

It has been argued by scholars that these conditionalities shape how decisions are made and what is possible. This is because the conditionalities operate across procedural, substantive and institutional dimensions (Blauberger & van Hüllen, 2020). These frameworks contribute multiple aspects to the policy autonomy of the host nation over time. For example, the frameworks can strengthen governance and accountability, and they can also embed external norms into domestic legal systems (Lavenex & Schimmelfennig, 2009).

Comparatively, Chinese investment has often been classified as contract-based with state backing, with a reliance upon project-specific agreements rather than regulatory alignment (Gelpern et al., 2021; Custer et al., 2024). This Chinese approach emphasizes finance, infrastructure delivery and operational control; implemented through engineering, procurement and construction (EPC) contracts and state-backed loans (Chen 2021). The Chinese approach establishes influence through financial dependence, long-term contracts and supply chain integration, rather than through regulatory conditionalities (Horn et al., 2021).

EU investment seeks to impose constraints ex ante through regulatory alignment, while Chinese investment formulates ex post constraints through contractual clauses to lock in the host nation and also through operational dependence. (Heldt, 2023; Wang et al., 2022) The distinction between these two approaches to investment is more than institutional in nature; it is also temporal and functional. However, these differences aside, both investment approaches have the potential to produce similar outcomes. That is to say,

these investments shape domestic policy environments in a way which aligns with their external strategic interests.

### ***Legal Conditionalities and Investment Structures***

The literature also further divides the concept of FDI governance into differing approaches to legal conditionalities. For example, procedural conditionalities can be considered in relation to transparency, reporting and compliance, within links to ESG standards and international best practice (Extractive Industries Transparency Initiative, 2024). Furthermore, substantive conditionalities can define permissible policy choices, for example, ownership rules, performance requirements and sectoral restrictions (Organisation for Economic Co-operation and Development, 2025). The allocation of authority can be done through dispute resolution mechanisms, for example, such as investor-state arbitration (Schill, 2017).

Dividing these conditionalities into different categories provides a useful framework which can be utilized to interpret the way in which legal instruments shape state behavior. The information shows us that restrictions on autonomy do not equal a formal transfer of sovereignty, but rather, they emerge through embedded legal obligations alongside governance functions and structuring.

### ***Host State Vulnerability and Institutional Capacity***

An important aspect of the literature emphasizes the role of domestic institutions in mediating the impact of FDI. For example, strong institutional capacity can enable states to have the option to negotiate on favorable terms, enforce regulations and maintain policy independence (Acemoglu & Robinson, 2012; Sauvant & Sachs, 2009). In contrast, the weaker the institution, the more vulnerable it is to external influence, specifically, for example, in contexts which are defined by regulatory fragmentation, issues in enforcement capacity and obstacles towards governance.

Within the Philippine context, studies have highlighted the consistent issue of institutional vulnerability through the presence of weakness across institutions. The issues include regulatory frameworks, slow dispute resolution processes and limited administrative capacity (Camba, 2015). These issues are particularly evident in the mining

sector due to problems arising from overlapping jurisdictions and permitting delays, which complicate governance (Magno, 2024). These conditions can lead to situations where external actors see opportunities to shape outcomes through contractual arrangements and investment conditionalities.

Furthermore, the literature highlights the significance of transparency and accountability mechanisms in the goal of mitigating risks. Initiatives such as the Extractive Industries Transparency Initiative (EITI) seek to bolster governance through the promotion of disclosure and oversight. However, implementation gaps persist. (Van Alstine, 2017). The result of this is that institutional weaknesses remain and amplify the influence of foreign investors and their impact upon domestic policy formulation.

### *Gaps in the Literature*

It is evident that existing scholars have identified valuable insights into FDI, governance and geopolitical competition; however, a limited focus persists regarding the interaction between legal mechanisms and strategic autonomy in specific national contexts. For example, there is a limit in the number of studies which directly compare EU and Chinese investment models within the Philippine critical minerals sector. Furthermore, the role of legal frameworks as tools of power, rather than neutral governance instruments, is an under-investigated concept in empirical case studies.

These power gaps will be addressed in this research through the application of a New Legal Realist framework, which will examine how the legal instruments associated with FDI seek to shape strategic autonomy within the Philippines. The comparison between EU regulatory conditionalities and Chinese contractual mechanisms will be a main point of comparative inquiry. The study will thus contribute to a more nuanced understanding of how law functions as an aspect of the infrastructure of geopolitical power.

## **ANALYTICAL FRAMEWORK**

This paper will adopt an analytical framework which aims to link strategic autonomy, foreign investment and legal and institutional governance. Analysis will be undertaken by examination of three conditionality dimensions: procedural, substantive and institutional. Procedural conditionalities refer to the processes which affect the

outcome of decision making, including transparency, reporting, disclosure and compliance requirements. Substantive conditionalities refer to the content of permissible policy choices, including ownership rules, performance requirements and sectoral restrictions. Institutional conditionalities encompass the allocation of authority through dispute resolution mechanisms, arbitration, oversight bodies and other institutions of governance. This framework will be utilized to examine how Chinese and EU foreign direct investment actions influence the legal mechanisms that shape strategic and political autonomy in the Philippines.

New Legal Realism (NLR) allows for the most logical theoretical foundation for this research due to its examination of the law as it operates in practice. That is to say, within markets, institutions and power dynamics, rather than purely as a set of rules. It differs from constructivist approaches, which focus on norms and ideas and how these shape state behavior. NLR emphasizes how legal instruments structure decision-making. There is also a difference with standard legalisation approaches because these tend to assess law by way of precision, delegation and compliance. Asking how the law functions as an embedded mechanism of governance and influence in institutions. This research from an NLR perspective allows for an analysis of how contracts, regulatory frameworks, arbitration clauses and investment arrangements shape Philippine strategic autonomy in practice, even in instances of formal sovereignty. Thus, NLR is particularly relevant for comparative analysis between EU FDI regulations and conditionalities vs China's contractual structures. This is because both operate through legal forms which impact domestic policy outcomes without directly interfering with territorial or sovereign control.

### ***Strategic Autonomy vs Sovereignty***

#### *Sovereignty*

Sovereignty specifically encompasses a state's formal authority in matters of legal and territorial control. From the perspective of international law, it grants the state exclusive de facto jurisdiction within its own borders to legislate and exercise authority. Outside of its territory, sovereignty also grants the state the right to represent the country in international legal matters, signing treaties and joining international supranational institutions. Sovereignty is in the end about how the state monopolises the ultimate legal authority over its own affairs both domestically and on an international stage.

### *Strategic Autonomy*

Strategic autonomy, on the other hand concerns the practical ability to create and facilitate the implementation of policy and legal decisions. It does not concern a de facto formalised legal status to legislate, rather it indicates an informal ability to monopolise informal but lasting functional concepts and objectives and to transpose these into policy and law.

### *Bottom Line*

A state can be a fully sovereign entity, but this does not always mean it is fully autonomous both domestically and internationally. Legal sovereignty can remain intact and internally and externally recognized, yet material and situational constraints may persist, limiting the sovereign state from enacting its own autonomy fully. Conditions such as economic dependence, supply chain resilience, or security on the international or national stage can shape decision-making within the sovereign state, and thus the state can risk losing control of its autonomy.

This is why the concept of legislating foreign direct investment is such a potent and important matter to consider. When an external nation, extra-territorial entity or private entity obtains a contractual business relationship, this can cause varied levels of threat to the host state's autonomy. Depending on the host state's vulnerability financially, an investment from a foreign entity can lead to the foreign entity holding significant financial power within the country, which in turn can lead to a potential loss of host state autonomy. From business relationships to key figures within the host state to institutional vulnerability, a significant enough source of foreign investment can destabilize the host state's own control of internal policy. This can thus lead to the loss of autonomy over time while allowing the host state to maintain a level of sovereignty.

Understanding the distinction between sovereignty and autonomy and external actor influence over domestic decision-making without formally infringing upon state sovereignty is an important aspect to consider when understanding the legislating efforts of the host state regarding foreign direct investment.

### *Legal Conditionalities within Foreign Direct Investment*

As laid out in the analytical framework, foreign direct investment in this research is assessed through three dimensions of conditionality: procedural, substantive and institutional. Procedural conditionalities relate to the processes through which decisions are shaped, including transparency, reporting, disclosure and compliance requirements. Substantive conditionalities concern the content of permissible policy decisions, including, for example, ownership rules, performance requirements and sectoral restrictions. Institutional conditionalities involve the allotment of authority through dispute resolution mechanisms, arbitration, oversight bodies and other governance institutions.

Considered together, these dimensions provide a suitable basis for an assessment of how foreign direct investment shapes legal constraints and institutional responses within the Philippine context.

Procedural refers to the way in which decisions are shaped and made, including the obligations of transparency and disclosure. Also consider within this branch the importance of environmental, social and governance aspects (ESG); these standards are of relevance (Lannutti, 2024). These outcomes are not direct, yet they help structure the decision-making process and can affect policy direction.

By contrast, substantive conditionalities have implications on what decisions can actually be made. This includes ownership restrictions, tariff considerations and performance requirements, which limit the range of permissible state action (Narayan et al. 2022).

Finally, institutional conditionalities are the where and the who. This refers to dispute resolution, specifically the where and the who of dispute resolutions. Within this framework of institutional conditionality, we must consider mechanisms such as investor-state arbitration and public-private partnership (Schill, 2003). These mechanisms can diversify authority away from domestic courts towards international arbitration and tribunals.

Considering these three categories together is the most appropriate framework to understand how foreign direct investment can impact legal constraints within domestic systems, at times without infringing upon direct state sovereignty. However, state autonomy can often still be significantly impacted.

In the case of the Philippines, the state is legally open as its institutions conduct themselves with a level of freedom from direct state imposition, executive imposition or direct control. However, the country is institutionally uneven, which creates structural vulnerabilities which can be impacted by external conditionalities. The country has relatively liberal foreign direct investment regulations at the moment, providing foreign entities with easy market access and ownership (UN Trade and Development, 2022). This openness of the economy suggests a clear exercise of sovereignty, showing that the state retains the right and the ability to design and implement an investment framework.

However, institutional capacity remains weak across a large number of Philippine institutions. The country's institutions are affected by things such as weak enforcement, slow dispute resolution and an administrative lack of cohesion (Philippine Institute for Development Studies, 2026). Therefore, the country can at times struggle to defend its policies and strategic aims. As a result of this, external/foreign entities are at times able to manoeuvre within the institutional system of the country and occasionally impact the outcome of policy formulation. These vulnerabilities can increase reliance upon investor-driven standards, contractual safeguards and international arbitration mechanisms.

Therefore, while sovereignty of the Philippines is not called into doubt, the real issue arises due to the vulnerable institutional landscape of the country and the impact this has on the country's ability to enforce native homegrown investment policy. Policy choice independence is therefore called into question in such situations in this investor landscape. These dimensions offer an explanation as to how the Philippines institutional openness and vulnerability shape the domestic effects of foreign direct investment.

## **METHODOLOGY**

This research will comply with a qualitative socio-legal approach, primarily utilising the theory of New Legal Realism. The methodology will function to answer the following research questions: How do EU regulatory conditionalities and Chinese contractual structures differ in their effects on Philippine strategic autonomy in the critical minerals sector? To what extent does each investment model preserve formal sovereignty while constraining substantive policy autonomy? And how do Philippine institutional vulnerabilities mediate the impact of foreign direct investment on domestic mineral governance? The research will examine foreign direct investment (FDI) as an instrument of geopolitical power projection, not simply as a tool of governance. The research employs

a comparative case study design to assess legal structures and how they shape state autonomy.

This theoretical approach to the research is justifiable because New Legal Realism permits for the analysis of law. Not solely as formal rules, but also as an embedded mechanism of political and economic power, with institutional operational capacity, contracts and regulatory practices. This specifically has relevance for the context of foreign direct investment, an area where legal instruments function as governance tools, shaping state activity beyond formal sovereignty. The comparative case study design is appropriate due to its ability to allow for a structured comparison of two distinctive investment models (EU regulatory conditionality and Chinese contractual-financial governance). This can be done within the same national context, which allows for controlled analysis of variation in legal mechanisms.

The research will utilise both primary and secondary data sources. The primary data will include legal and policy documentation, for example, bilateral investment treaties (BITs), memoranda of understanding (MoUs), the EU-Philippines Partnership and Cooperation Agreement (PCA) and EU Global Gateway instruments. Secondary data utilized includes institutional assessments, policy documentation and governance and institutional performance reports.

Data is primarily collected through document analysis, with a focus on legal texts, contract structures, arbitration clauses, and policy instruments related to FDI governance. Case studies include the EU Scoping Study (2025) and the Chinese Jinchuan mining projects in Palawan and Zambales. The cases were selected for their relevance in illustrating interactions between legal frameworks and institutional vulnerabilities in the Philippines.

Document analysis was undertaken on a purposive corpus of primary and secondary sources which related to EU and Chinese investment governance in the Philippines. The sources utilized included partnership instruments, financing documents, official government disclosures, institutional reports and scholarly analysis. Analysis primarily focused on discrete legal and policy instruments, including memoranda of understanding, financing agreements, and official statements. A thematic coding framework had been applied across procedural, substantive and institutional dimensions of conditionality. Considering the lack of publicly available confidential contracts,

triangulation across official texts and secondary sources was utilized to corroborate results and support analysis of autonomy-related items.

Selecting these two cases followed a specific systems logic, which is because the EU and China represent functionally distinct models of foreign investment governance. With the EU championing regulatory conditionality, while the Chinese approach emphasizes the contractual-financial approach. Regardless of these differences, both cases have undertaken investments within the same recipient state. This allows for a more in-depth comparison of the differing legal architecture, and how it produces similar or divergent limitations on strategic autonomy within the host state.

Data analysis has been undertaken through a comparative legal and thematic analysis, examining the differences between EU regulatory alignment and Chinese contractual leverage. This has enabled an assessment of these two powers' impacts on Philippine policy independence, institutional capacity and vulnerability.

The thematic analysis considers the comparative approach through an analytical framework (procedural, substantive and institutional dimensions of conditionality). This allows for an effective systematic comparison across cases. This research is, however, limited by the reliance upon publicly available legal and policy documentation, since, within this frame of inquiry, there is an issue with transparency. Certain documents, such as Chinese and EU investment arrangements and contractual details, are not accessible, which can affect the granularity of contractual analysis. To address this, triangulation across a multitude of institutional sources will be used to mitigate the limitation.

### *Philippine Institutional Vulnerabilities*

The Philippines utilises its network of institutions to maintain sovereignty and authority to regulate foreign investment, however a multitude of institutions within the country have for a long time been suffering from corruption, a lack of funding and a significant amount of political pressure from both domestic and external actors. Such impacts on institutions in the country leave the overall institutional framework of the country lacking legitimacy and cohesion (Philippine Institute for Development Studies, 2026). Specific to the critical minerals sector, institutions such as the Mines and Geosciences Bureau (MGB) and the Department of Environmental and Natural Resources (DENR) suffer from understaffing and a fragmented permitting process (Magno, 2024).

Overall, this leads to other issues in a knock-on effect: issues such as limited capacity for international arbitration (Schill, 2017).

These types of institutional vulnerabilities lead to a fractured response and a divided front when dealing with foreign direct investment conditionalities and contractual clause negotiations. Thus, the impact of foreign direct investment in the country is amplified in several categories.

- Procedural weakness, due to limited enforcement of transparency standards (EITI non-compliant), leading to investor-driven reporting rather than state monitoring efforts (Extractive Industries Transparency Initiative (EITI) 2024).
- Environmental permit delays lead to overall issues within projects getting off the ground, such delays favor the rapid deployment of Chinese project implementation (OECD. 2025).
- Institutional regulation is difficult to draft and enforce due to under-resourced departments. The end result is that the ability to raise disputes in investment contracts and deals is vastly reduced because these institutions don't have the resources to coordinate and counter claims or raise them (BTI, 2026).

These weaknesses remain an ever-apparent vulnerability to foreign investors and are exploited to produce contracts in favor of foreign entities. This creates an environment of unequal bargaining position, with the domestic entities unable to prevent foreign entities from exploiting institutional gaps and constraining domestic policy as a result.

## **DISCUSSION**

This discussion will compare the European Union and China as two distinct models of foreign investment governance in the Philippines' critical minerals sector. It will examine each actor's way of exercising influence through procedural, substantive and institutional conditionalities, and how these mechanisms mould strategic autonomy in alternative ways. The comparative matrix below summarises the key differences before the research delves into further detail below.

<b>Conditionality dimension</b>	<b>EU investment architecture</b>	<b>Chinese investment architecture</b>	<b>Illustrative case evidence / effect</b>
Procedural	Transparency, ESG, consultation, monitoring	Project-specific negotiation, faster implementation, less standardized disclosure	EU scoping study and Global Gateway; Chinese mining agreements and permitting timelines
Substantive	Regulatory alignment, sustainability standards, policy harmonisation	Financing obligations, repayment terms, supply-chain integration	EU sustainability conditions; Chinese export dependence and project lock-in
Institutional	Oversight, compliance mechanisms, possible ISDS / arbitration structures	EPC contracts, external arbitration, operational control	EU alignment through institutional standards; Jinchuan and Palawan/Zambales dispute architecture

***The European Union Case: The Critical Raw Materials Scoping Study, 2025***

The most important development to consider within the framework of EU involvement in the Philippines critical minerals sector is the 2025 scoping study, announced in May 2025. The emphasis of the study is to identify sustainable mining opportunities within the Philippines (European External Action Service, 2025). It has been emphasized by the EU Ambassador Massimo Santoro that the intention of the study is not to directly lead to EU-led extraction efforts in the country, but rather to empower EU and Philippine entities to work together to establish a normative framework. This would combine best practices from both entities to push for modalities aimed at establishing sustainable mining standards (Manhit, 2025). The EU’s strategy focuses on shaping regulatory standards rather than imposing direct control over project operations (Bradford, 2019). The study is scheduled for completion in December 2026 and will cover mineral-

rich areas across Surigao del Norte, Palawan, and Zambales (European External Action Service, 2025). Ambassador Santoro reiterated that access for European companies to these regions was conditional upon these companies maintaining high standards in their mining operations (Manhit, 2025). Observance of environmental and social matters must be a top consideration (European Commission, 2021). Such examples illustrate how the EU leverages market access as a tool of conditionality; Philippine compliance with EU conditionalities plays into who gains from the investment opportunities at play (Lavenex & Schimmelfennig, 2009).

The evidence points to the notion that the EU's influence is primarily procedural and substantive in nature. This is because access is hinged upon transparency, ESG standards and regulatory alignment, instead of direct operational control. In this regard, the EU model establishes leverage prior to implementation, rather than through direct project management.

Furthermore, in October 2023, the Green Economy Programme Financing Agreement signed at the Global Gateway Forum is considered a sign of EU investment backing. The investment is aligned with the Team Europe Initiative on Green Economy (Republic of the Philippines, Department of Finance, 2023). The EU approaches foreign direct investment initiatives through multilateral development banks (the European Investment Bank) and requires alignment with EU ESG frameworks. Comparatively, China's funding is primarily conducted on a case-by-case contractual basis. This reinforces the concept that the EU's model works primarily ex ante regulatory discipline and norm setting. This gives it a measure of leverage over how projects are designed before implementation.

### ***The China Case: The Jinchuan Nonoc Nickel Mining Project***

The Jinchuan Group's activities at the site of the Nonoc nickel mine on Nonoc Island, Surigao del Norte, present an example of the Chinese investment model in full operation, with integrated extraction processing frameworks being the key to the investment model. The project involves Jinchuan, a state-owned Chinese corporation and also its domestic partner, the Philippine Mining Development Corporation (PMDC), which is also state-owned by the Philippines, with all shareholders being government entities. This case creates an interesting structure of official Philippine state ownership, while operations are undertaken by Jinchuan and are thus a Chinese government

operation. Jinchuan participation is maintained through contractual cooperation and technical exchange arrangements, not specifically formal ownership or regulatory control of mining operations. The indication here is that China's influence hinges less upon regulatory imposition and more upon operational. This is because control is exercised through contractual cooperation, project delivery and technical exchange instead of formal policy conditionality.

Jinchuan's approach prioritises rapid development through project development, control and rapid financing, which holds the Philippines operations to assist with Chinese downstream processing needs (Philippine Institute for Development Studies 2026). Whilst comparatively the EU approach, which emphasizes adherence to normative standards before proceeding with investment sign-off. China's model in this case is shown to create dependence through rapid deployment, financing and operational control. Comparatively, the EU model holds off on commitment until its standards are adhered to. The difference is relevant because it shows two separate approaches to influence: firstly, through speed and secondly, through conditional access.

### *The China Case: Palawan & Zambales - The Strategic Context*

China signed mining cooperation agreements with the Philippine government in 2011 to facilitate Chinese companies' engagement in mining projects in Palawan's Narac and Zambales' Iba regions, with reported investment commitments equalling \$14 billion over multiple years. (Camba, 2017a). However, the achievement of operational status for different projects occurred at different times, with the Narac project starting in 2016, the Iba region project was delayed due to a slower granting of environmental permits and was finally undertaken in 2019. The evidence above presents a picture of rapid Chinese commitment to mining projects, but such rapid implementation does not always lead to projects getting off the ground in an equally rapid manner. The suggestion here is that Chinese involvement produces an alternative kind of dependence. Not of a procedural compliance nature, with formal standards, but one of practical reliance upon Chinese-linked financing and investment commitments.

Supply chain integration at this point is evident, with Q1 of 2023 alone showing that the Philippines exported 3.48 million tons of nickel ore to China. Such large export volumes in 2023 and continuing into 2025-2026 (Observatory of Economic Complexity, 2024) indicate that the Philippines has become a major supplier of China's nickel ore. This

also suggests a high degree of export dependence. The development of the Palawan/Zambales projects further reinforces this pattern of export dependence and reinforces the concept that the Philippines has built up a trade concentration and sustained integration with Chinese supply chains over time (Gereffi et al., 2006). Thus, the strategic effect of Chinese investment is institutional and structural due to its deepening of trade concentration and creation of long-term supply chain dependence. Thus, the Chinese case is not simply about project delivery; it also relates to broader economic lock-in.

### *Comparative Analysis of Implementation Dynamics*

The differing speeds of implementation between the two models are notable, with EU Global Gateway projects usually requiring 24-36 months of consultation, feasibility studies, environmental assessments and stakeholder consultations before moving onto funding distribution (Heldt, 2023). Whilst in Chinese cases, projects typically begin within 12-18 months after agreements have been signed, with projects utilising pre-financed, readily available equipment and integrated EPC delivery. The momentum of Chinese project delivery notably serves Chinese strategic objectives well, due to the ability to establish operations rapidly. However, once agreements are signed and operations have begun, reversing the working relationship and contractual terms becomes economically costly for the host nation (Wang, Liu, & Liu, 2022).

The comparison shows that procedural conditionality is stronger in the EU's case, while China's rapid delivery installs a more immediate but less transparent form of leverage. The cautious approach of the EU on investment in comparison to that of China also offers a perspective on the situation. Total EU investment in the Philippines stands at approximately €225 million for the 2021-2027 period (European Commission, n.d.). Whilst comparatively, Chinese investments in Philippine critical mineral extraction stand in the billions of dollars. This ratio gives insight as to why the Chinese model dominates the operational landscape in domestic critical minerals, while the EU is far more cautious with its investments. This remains the case within the Philippines despite the Philippine government's commitment to diversification regarding foreign investment (Bangko Sentral ng Pilipinas 2026). The disparity observed in the scale enables an explanation of why the Chinese model dominates the operational field. Compared to the EU, the influence is narrower in scope but more normative in structure. Together, the comparison highlights

that the two models constrain autonomy through different approaches: the EU, through regulatory alignment, while China does so through operational dependence.

### *Legal Mechanisms and Autonomy*

Each different legal mechanism accompanying foreign direct investment from the EU or China constrains the autonomy of the Philippines policy apparatus differently. For example, the EU approach emphasizes adherence to things like compliance monitoring, requiring adherence from Philippine institutions to incorporate such aspects into domestic law. Specifically, the EU is keen on things like transparency standards (EITI requirements) and International Labour Organisation conventions, so these are often incorporated into agreements.

Comparatively, Chinese investment contracts typically utilise a variety of cross-border arbitration institutions depending on specific contracts and clauses, but overall with the aim of remaining flexible from an arbitration perspective. (Ogsimer, 2021). This means that legal disputes from parties require the capacity to undergo litigation in a variety of foreign locations, rather than in Manila. Such limitations lead to cost concerns and may complicate the ability to renegotiate contractual clauses. Such legal differences are relevant because they shape how investment is governed and also where authority is located when disputes arise.

### *The Philippine Response*

In 2024, the Philippine Senate held a debate on banning unprocessed nickel ore from being exported, with an implementation date of 2030 (Camba, 2015). The debate provided firm examples of how Chinese investment in actuality constrains Philippine government policy options. A number of groups raised formal opposition to the debate, with Chinese-operated mines formally protesting through diplomatic channels. Furthermore, concern was also raised regarding the issue of employment impacts, with mining industry representatives testifying against the export ban (BusinessWorld Online, 2025). The proposed ban was finally abandoned as a notion; this outcome suggests that existing investment commitments can impact planned future policy agendas.

Investments from the EU in the Philippines take a different approach. Pressure remains for Philippine policymakers to maintain regulatory alignments with EU's conditionalities, however a lack of immediate alignment does not lead to threats of investment withdrawal. Policy manipulation is still a concern, but is part of a more gradual process to maintain investments in the country.

### *Consolidating Findings Through New Legal Realism*

In these cases, law functions as a key aspect within a discussion surrounding aspects of geopolitical power projection. Within the normative framework of the EU's approach, we can see that it requires operationalisation of regulatory power, through, for example, the scoping study (Projekt-Consult GmbH 2025). This implements documentation standards for adoption by Philippine institutions, which are required to access funding (European External Action Service, 2025). Whilst, comparatively, Chinese contractual clauses embed commercial leverage through operational control (Ogimer, 2021). Such approaches tend to create dependence and are outlined as such in contractual clauses (Garriga, 2020). Both of these approaches to investment technically preserve the formal de facto sovereignty of the Philippine government. That is to say, there are no formalised transferences of power through international treaty negotiations (Custer et al., 2024). However, the investments in both cases curtail the substantive strategic autonomy of the Philippines in regard to policy formulation, just through varying legal methods (Heldt, 2023).

The legal instruments at play do serve a vital function in the overall strategic outcome of both the EU and Chinese foreign investment examples (Forough & Fünfgeld, 2025). On the one hand, the EU's drive towards regulatory alignment as a fundamental investment condition creates conditions to lock policymakers and institutions in for the longer term (Projekt-Consult GmbH 2025). Whilst China's contractual approach creates rapid operational dependency and also has a tendency to lock in domestic policymakers, almost immediately (Wang, Liu, & Liu, 2022). Both approaches provide the infrastructure to facilitate legality as a key piece of infrastructure to facilitate geopolitical influence (Palmer, 2023).

*A Comparative Analysis of European Union and Chinese Foreign Direct Investment  
in the Philippines*

*Case Selection Rationale*

The comparisons chosen were done so based on a maximum variation logic. The idea was to select two investment models that differ significantly in legal form, implementation style and governance effects, all while operating within the same Philippine institutional setting. The EU Scoping Study was selected due to its representation of a regulatory and conditionality-driven model of foreign direct investment. Access, funding and participation are linked to transparency, ESG standards and policy alignment. The Jinchuan/Nonoc case was chosen due to its contractual/financial model, which has the project delivery, financing and operational control embedded in project-specific agreements, rather than regulatory frameworks. Utilising these cases allowed for a controlled comparison of how different investment modalities mould Philippine strategic autonomy under the domestic context. The selection is not intended to be exhaustive, but to provide analytically contrasting cases that make the legal and institutional effects of foreign direct investment easier to compare.

The cases were chosen to optimise variation on investment modality, while maintaining the Philippine host-state context and broader critical minerals sector. This allows for the analysis to isolate differences in legal governance, rather than sectoral or national variation. The comparison is not totally symmetrical, but this is primarily due to the EU case being more operational on a policy and funding level framework. Whilst the Jinchuan/Nonoc case concerns a specific project-level investment. However, this asymmetry is intentional due to the comparison being designed to contrast governance logic, rather than identical project forms.

The comparative element of this research is intentionally asymmetrical due to the EU case being based on a prospective regulatory and financial framework, while the Chinese case is grounded in implemented project-level evidence. Such an asymmetrical approach does not invalidate the comparison, this is because the analysis compares governance, logical and legal conditionality at varied stages of development, instead of identical operational maturity.

### *Procedural Conditionalities*

The European Union's procedural conditionalities require recipient countries to meet obligations relating to transparency, reporting and compliance before funding is released (European Commission, 2019, Annex II, Art. 1.5; Broberg & Holdgaard, 2015). Recipient countries can usually comply by aligning local laws with EU legislation or completing assessments and mandatory reporting initiatives (Blauberger & van Hüllen, 2020). Meeting these conditionalities matters because they ensure the investments are implemented transparently and comply with EU standards (Extractive Industries Transparency Initiative, 2024). This is crucial to ensure the funds achieve intended, agreed-upon policy objectives and other outcomes, and is a more logical approach rather than transferring the funds without oversight (European Union, 2024). A significant part of EU conditionalities in investment deals with foreign nations often includes a component compelling the host nation to comply with environmental conditionalities and ESG (Becker, 2024). In order to achieve the funding of the host nation provides for things such as permits, impact assessments and continuous monitoring to ensure no lapses in compliance (Extractive Industries Transparency Initiative, 2024). These permits, for example, must also prove that they are fully transparent and have not been awarded due to irregular methods, which may affect transparency. The results show that EU procedural conditionality pivots on formal transparency, reporting and compliance conditions; in contrast, China's procedural influence is embedded in financing terms and repayment structures, which mould implementation from within the contract itself.

Chinese investment in the Philippines is primarily structured through state-backed loans linked to infrastructure or resource extraction projects (Custer et al., 2024). This is often within broader bilateral cooperation frameworks (World Bank, 2019). Financing arrangements from China are often embedded in project agreements and can include repayment functions linked to revenues of projects, while also involving the preferential use of Chinese contractors (World Bank, 2019; Gelpern et al., 2021). This type of arrangement can be considered faster in terms of implementation, but this also leads to a greater limitation on flexibility down the line when it comes to selecting suppliers and overall project design (Custer et al., 2021). This is due to such key terms already being predetermined within an existing financing agreement. This type of agreement will often create long-term financial obligations for the host state (Gelpern et al., 2021). Thus, the host state can have dependency upon China imposed through the repayment structures laid out within the contract (Garriga, 2020). Overall, this shows that conditionalities do

still exist, but are imposed through a more informalised financial structure through individual contracts, rather than conditionality being imposed through regulation (Custer et al., 2024). This represents the idea that China's procedural influence is structured primarily through loan terms, repayment obligations and contractor preference, as opposed to the EU's approach of system transparency and reporting rules.

Both of the models considered impose procedural conformity; however, the EU does so through formal compliance requirements and transparency checks, while China does this through financing project conditions that mould implementation from within the contract. This signifies that both actors shape procedure; however, they undertake this through the application of different legal forms: EU ex ante regulatory compliance vs Chinese contract-based financing.

### *Substantive Conditionalities*

The European Union's substantive conditionalities require recipient countries to adopt specific policies and meet certain standards in order to meet the criteria to obtain funding (Blauberger & van Hüllen, 2020). The Philippine critical minerals sector would likely be obliged to meet social safeguarding criteria alongside limited extraction methods and likely would be obliged to partner with EU firms for future projects (European Parliament, 2022). These types of conditions tie the investment of the EU to how the recipient nation should make policy decisions and thus constrain the Philippine government on policy independence (Silga, 2025). They may proceed with policy decisions, but they are obliged to adopt EU norms and objectives in future policy decisions in order to continually receive the funding. This represents how the EU is able to leverage substantive conditionality through requiring policy conformity with external standards, while, in comparison, China's substantive influence is undertaken through control of project design, labor participation and operational control.

Chinese firms often play a defining role within Chinese investment, often designing, constructing and controlling project operations. Primarily, this is done through EPC-type arrangements. The outcome of this often leads to limited participation from local firms and labor, particularly in higher value areas such as engineering (Custer et al., 2021; Gelpern et al., 2021). The outcome of this is often that domestic actors have reduced influence over a number of key areas such as project implementation, technological choice and operational standards. This can risk domestic operational dependence upon Chinese

firms because the project post-construction can continue to require Chinese maintenance and technical expertise (Custer et al., 2021; Gelpert et al., 2021). The evidence signifies that China's substantive influence is expressed through project control, labor structure and operational dependence, rather than primarily through policy conformity requirements.

The substantive conditionalities of the EU's approach operate through a process of requiring policy conformity with external standards. Whilst China's substantive impact appears through control of project design, labor participation and operational control. Such confirmation that both actors constrain along the line of substantive choices, however, the EU does so through external standards, while China approaches this through direct project control.

### *Institutional Conditionalities*

Institutional conditionalities define the position of authority within the recipient nation and who undertakes decisions within the critical minerals sector of the Philippines (Lavenex & Schimmelfennig, 2009). Institutional decision-making within the recipient nation can also be affected by the implementation of EU conditionalities to achieve the levels of compliance required to transfer EU funding to the recipient nation (Blauberger & van Hüllen, 2020). Furthermore, institutional elements such as oversight structures, including independent audits and regulatory bodies, help the recipient nation stay aligned with EU conditionalities, thus ensuring recipient nation actors operate according to externally defined standards of governance (Damro, 2012). Alongside this, investor-state arbitration mechanisms allow EU investors to resolve disputes through international tribunals rather than domestic courts (Dolzer & Schreuer, 2012). Such impositions mean that local legal authority is transplanted away from the local judicial bodies towards the international system, with which the EU shares partial alignment. Additionally, Public Private Partnerships (PPP) structures connected to EU-affiliated projects introduce an element of multi-stakeholder governance, which in turn permits EU private sector stakeholders a level of autonomy and also a level of influence across domestic and international actors, shaping decision-making processes (Hodge, Greve & Boardman, 2017). This decentralisation and fracturing of oversight, dispute resolution and operational control affects the Philippines ability to govern its critical minerals without input from the EU and affiliated entities (Lavenex & Schimmelfennig, 2009; Damro, 2012). Therefore, this presents the notion that EU institutional conditionality shifts authority through

oversight, audits, multi-level governance and external dispute mechanisms, while China externalises authority by the use of contractual arbitration clauses and external forums.

Chinese contracts often have arbitration clauses within them and often designate international arbitration bodies or external jurisdictions rather than domestic courts of the Philippines (UNCITRAL, 2021; ICSID, 1965). Such mechanisms can be negotiated within individual agreements and contracts and often operate independently of the domestic legal system (UNCITRAL, 2021). This leads to authority over disputes being often moved outside of national institutions, removing the recipient states abilities to defer to domestic legal frameworks to seek a solution to the conflict (New York Convention, 1958). In turn, this leads to a reduction in government leverage in renegotiation or enforcement of scenarios, particularly this can cause issues when contracts favor external forums (ICSID, 1965; New York Convention, 1958). This shows that authority is partially externalised through contractual clause inclusion (UNCITRAL, 2021). To surmise from the above, we can deduce that China's institutional influence is in arbitration clauses and external jurisdiction, shifting dispute authority away from domestic institutions.

In both instances, authority is shifted away from domestic polity control. However, the EU does so through institutional alignment, oversight and multi-level governance, while China approaches the situation through contract-based arbitration and external forums. This information confirms that both actors externalise authority, just through different institutional approaches: EU governance alignment and Chinese contract-based arbitration.

### *Comparative Link*

In comparison to the EU's approach to foreign direct investment, which is characterized by conditionality and regulatory alignment, embedded in EU governance (Blauberger & van Hüllen, 2020), Chinese foreign direct investment primarily relies upon project-specific contracts, state-backed funding and integrated project delivery (Custer et al., 2021/2024). Furthermore, while the EU seeks to steer domestic policy of the host country through procedural, substantive and institutional conditionalities, the Chinese model relies upon seeking influence through indirect financing and operational control alongside external arbitration (Blauberger & van Hüllen, 2020; Lavenex & Schimmelfennig, 2009). Thus, the overall comparison is confirmed: the EU approaches

the situation through regulatory alignment across all three dimensions, while China works through primarily contracts, financing and operational leverage.

In summary, the EU's approach is far more reliant on governance influenced by law and regulatory alignment, while China seeks to establish influence within a country through commercial and contractual leverage, which can see dependence and long-term impact without formalised regulation (Gelpern et al., 2021). The finalized amalgamation shows that the two models differ on the matter of legal form, but they do converge on their impact upon Philippine strategic autonomy.

### *Legal and Operational Impact on the Philippines*

Chinese investment is often seen as a much more direct and fast approach, facilitating rapid project delivery. This is due to the Chinese ability to integrate a greater amount of project and operational aspects into the contract alongside the state funding (Bunnak et al., 2024). However, this approach also exposes the host country to risks such as longer-term dependence upon Chinese firms and debt exposure from contractual clauses which favor Chinese terms (Horn et al., 2021). Such clauses overall risk exposing the domestic stakeholders to limited negotiating terms and thus allow the Chinese a greater extent of strategic leverage in domestic policy outcomes. Thus, the Philippines strategic autonomy is limited not directly through impact on the Philippines legislative or policy matters, but through the contractual situation negotiated with China and Chinese private entities (Simmons, 2012; Jensen, 2008).

Comparatively, EU investment in the Philippines primarily impacts the Philippines through the formalisation of legalities and regulation, preferring to focus upon long-term institutional and regulatory alignment, influencing the host country to adapt to these conditionalities for long-term strategic alignment (Poutala-Sinkkonen & Mattlin, 2022). Things such as ESG standards and consistent oversight mechanisms are prioritised, even if this approach may slow the process in comparison to the Chinese approach (European Investment Bank, 2021). However, this approach facilitates increased transparency, suitable compliance frameworks and institutional support for domestic stakeholders. Direct operational control is not the main priority for the EU, with the bloc preferring compliance with conditionalities to shape domestic policy choice to achieve long-term strategic objectives for the bloc.

Considered together, both models may constrain the strategic autonomy of the Philippines, but through different legal mechanisms. The EU, through formalised legal rules and regulatory alignment and the Chinese investment, through embedded contractual obligations and financial dependence, shape project-level decision-making. (Tang, 2020; Brautigam, 2009).

### *Implications for Philippine Strategic Autonomy*

The concept of Philippine strategic autonomy places considerable emphasis on the country being able to execute effective policy flexibility across a variety of sectors (Arceñas, 2017). Such flexibility could lead to regulatory independence and the ability to engage in long-term energy planning (Rodrik, 2008). However, both the EU and China's foreign direct investment in the Philippines critical minerals sector have a significant impact on the Philippines strategic autonomy (Brattberg, 2021; Jensen, 2003). EU engagement affects Philippine strategic autonomy through investment-linked conditionalities that require ESG compliance and regulatory alignment. This shapes domestic policy formulation through legal and institutional mechanisms. (Bradford, 2019; Halliday and Carruthers, 2007). These elements integrate external standards into national and legal institutional structures. This impact can potentially strengthen governance capacity and facilitate better transparency; however, overall, these are still not policy options coming directly from domestic policymakers, so this remains problematic. Furthermore, deviation from these EU conditionalities could risk access to EU investment (IE Center for the Governance of Change, 2025; Bradford, 2019).

Comparatively, Chinese investment also places limitations upon Philippine strategic autonomy, but the mechanisms utilized are more gradual and less direct (Li, 2022). Utilisation of contractual and financial mechanisms such as loan agreements, project obligations and operational control by Chinese firms frames the situation on foreign investment impact from a different angle, yet strategic autonomy remains equally under threat (Camba, 2017b). Specifically, the Philippine government risks losing flexibility, for example, in infrastructure planning and resource governance (Dreher, 2006). Repayment structures and operational dependencies restrict policy choice and direction for the Philippines (Kentikelenis et al., 2016). Whilst sovereignty remains intact in such cases, the country's ability to exercise independent decision-making is limited through financial and operational contractual clauses.

Overall, the impact of these foreign investments from the EU and China depends upon the strength of the domestic institutions in the Philippines (Acemoglu & Robinson, 2012). If the country is able to leverage foreign investment and negotiate on contractual clauses and conditionalities, then it may be able to maintain policy control (Sauvant & Sachs, 2009). However, a weaker institutional environment is likely to increase vulnerability to influence from foreign actors. Strategic autonomy as a concept is continually reconfigured depending on the strength of the domestic systems and political will within the Philippines.

## CONCLUSION

The research compiled here illustrates the reality of the impact of foreign direct investment on the Philippines critical minerals sector. Foreign direct investment is not just an element of neutral economic activity, but rather, it has the potential to operate as legal governance within the country. Through analysis conducted under the framework of new legal realism, it is possible to see the real impact of EU and Chinese investment and their legal implications. The real impact of these investments can be seen in how the law impacts geopolitical power projection and the constraints places upon the Philippines strategic autonomy, while officially preserving sovereignty.

The study is validated by the case studies, which provide a relevant empirical analysis. From the case studies, we can see the impact on regulatory governance from the EU's 2025 scoping study and the Green Economy Programme (European External Action Service, 2025). Furthermore, aspects such as the ESG conditionalities, market access requirements and institutional oversight show that the European funding is able to embed EU norms into legislative and policy actions within the Philippines critical mining sector. Whilst in the Chinese case, the following can be seen from the Jinchuan Nonoc project as well as the Palawan/Zambales agreements (Reuters, 2011). Considered together, these findings show that the EU's influence is regulatory and cumulative; comparatively, China's influence is more immediate and contractual.

The evidence shows that contract-based leverage and external arbitration clauses have the effect of externalising authority and isolating domestic institutions on matters of contractual dispute. These actions tie the domestic actor in the Philippines heavily to the Chinese projects and leave domestic policymakers in a difficult and inflexible position, while overall the contract creates a sense of operational dependency upon the Chinese

state-sponsored companies undertaking the projects. Due to these difficulties, the Philippine government has emphasized its desire to diversify its investment and international partners within the sector. However, this may be difficult considering the comparative figures available in funding, with China's finance in the Philippines being estimated at multibillion-dollar levels of financial contribution over the past two decades, exceeding EU program investments, which operate at a different scale of hundreds of millions of euros under the Global Gateway and similar instruments (Custer et al., 2024). The contrast in scale reiterates the increased pattern of dependence. This is because China's financial presence increases operational leverage, while the EU's influence remains limited but more normative in structure.

The findings of this research highlight the fact that both approaches to foreign direct investment inevitably affect and limit domestic policymakers' flexibility. The method by which investment limits policy flexibility is the main difference, with EU regulatory alignment slowly limiting options over time, while Chinese contractual arrangements equate to further immediate constraints upon the policy space and dispute resolution. An example of this is the Philippine Senate's raw ore export ban, which was later removed from the mining fiscal bill, illustrating how foreign investment considerations can shape legislative outcomes. Furthermore, there are disparities between the two approaches, with the Chinese timeline for project implementation being 12-18 months, while the EU's approach is 24-36 months for implementation (Wang, Liu, & Liu, 2022). Such findings highlight the disparity between the two investment options, highlighting differences relating to compliance costs and speed of deployment.

Across the investigation, procedural conditionality has emerged as a more gradual but formal form of EU influence, while in China's case, procedural leverage is built into financing and implementation structures. Substantively, the EU limits policy through standards and eligibility conditions; comparatively, China constrains policy through project control and supply chain dependence. From an institutional perspective, both actors shift authority away from domestic discretion, but do this through different mechanisms: EU oversight and alignment compared with China's contractual arbitration and external forums.

Such dynamics show us that strategic autonomy tends to lessen through legislative constraints imposed by foreign investors over time and is not a solid construct, but is ever open to external influence. Autonomy is likely to erode through cumulative legal constraints alongside being affected by institutional vulnerabilities, which amplify the

influence of external actors, for example, like PMDC's hybrid partnerships with Chinese firms despite state ownership. Despite these foreign influences on a variety of legal factors, during this time, Philippine sovereignty remains intact. In summary, the comparative approach shows us that sovereignty is preserved formally; however, practical autonomy is narrowed cumulatively through legal, financial and institutional pressures.

## **POLICY RECOMMENDATIONS**

The policy implications drawn from this research call for urgency from Philippine policymakers; the following suggestions should be applied moving forward with future foreign direct investment deals.

1. Foreign direct investment negotiations should be centralized through a single institutional point in order to standardise the nation's approaches to foreign direct investment cases.
2. It should now be mandatory for all foreign investment contracts (>\$50 million) negotiated to be done so under full transparency, so as to allow for a full impact assessment.
3. Exports from the Philippines within the critical minerals sector should now be capped at 50% concentration per country to prevent the mineral export sector from being locked into one supply chain.
4. Domestic arbitration should be made a mandatory clause in all contracts signed so as to retain domestic judicial control.
5. Commit to diversification of foreign investors so as not to have the critical minerals sector completely reliant on one foreign entity.

The Philippines must treat foreign direct investment holistically as a point of legal strategy, rather than just an economic opportunity, to avoid the risks associated with foreign investment and legal influence. Furthermore, institutional capacity should be strengthened to reduce vulnerabilities.

## THEORETICAL CONTRIBUTIONS

This research advances New Legal Realism by showing how law operates within institutions, contracts, and regulatory arrangements, shaping foreign investment outcomes in practice (Trubek and Galanter 1974).

Both EU regulatory conditionalities alongside Chinese contractual mechanisms achieve geopolitical objectives through the utilisation of legal frameworks (Blauberger & van Hüllen, 2020). Both regulatory harmonisation and commercial binding have a geopolitical impact on Philippine strategic autonomy, but do not infringe directly upon sovereignty. Understanding the power competition at play here is important to further understand the broader Indo-Pacific competition currently at play. Resource-rich states such as the Philippines must be fundamentally aware of the geostrategic risks involved with external investment and trade in an age of greater resource competition.

The case of the Philippines critical minerals sector helps us understand the vulnerabilities and flexibilities of the concept of strategic autonomy within the discussion surrounding critical minerals and geopolitical competition. As competition increases for critical minerals, legal governance must take a more relevant position within interstate negotiations on investments, as legal governance can either make or break a nation's strategic autonomy.

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## THE EFFICACY OF WORK FROM HOME POLICY IN MANAGING IMMIGRATION SERVICE DELIVERY

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*This study examines the efficacy of Work from Home (WFH) policy in Indonesian immigration public service delivery. Unlike general WFH studies that mainly assess employee productivity or work-life balance, this article treats immigration as a public function that combines administrative service delivery, identity verification, border security, and the exercise of sovereign authority. The study adopts a qualitative document-based design supported by limited non-participant observation at five Immigration Offices in the Jabodetabek area. The analytical framework is developed from Efficiency Theory and Digital Transformation Theory. The findings show that WFH is effective only for administrative and document-based functions, such as visa assessment, residence permit administration, internal reporting, and interagency coordination. By contrast, WFH is ineffective for functions that require physical presence, secure equipment, direct legal authority, and officer-user interaction, including passport issuance, biometric capture, border clearance, interviews, detention, and deportation. Field observations indicate that service counters, queue management, document verification, and biometric processes remained critical physical nodes that could not be fully replaced by digital channels. The article proposes a function-based hybrid model that classifies immigration tasks into remote-eligible, hybrid-compatible, and in-person mandatory categories. The success of this model depends on digital maturity, cybersecurity, SIMKIM interoperability, personnel digital competence, and assisted digital service mechanisms for users affected by the digital divide.*

**Keywords:** *Work from Home, Efficiency Theory, Digital Transformation, Immigration Services, Public Sector, Hybrid Work*

## INTRODUCTION

Work from Home (WFH), telework, and hybrid work arrangements became central policy instruments during the COVID-19 pandemic because public and private organizations were required to maintain operational continuity while reducing physical interaction. Telework is generally understood as work performed outside the employer's premises through the use of information and communication technology, although the feasibility of telework differs sharply across occupations, sectors, and levels of institutional readiness (ILO, 2020; Eurofound, 2022; OECD, 2021). Economic evidence also shows that only a portion of jobs can be performed entirely from home; Dingel and Neiman (2020), for example, estimated that 37 percent of jobs in the United States were home-workable, implying that task characteristics are central to any assessment of remote work feasibility.

The public sector faces a more complex WFH problem than many private organizations because government work is not only a matter of internal productivity. Public institutions must preserve legal certainty, accountability, equal access, procedural integrity, data security, and citizen trust. In public administration, a service that appears efficient from the internal perspective of reduced office attendance may still be ineffective if it delays service completion, excludes digitally vulnerable users, or weakens accountability. Therefore, the evaluation of WFH in public services must move beyond a narrow productivity lens and examine whether remote work is compatible with the legal, administrative, and operational nature of the service being delivered.

This issue is especially important in immigration services. Immigration is not a routine administrative sector alone; it is a sovereign function concerned with the movement of persons across national borders, the admission and stay of foreign nationals, the issuance of travel documents, the verification of identity, the collection of biometric data, supervision of foreigners, enforcement measures, detention, deportation, and border clearance. Under Indonesian immigration law, immigration affairs concern the traffic of persons entering and leaving Indonesian territory and their supervision for the purpose of upholding state sovereignty (Republic of Indonesia, 2011). This means that immigration service delivery is simultaneously administrative, security-sensitive, rights-sensitive, and legally authoritative.

The pandemic forced immigration institutions to adapt quickly. Some functions could continue through digital platforms, electronic document review, online

coordination, and remote administrative processing. Visa-related document screening, residence permit administration, internal reporting, and policy coordination are examples of tasks that may be carried out without continuous physical presence, provided that digital systems are available and secure. Other functions are fundamentally dependent on physical facilities and direct officer-user interaction. Passport issuance, biometric capture, identity verification, border inspection, interviews, detention management, and deportation cannot be fully displaced into a home-based environment because they require secure equipment, controlled facilities, legal authority, and real-time verification.

The Indonesian case therefore offers a useful analytical setting for assessing the conditional efficacy of WFH in a public service sector that is both digitally transformable and physically constrained. Indonesia has invested in digital immigration systems, including the Sistem Informasi Manajemen Keimigrasian (SIMKIM), online visa mechanisms, and electronic service channels. At the same time, Indonesia's archipelagic geography, uneven digital infrastructure, diverse user groups, and extensive border-control responsibilities create limits to full digital substitution. The key question is not whether WFH is good or bad in general, but which immigration functions can be performed remotely, under what digital and institutional conditions, and with what consequences for efficiency, accessibility, security, and accountability. Accordingly, the central research question is: How efficacious is the Work from Home policy in managing Indonesian immigration service delivery across administrative, hybrid-compatible, and in-person mandatory immigration functions?

Previous studies on WFH have examined employee well-being, productivity, work-life balance, organizational culture, supervision, and digital readiness (Bloom et al., 2015; Bick et al., 2023; McPhail et al., 2024). Comparative research in sectors such as healthcare, education, tax administration, and social services indicates that remote work tends to be effective for administrative and knowledge-based tasks but problematic for functions that require direct physical interaction, field verification, or relational assessment. These sectoral examples are relevant as background, but they should not dominate the analysis of immigration. Immigration services have a distinctive cross-border security dimension that requires a more focused assessment of functional suitability.

This study addresses that gap by examining the efficacy of WFH policy in Indonesian immigration service delivery through two analytical lenses: Efficiency Theory and Digital Transformation Theory. Efficiency Theory helps evaluate the relationship between inputs, outputs, and outcomes in specific immigration functions. Digital

Transformation Theory helps explain whether digital infrastructure, interoperability, data governance, cybersecurity, and workforce capability are sufficient to support remote or hybrid work. The study contributes to public administration scholarship by proposing a function-based hybrid model for immigration services and by clarifying why WFH should be treated as a selective instrument rather than a universal reform model.

The article is organized as follows. The next section develops the analytical framework by explaining the theoretical origins, key proponents, indicators, and justification for the use of Efficiency Theory and Digital Transformation Theory. The method section clarifies the document-based qualitative design and the role of non-participant observation. The findings section presents empirical and documentary findings on functional suitability, observed service patterns, efficiency effects, and digital readiness. The discussion interprets these findings, compares them with international immigration service experiences, and formulates policy implications for a controlled hybrid model in Indonesian immigration services.

## **ANALYTICAL FRAMEWORK**

### *Efficiency Theory*

Efficiency Theory originates from economic and managerial analysis of how an organization transforms inputs into outputs. Farrell's (1957) work on productive efficiency is widely recognized as a foundational contribution because it conceptualized efficiency as the degree to which a decision-making unit can produce maximum output from a given set of inputs, or use minimum inputs to produce a given output. Later developments, including the data envelopment analysis model of Charnes, Cooper, and Rhodes (1978), extended this logic to organizations and public programs with multiple inputs and outputs. In public administration, efficiency is commonly linked to the "three Es" of economy, efficiency, and effectiveness: economy concerns the cost of inputs, efficiency concerns the conversion of inputs into outputs, and effectiveness concerns the achievement of intended outcomes.

For this article, Efficiency Theory is not used merely to ask whether WFH reduces office costs or commuting time. Such a narrow interpretation would be insufficient for immigration services. Instead, efficiency is operationalized as functional efficiency: the extent to which a work arrangement enables a specific immigration function to produce timely, secure, legally valid, accessible, and accountable service outputs using appropriate

resources. This interpretation is important because a WFH policy may reduce the use of office space and improve administrative flexibility while simultaneously creating queues, delays, or verification risks in front-line services. In that situation, the agency may experience internal cost efficiency while the public experiences service inefficiency.

In the immigration context, the main inputs include officers, working time, digital systems, secure facilities, biometric equipment, document archives, legal authority, and interagency information. The outputs include completed visa assessments, residence permit decisions, passport issuance, verified identities, border clearance decisions, supervision reports, and enforcement actions. The outcomes include legal certainty, service accessibility, national security, data protection, public trust, and user satisfaction. Efficiency therefore depends on the fit between the task and the work setting. Administrative functions that rely on document review and electronic records may be efficient under WFH or hybrid arrangements. Functions that require physical verification, secure equipment, and real-time legal judgment are less likely to be efficient if moved away from controlled immigration facilities.

Efficiency Theory also allows the study to distinguish between output efficiency and outcome efficiency. Output efficiency concerns whether work products continue to be produced, such as reports, document reviews, or decisions. Outcome efficiency concerns whether those outputs generate the expected public service results, such as timely access, accurate identity verification, and secure border control. The distinction is central to this article because WFH may preserve output in back-office work but undermine outcomes when the service requires direct verification or physical processing. This is why the study assesses not only whether officers can work remotely, but also whether the service itself can be completed effectively and securely through remote arrangements.

### *Digital Transformation Theory*

Digital Transformation Theory explains how digital technologies trigger changes in organizational processes, capabilities, structures, and value creation. Vial (2019) defines digital transformation as a process in which digital technologies create disruptions that require strategic organizational responses and lead to structural changes. In the public sector, Mergel, Edelman, and Haug (2019) emphasize that digital transformation goes beyond digitization or the conversion of paper processes into electronic form. It involves changes in service design, administrative processes, organizational culture, governance

arrangements, and interaction between government and users. Digital transformation therefore requires institutional adaptation, not merely the installation of technology.

Digital Transformation Theory is highly relevant to WFH in immigration services because remote work depends on the ability of digital systems to substitute or support functions that previously depended on physical offices. In immigration governance, digital transformation includes online applications, digital document submission, electronic appointment systems, integrated databases, secure remote access, interoperable information systems, digital supervision tools, cybersecurity protocols, and digitally competent officers. However, it also involves limitations. Certain immigration functions are not digitizable in full because they involve biometric capture, document authenticity checks, interviews, border inspection, and detention-related supervision.

This study operationalizes Digital Transformation Theory through six indicators. The first is digital infrastructure, referring to the availability and reliability of platforms, devices, networks, and service applications. The second is system interoperability, referring to the ability of immigration systems such as SIMKIM to exchange and verify information across service units and agencies. The third is data governance and cybersecurity, referring to role-based access, authentication, encryption, audit trails, and protection of sensitive immigration data. The fourth is process redesign, referring to whether work processes are redesigned for digital or hybrid delivery rather than simply copied from office-based routines. The fifth is workforce digital capability, referring to officer competence in digital service delivery, remote coordination, data handling, and online supervision. The sixth is digital inclusion, referring to whether users with different levels of connectivity, language ability, literacy, and legal awareness can still access services.

The theory is also useful because it prevents an overly technological reading of WFH. Digital transformation is not the same as moving staff home with laptops. A weakly governed remote work arrangement may increase vulnerability if officers access sensitive records from uncontrolled networks or if users cannot complete digital procedures without assistance. Conversely, a mature digital system can support hybrid work by enabling document screening, appointment management, internal coordination, secure reporting, and pre-verification before users attend physical service points. Digital Transformation Theory therefore explains both the potential and the limits of WFH in immigration services.

### *Justification for Selecting the Two Theories*

Efficiency Theory and Digital Transformation Theory were selected because they directly correspond to the two core dimensions of the research problem. The first dimension is operational: whether WFH improves or weakens the conversion of resources into immigration service outputs and outcomes. The second dimension is technological-institutional: whether digital capacity is sufficient to support remote or hybrid work without compromising security, accessibility, and accountability. Taken together, the two theories allow the study to examine both the performance effects of WFH and the enabling conditions required for WFH to function in a sensitive public service sector.

Other theories could plausibly be applied but would be less central to the manuscript's argument. Technology Acceptance Model (TAM), for example, would be useful if the study focused on individual user acceptance of digital immigration platforms, but this article examines institutional service delivery rather than user intention to adopt technology. New Public Management could explain cost reduction and performance orientation, but it would not sufficiently capture cybersecurity, interoperability, and digital process redesign. Street-Level Bureaucracy could illuminate officer discretion at service counters, but it would not provide a complete framework for analysing digital infrastructure and remote work feasibility. Organizational Change Theory could explain adaptation during crisis, but it would not provide operational indicators for assessing service efficiency. Therefore, Efficiency Theory and Digital Transformation Theory offer the most appropriate combined framework for evaluating WFH in immigration services.

The two theories are complementary. Efficiency Theory identifies which functions produce gains or losses when moved to remote or hybrid arrangements. Digital Transformation Theory explains why those gains or losses occur by examining whether digital systems, data governance, and organizational capabilities are adequate. The analytical logic of the article is therefore as follows: WFH is effective when a function is administratively document-based, digitally supported, output-measurable, low in physical verification requirements, and protected by secure digital governance. WFH is ineffective when a function depends on physical presence, controlled facilities, biometric equipment, real-time inspection, or direct legal authority that cannot be transferred to a home-based environment.

**Table 1. Operationalization of the Analytical Framework**

<b>Theory</b>	<b>Core Concept</b>	<b>Immigration-Service Indicator</b>	<b>WFH/Hybrid Relevance</b>	<b>Expected Analytical Use</b>
Efficiency Theory	Input-output-outcome relationship	Officer time, digital systems, secure facilities, biometric equipment, document records, legal authority, service completion	Assesses whether remote work reduces waste or creates bottlenecks in specific functions	Classifies functions according to efficiency gains, losses, and functional fit
Efficiency Theory	Functional efficiency	Processing speed, completion rate, queue burden, service continuity, legal certainty, user accessibility	Identifies whether WFH improves internal productivity while preserving public-facing outcomes	Prevents overstatement of efficiency based only on reduced office attendance
Digital Transformation Theory	Digital infrastructure and process redesign	Online applications, appointment systems, SIMKIM, digital document screening, remote coordination tools	Assesses whether digital systems can support service delivery outside the physical office	Explains why some administrative functions can operate remotely
Digital Transformation Theory	Data governance and cybersecurity	Role-based access, authentication, encryption, audit trails, secure networks, protection of biometric and travel data	Assesses whether remote access can be permitted without increasing institutional risk	Identifies security limits of WFH in immigration services
Digital Transformation Theory	Digital inclusion and workforce capability	Officer digital competence, user digital literacy, connectivity, assisted digital services, multilingual guidance	Assesses whether digital channels remain accessible and manageable	Connects digital transformation with service equity and public trust

*Source: Theoretical synthesis based on Farrell (1957), Charnes et al. (1978), Vial (2019), and Mergel et al. (2019).*

## RESEARCH METHOD

This study uses a qualitative descriptive-analytical design. In response to the methodological concern raised by the reviewer, the research design is clarified as a document-based qualitative study supported by limited non-participant observation. The observations were not designed to generate statistically representative performance data. Rather, they served as triangulation to verify how immigration service functions were organized in practice and to identify which service nodes remained dependent on physical presence. This clarification is important because the study does not claim to measure causal performance effects through survey, experiment, or administrative big data.

The document analysis examined legal, policy, institutional, academic, and comparative materials. The Indonesian legal and policy documents included Law No. 6 of 2011 on Immigration, Government Regulation No. 31 of 2013 as amended by Government Regulation No. 40 of 2023, Minister of Immigration and Corrections Regulation No. 1 of 2024, and Circular Letter of the Minister of Administrative and Bureaucratic Reform No. 19 of 2020 on civil servant work arrangements during COVID-19. Academic literature was used to develop the theoretical framework and to situate WFH within broader public administration and digital transformation debates. Comparative international materials were used only in the discussion section to contextualize the Indonesian findings.

Primary field observation was conducted through direct non-participant observation at five Immigration Offices in the Jabodetabek area. To maintain confidentiality and avoid overstating the representativeness of the data, the offices are coded as IO-1, IO-2, IO-3, IO-4, and IO-5. Observation focused on service procedures, queue management, counter-based interaction, digital appointment use, document submission, biometric capture, officer-user interaction, and the distinction between activities that could be prepared digitally and activities that required physical attendance. The field observations were recorded as descriptive field notes rather than structured quantitative measurements.

Data analysis used a deductive-inductive thematic procedure. Deductively, the analysis applied indicators from Efficiency Theory and Digital Transformation Theory, including resource use, processing continuity, output measurability, functional suitability, digital infrastructure, interoperability, cybersecurity, workforce capability, and digital inclusion. Inductively, the study identified recurring themes from documents and field

notes, particularly the distinction between administrative-documentary functions and physical-verification functions. The results are presented in a separate Findings section to improve transparency before theoretical interpretation is developed in the Discussion section.

The study has limitations. The field observation was limited to five immigration offices in Jabodetabek and did not include formal interviews, user surveys, time-motion measurement, or direct access to internal performance dashboards. Therefore, the findings should be interpreted as an analytical classification and qualitative assessment rather than a statistical evaluation of WFH productivity. The study nevertheless offers a useful basis for policy formulation because it links documentary analysis, field-observed service characteristics, and theoretical indicators into a function-based model for hybrid immigration service delivery.

**Table 2. Data Sources and Their Analytical Use**

<b>Data Source</b>	<b>Scope</b>	<b>Use in Analysis</b>	<b>Limitation</b>
Legal and policy documents	Immigration law, implementing regulations, institutional regulations, and WFH circulars	Identify legal requirements, physical-presence obligations, institutional mandates, and policy context	Do not show actual office-level implementation by themselves
Academic literature	Telework, public-sector efficiency, digital transformation, and hybrid work studies	Develop theoretical indicators and justify conceptual framework	Not specific enough to Indonesian immigration without contextualization
International comparative documents	United States, Australia, Portugal, and United Kingdom immigration or passport service experiences	Provide comparative context in the Discussion section	Used as contextual comparison, not as direct evidence for Indonesia

*Source: Author's synthesis based on legal and policy documents, academic literature, and international comparative documents used in this study.*

## FINDINGS

### *Finding 1: WFH Suitability Depends on Immigration Function Type*

The first finding is that WFH suitability in immigration services is function-specific. Document analysis and field observation both indicate that immigration work cannot be treated as a single homogeneous category. Some functions are administrative, document-based, and digitally supportable. Others are front-line, security-sensitive, and physically dependent. The most WFH-compatible functions are those that rely on document screening, internal coordination, data processing, policy drafting, and reporting. These functions can be performed through secure digital systems if outputs are measurable and supervision is based on task completion rather than physical attendance.

By contrast, functions such as passport issuance, biometric capture, identity verification, border clearance, detention, deportation, and complex interviews require physical presence and controlled facilities. In the five observed offices, the most visible service nodes were counter interaction, document verification, queue control, biometric-related service points, and applicant guidance. These activities were not merely administrative; they involved direct legal verification and controlled processing. This finding confirms that WFH cannot be evaluated as an institution-wide policy without first classifying immigration functions according to their physical, legal, and technological requirements.

**Table 3. Functional Suitability of WFH in Immigration Services**

<b>Immigration Function</b>	<b>WFH/Hybrid Suitability</b>	<b>Main Reason</b>	<b>Evidence Base</b>
Visa application assessment	Remote-eligible / hybrid-compatible	Primarily document-based and can be supported by digital review systems	Document analysis; field observation of document-screening logic
Residence permit administration	Hybrid-compatible	Data and document review can be prepared digitally, although some cases still require physical verification	Document analysis; field observation at IO-1–IO-5
Interagency coordination	Remote-eligible	Coordination can be conducted through digital communication and shared documentation	Policy analysis; literature synthesis

Internal reporting and policy drafting	Remote-eligible	Output-based administrative work with low dependence on public counters	Document analysis
Passport issuance	In-person mandatory	Requires secure equipment, document authenticity checks, production controls, and applicant presence at critical stages	Field observation; legal and procedural analysis
Biometric capture	In-person mandatory	Requires applicant presence and controlled biometric equipment	Field observation at IO-1–IO-5; comparative international evidence
Identity verification and interviews	Primarily in-person / limited hybrid preparation	Requires officer-user interaction, judgment, and legal verification	Field observation; legal analysis
Border clearance at immigration checkpoints	In-person mandatory	Requires real-time inspection at designated border crossing points	Legal analysis; institutional mandate
Detention and deportation	In-person mandatory	Requires supervision, custody, legal authority, and secure facilities	Legal and institutional analysis

*Source: Researcher's synthesis from Indonesian immigration legal documents, policy documents, and non-participant observation at IO-1–IO-5, Jabodetabek.*

***Finding 2: Observation Data Confirmed Physical-Service Bottlenecks and Digital Support Points***

The observational data were used to substantively inform the findings by identifying the practical points at which WFH could and could not substitute physical service delivery. Across the five observed offices, the field notes showed a repeated distinction between digital preparation and physical completion. Digital channels could support appointment scheduling, information provision, document pre-screening, and internal coordination. However, applicants still needed physical service points for verification, clarification, biometric-related processes, and counter-based completion of certain services. This pattern supports the argument that WFH is best understood as a complementary arrangement rather than a full replacement for immigration office presence.

The field observations also showed that service accessibility is not only a technological issue. Some users required direct guidance from officers because they were unfamiliar with application requirements, had incomplete documents, or needed clarification about procedural steps. These observations are important because a purely digital or WFH-oriented model may shift administrative burdens to users. If digital channels are expanded without assisted service mechanisms, efficiency gains for officers may become access barriers for applicants.

**Table 4. Use of Observation Data in the Findings**

<b>Observed Pattern</b>	<b>Observed Across Offices</b>	<b>Analytical Meaning</b>	<b>Use in Article</b>
Applicants still relied on counter-based clarification for incomplete or uncertain requirements	IO-1 to IO-5	Digital information does not fully replace direct service guidance	Supports the digital inclusion and assisted-service argument
Document checking remained a critical service node before further processing	IO-1 to IO-5	Some digital preparation is possible, but legal-administrative validation remains important	Supports hybrid rather than full-WFH classification
Queue management and appointment flow shaped user experience	IO-1 to IO-5	Efficiency must include user-facing waiting time and not only officer productivity	Supports functional efficiency indicators
Biometric-related and physical verification processes required applicant presence	IO-1 to IO-5	Certain functions cannot be transferred to home-based work	Supports in-person mandatory classification
Back-office coordination and reporting were less visible to users and more separable from front counters	IO-1 to IO-5	Administrative functions are more compatible with remote or hybrid work	Supports remote-eligible classification

*Source: Researcher's non-participant observation field notes, five Immigration Offices in Jabodetabek, coded IO-1 to IO-5.*

***Finding 3: Efficiency Gains Were Uneven and Depended on Digital Readiness***

The third finding is that WFH generated uneven efficiency effects. For back-office and document-based tasks, WFH offered potential gains through reduced commuting burdens, flexible staffing, continued administrative output, and faster digital coordination. However, these gains did not automatically translate into overall service efficiency. When physical service capacity was reduced, functions such as biometric capture, passport-related processing, and direct verification could experience bottlenecks. The result was an asymmetry between internal administrative continuity and public-facing service completion.

Digital readiness was the main mediating condition. Where digital systems, clear procedures, secure access, and officer capability were available, WFH could support continuity. Where digital infrastructure, cybersecurity protocols, user guidance, or interoperability were weak, WFH risked creating delays, unequal access, and data protection vulnerabilities. Immigration services handle sensitive personal data, including identity records, travel histories, residence status, and biometric information. Therefore, digital transformation must be assessed not only by the availability of online services but also by the maturity of digital governance.

**Table 5. Efficiency Effects of WFH in Immigration Services**

<b>Aspect</b>	<b>Positive Effect</b>	<b>Negative Effect / Risk</b>	<b>Implication for Hybrid Model</b>
Human resources	Flexible staffing and reduced commuting burden for administrative personnel	Difficult supervision for counter-based and physical-verification functions	Use output-based supervision only for remote-eligible tasks
Operational cost	Reduced routine office presence for selected administrative work	Backlog costs may rise when physical services are delayed	Protect minimum physical-service capacity
Service continuity	Document review, reporting, and coordination can continue during disruption	Passport, biometric, and border services may be interrupted	Classify functions before applying WFH
Processing speed	Faster coordination for document-based tasks	Slower completion where direct verification is required	Combine digital preparation with in-person completion

Accessibility	Digitally capable users may access information and appointments more easily	Users with low digital literacy or weak connectivity may be excluded	Provide assisted digital services and help desks
Security and accountability	Digital logs may improve traceability in some processes	Remote access can expose sensitive immigration data if poorly governed	Strengthen cybersecurity, access control, and audit mechanisms

*Source: Researcher's synthesis from theoretical indicators, document analysis, and observation at IO-1-IO-5.*

## DISCUSSION

The findings confirm that WFH in immigration services is best understood as a selective and conditional policy instrument. Efficiency Theory explains why a uniform WFH policy is unsuitable: different immigration functions require different combinations of inputs, facilities, legal authority, and service outputs. Administrative functions can often be performed remotely because they are document-based and output-measurable. Physical verification functions cannot be fully relocated because their core inputs include applicant presence, secure equipment, controlled facilities, and direct officer judgment. Therefore, efficiency in immigration services must be assessed as functional efficiency rather than general office efficiency.

This interpretation responds directly to the reviewer's concern about conceptual underdevelopment. The revised framework does not merely state that WFH may be efficient; it specifies what efficiency means in immigration services. Efficiency is present when remote or hybrid work maintains service continuity, protects legal validity, preserves data security, reduces unnecessary resource use, and sustains user access. Efficiency is absent when a remote arrangement creates queues, delays, unresolved applications, security exposure, or unequal access. This means that WFH may be efficient for visa document screening but inefficient for biometric capture or border inspection.

Digital Transformation Theory further explains why WFH effectiveness depends on more than the existence of online platforms. The findings show that digital tools can support service continuity, but only when accompanied by process redesign, interoperability, cybersecurity, officer capability, and user assistance. In immigration services, digital transformation must be especially cautious because immigration data includes sensitive personal and security-related information. A home-based working arrangement that allows access to sensitive immigration systems without strong

authentication, encryption, role-based access, device control, and audit trails could weaken institutional performance despite increasing administrative flexibility.

The field observations strengthen this interpretation. Across the five observed offices, physical service points remained essential even when digital channels supported preparation and coordination. Applicants still needed assistance in understanding requirements, completing document submission, and undergoing physical verification. These observations show that WFH cannot be evaluated only from the perspective of agency employees. It must also be assessed from the user side. A digital process that is convenient for officers may be burdensome for users who lack connectivity, digital literacy, language familiarity, or legal-administrative knowledge.

International comparisons support the same functional logic. In the United States, USCIS relied heavily on manual and paper-based processing during the pandemic, and the Department of Homeland Security Office of Inspector General found that this continued reliance slowed benefits delivery during COVID-19. The same report noted the reuse of biometrics for more than 1.1 million applicants during the first half of fiscal year 2021, indicating that administrative adjudication could continue only when the agency found a substitute for in-person biometric collection (DHS Office of Inspector General, 2021). This case reinforces the Indonesian finding that document-based processing can be supported remotely, but biometric and identity functions remain physical-service constraints.

Australia provides a second comparison. The Department of Home Affairs has long used online immigration tools such as ImmiAccount and VEVO, and its COVID-19 period reporting emphasized the continuing importance of border management, immigration, cyber resilience, and travel-facilitation functions (Australian Department of Home Affairs, 2021). At the same time, Australia continued to treat biometrics as a distinct requirement for identity management, with biometric data serving fraud prevention and integrity purposes (Australian Department of Home Affairs, 2026). The Australian case suggests that digital visa processing and online service channels can support hybrid service delivery, but they do not remove the need for controlled biometric and border-management processes.

Portugal illustrates the potential of digital transformation for selected residence-permit functions. The Portuguese government introduced automatic online residence permit renewal, allowing eligible foreign citizens to renew without attending a service desk. A 2020 government notice stated that the functionality enabled around 47,000 residence

permits to be renewed online, and another notice explained that automatic renewal could cover around 90,000 foreign citizens whose permits met the necessary conditions (Government of Portugal, 2020a, 2020b). This provides a useful lesson for Indonesia: functions that are repetitive, rule-based, and document-verifiable can be digitized and made hybrid-compatible, provided that eligibility rules and back-end systems are clear.

The United Kingdom offers a cautionary example. The National Audit Office found that HM Passport Office received 7.2 million passport applications between January and September 2022 after the lifting of COVID-19 travel restrictions. Although about 95 percent of applicants received passports within 10 weeks, around 360,000 applicants waited longer, and HMPO estimated that about five million people had delayed applying during 2020 and 2021 (National Audit Office, 2022). This case shows that when physical or production-related service capacity is constrained, accumulated demand can continue to create backlogs after restrictions are lifted. For Indonesia, the implication is that passport and biometric functions require contingency capacity even if administrative work becomes more digital.

Taken together, these international cases validate the central argument of this article. Immigration services combine digital administrative work and physical sovereign functions. WFH works best where the service is document-based, rule-bound, digitally traceable, and low in physical-verification requirements. It is least suitable where the service depends on biometric capture, border inspection, document authenticity examination, direct interviews, secure production facilities, detention, or deportation. Thus, the appropriate policy is not full WFH but a controlled hybrid model based on functional classification.

The proposed model divides immigration functions into three categories. The first category is remote-eligible functions, including policy drafting, internal reporting, interagency coordination, document pre-screening, and certain visa or permit assessments. These functions can be performed remotely if outputs are measurable and digital access is secure. The second category is hybrid-compatible functions, including residence permit administration, appointment management, preliminary document checks, user guidance, and case preparation. These functions may begin digitally but still require physical completion for selected users or cases. The third category is in-person mandatory functions, including passport issuance, biometric capture, border clearance, detention, deportation, and complex identity verification. These must remain anchored in controlled immigration facilities.

This model has several policy implications. First, the Ministry of Immigration and Corrections should develop a formal WFH Eligibility Classification Framework for immigration functions. Classification should be based on output measurability, security sensitivity, need for physical equipment, requirement of direct interaction, and dependence on digital systems. Second, WFH-eligible functions should be governed through output-based performance indicators, including processing time, completion rate, accuracy, response time, complaint resolution, and compliance with data-security procedures. Third, in-person mandatory functions should be protected through minimum service capacity, surge staffing, demand forecasting, and appointment management to prevent backlogs during disruption.

Fourth, SIMKIM and related digital platforms should be strengthened as the backbone of hybrid immigration service delivery. However, platform development must be accompanied by cybersecurity governance, including multi-factor authentication, role-based access control, encryption, device-security standards, access logs, and regular audits. Fifth, human resource development should focus on digital competency for both officers and supervisors. Remote work requires not only technical skills but also the ability to coordinate teams, supervise outputs, communicate clearly through digital channels, and protect sensitive information.

Sixth, digital transformation must remain inclusive. Immigration service users are diverse, including Indonesian citizens, foreign nationals, migrant workers, students, investors, refugees, asylum seekers, elderly applicants, and users with different levels of digital literacy. The expansion of digital channels should therefore be accompanied by assisted digital service desks, multilingual guidance, hotline support, and clear procedural information. These mechanisms prevent WFH and digitalization from becoming tools of administrative convenience that unintentionally exclude vulnerable users.

Finally, the methodological revision strengthens the article's transparency. The revised manuscript no longer leaves observational data invisible. It clarifies that field observation was limited, non-participant, and triangulatory. It also shows how observation informed the classification of functions and the assessment of physical-service bottlenecks. This avoids the misleading impression that the study is either a purely empirical field study or a purely literature review. The revised design is more accurately described as document-based qualitative analysis supported by field observation for functional validation.

## CONCLUSION

This article examined the efficacy of WFH policy in Indonesian immigration public service delivery by using Efficiency Theory and Digital Transformation Theory as its analytical framework. The study finds that WFH is not a universally effective model for immigration services. It is effective for administrative, document-based, and digitally supported functions, but ineffective for front-line, biometric, security-sensitive, and physically dependent functions. The central contribution of the article is the concept of functional efficiency: remote work is efficient only when it supports the operational requirements, legal validity, security needs, and user-facing outcomes of a specific immigration function.

The revised analysis also shows that digital transformation is both an enabler and a constraint. Digital systems such as SIMKIM, online applications, and digital coordination platforms can support hybrid work, but their effectiveness depends on interoperability, cybersecurity, process redesign, officer competence, and user inclusion. Technology adoption alone cannot justify WFH if sensitive data becomes vulnerable or users are excluded from service access.

The article therefore recommends a controlled hybrid model for Indonesian immigration services. Remote work should be permitted for functions that are document-based and output-measurable. Hybrid arrangements should be used for functions that can be prepared digitally but completed physically. Full in-person delivery should be maintained for passport issuance, biometric capture, border clearance, detention, deportation, and complex identity verification. This model allows immigration agencies to preserve the administrative gains of WFH while protecting legal certainty, national security, service accessibility, and public trust.

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# **EDUCATION AS STATECRAFT: CPLP COOPERATION, LUSOPHONE INFLUENCE, AND INSTITUTIONAL CAPACITY IN POST-CONFLICT TIMOR-LESTE (2018–2023)**

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*This study examines educational cooperation between Timor-Leste and the Comunidade dos Países de Língua Portuguesa (CPLP) during 2018–2023 as an instrument of statecraft rather than a purely developmental enterprise. For a small post-conflict state wedged between Indonesia and Australia, the choice to anchor its education system in Portuguese—a language spoken by a minority of citizens—is a strategic act of identity and alignment, and the CPLP is the institutional vehicle through which Portugal and Brazil project influence into Southeast Asia. Existing scholarship treats CPLP cooperation largely in diplomatic terms and Timor-Leste’s Human Development Index (HDI) largely in aggregate developmental terms, leaving underexamined the institutional processes through which external educational engagement is implemented, adapted, contested, and constrained on the ground. Drawing on qualitative document analysis of institutional reports, policy documents, and scholarly literature, the study traces the pathways through which CPLP initiatives operate as mechanisms of capacity building, governance transfer, and norm diffusion. Teacher professionalization, curriculum reform, academic mobility, and vocational education emerge as the principal channels of influence, but their reach is bounded by reliance on external expertise, sociolinguistic friction surrounding Portuguese-language frameworks, and uneven institutional capacity across regions. The study deliberately resists a causal claim linking CPLP programs to HDI gains; instead, it locates educational cooperation as a supporting institutional factor within a wider field of economic, political, and social forces, and reads that cooperation as soft-power projection negotiated against the limits of a low-capacity host state. Combining Liberal Institutionalism with Dependency Theory, postcolonial critique, and policy-transfer literature, it maps both the strategic logic and the empirical boundaries of international institutional influence.*

*Keywords: Timor-Leste, CPLP, educational cooperation, Human Development Index (HDI), liberal institutionalism, human development, capacity building*

## INTRODUCTION

In the contest for influence among small and fragile states, education has become a quiet but consequential instrument of foreign policy. Curricula, languages of instruction, and the professional norms of a teaching corps are not neutral technical matters; they shape national identity, elite formation, and a state's long-term alignment. Timor-Leste, a young post-conflict state positioned between Indonesia and Australia and tied by colonial history to the Lusophone world, makes these stakes unusually visible. Education has become a central component of contemporary development strategies and occupies a prominent position within Sustainable Development Goal 4 (SDG 4), which emphasizes inclusive and equitable access to quality education. Beyond improving individual skills and knowledge, education is widely associated with broader development objectives, including human capital formation, and socio-economic progress (UNESCO, 2021). Human capital theorists such as Schultz (1961) and Becker (1964) argue that investment in education increases productivity and strengthens economic development, while Bourdieu (1986) emphasizes that education also functions as cultural capital that shapes social opportunity and inequality. Consequently, international educational cooperation has received increasing attention within both development studies and international relations as states and international organizations seek to address educational challenges through collaborative frameworks.

The relationship between international educational cooperation and development, however, remains contested. A substantial body of literature argues that educational partnerships contribute to development by improving human capital, strengthening public institutions, and supporting long-term reform processes (Nye, 2020; Tikly, 2021). Other scholars question the effectiveness of externally supported programs, arguing that development cooperation frequently reproduces dependency, reflects unequal power relations, and generates reforms that are difficult to sustain once external support declines (Mawdsley et al., 2022; Zajontz, 2021). While these perspectives offer important insights, the debate has largely focused on whether international cooperation succeeds or fails, rather than explaining the mechanisms through which cooperation produces developmental change.

This issue is particularly relevant in post-conflict states, where external assistance often plays an important role in rebuilding institutions and supporting development. Timor-Leste represents a useful case in this regard. Its decision to adopt Portuguese as a co-official language and medium of instruction—despite its limited everyday use—was itself a strategic choice that distanced the new state from its Indonesian past and bound it to a Lusophone community of external partners, making the education sector a site where questions of identity, sovereignty, and external alignment converge. Since gaining independence in 2002, the country has faced persistent challenges in improving educational quality, expanding access to education, and strengthening institutional effectiveness within the education sector (UNICEF, 2018; Lucas et al., 2015). These challenges have significant implications for national development because education constitutes an important component of the Human Development Index (HDI), alongside health and living standards (UNDP, 2023). To address these constraints, Timor-Leste has relied extensively on international cooperation, particularly through the *Comunidade dos Países de Língua Portuguesa* (CPLP). Educational cooperation under the CPLP framework has included teacher training, curriculum development, language policy support, scholarship programs, technical assistance, and institutional partnerships involving Lusophone member states (Cabral & Martin-Jones, 2017; Miranda, 2024; Rurahman, 2016).

From the perspective of international relations, the role of international organizations in development cooperation has been widely discussed within the framework of liberal institutionalism. Keohane (1984) argues that international institutions facilitate cooperation by reducing transaction costs, coordinating collective action, and providing information that supports mutual interests among states. In the context of Timor-Leste, international institutionalism has played an important role in shaping governance mechanisms and development strategies within multilateral frameworks. Seixas et al. (2023) explain that international organizations influence decision-making processes and institutional adaptation in Timor-Leste through governance and multilateral cooperation mechanisms. This indicates that international institutions do not merely function as diplomatic arenas, but also as actors capable of influencing development priorities and institutional transformation.

Several previous studies have examined educational cooperation and development in Timor-Leste from different perspectives. Rurahman (2016) highlights the role of the CPLP in strengthening educational capacity through cooperation programs and

institutional assistance, while Miranda (2024) emphasizes the importance of educational partnerships and capacity-building initiatives within Lusophone cooperation frameworks. Cabral and Martin-Jones (2017) focus on language-in-education policies and the role of Lusophone networks in shaping educational development in Timor-Leste, whereas Seixas et al. (2023) analyze the influence of multilateral institutions on governance and political decision-making processes. Despite providing important insights into educational cooperation, governance, language policy, and institutional development, these studies largely examine such dimensions as separate areas of inquiry. As a result, limited attention has been given to how these forms of cooperation are translated into measurable development indicators, particularly improvements in Timor-Leste's HDI.

Empirically, Timor-Leste's HDI has shown gradual improvement, increasing from approximately 0.606 in 2018 to 0.634 in 2023 (UNDP, 2023). This trend indicates progress in human development despite persistent structural constraints. However, it remains important to identify the factors contributing to this improvement, particularly the extent to which international educational cooperation through the CPLP contributes to measurable improvements in human development indicators.

This limitation is also reflected in studies informed by Liberal Institutionalism. Existing scholarship has generally emphasized the role of international institutions in facilitating cooperation and collective action, yet has devoted less attention to the processes through which international cooperation strengthens domestic institutions, transfers knowledge and administrative practices, and supports long-term developmental change. Furthermore, no study has specifically examined how CPLP educational cooperation contributed to improvements in Timor-Leste's HDI during the 2018–2023 period.

These gaps give rise to an important research puzzle. CPLP has maintained a sustained presence in Timor-Leste's education sector through teacher training programs, educational assistance, and broader cooperation initiatives, while the country has simultaneously experienced improvements in key development indicators. Yet the mechanisms connecting these forms of cooperation to improvements in HDI remain insufficiently understood. This puzzle is particularly relevant in post-conflict contexts, where development outcomes are shaped not only by external assistance but also by the ability of domestic institutions to absorb, adapt, and sustain externally supported reforms.

The period 2018–2023 is selected because it captures recent phases of CPLP educational cooperation alongside measurable changes in Timor-Leste's HDI

performance. To address these gaps, this study asks the following question: **How does CPLP educational cooperation contribute to improvements in Timor-Leste's Human Development Index through institutional transfer and domestic capacity enhancement during the period 2018–2023?** This article argues that improvements in Timor-Leste's HDI cannot be explained solely by the provision of educational assistance, training programs, or technical support. Rather, the developmental effects of CPLP cooperation depend on the extent to which knowledge, administrative practices, and governance arrangements become embedded within domestic institutions. Educational cooperation generates sustainable development gains not simply by providing resources, but by strengthening the institutional foundations necessary to translate external support into long-term improvements in human development.

This study contributes to Liberal Institutional scholarship by extending existing explanations of international cooperation beyond their traditional emphasis on cooperation facilitation and collective action. Rather than treating international institutions solely as mechanisms that enable coordination among states, the article demonstrates how international educational cooperation can strengthen domestic institutions, transfer governance practices, and reinforce local capabilities that support long-term development. In doing so, the study highlights the importance of institutional strengthening as a key mechanism linking international cooperation to development outcomes in post-conflict states.

## RESEARCH METHODOLOGY

This study adopts a qualitative explanatory case study design to investigate how educational cooperation within the CPLP has contributed to educational development in Timor-Leste between 2018-2023. Rather than treating international cooperation as a variable whose impact can be measured statistically, the analysis focuses on the institutional processes through which cooperation initiatives are translated into domestic educational change. A qualitative case study is particularly suitable for examining these processes because it allows close attention to the interactions between international actors, domestic institutions, and policy implementation within a specific national setting (Creswell, 2014).

The unit of analysis in this study is the institutional mechanisms through which CPLP cooperation operates within Timor-Leste's education sector. These mechanisms

include teacher training programs, educational governance support, curriculum development initiatives, scholarship schemes, and academic exchange activities. Focusing on these mechanisms makes it possible to move beyond broad discussions of international cooperation and examine how external initiatives become embedded within domestic educational institutions and policy structures.

The 2018-2023 period provides a useful analytical window for two reasons. First, it captures a recent phase of CPLP engagement in Timor-Leste's education sector. Second, it corresponds with the availability of educational and HDI data reported by international organizations, allowing developments in educational cooperation to be examined alongside broader trends in human development. The study is guided by liberal institutionalism, particularly Keohane's (1984) argument that international institutions facilitate cooperation by reducing uncertainty, coordinating collective action, and promoting the exchange of information, knowledge, and resources among states. Within this framework, CPLP is understood not merely as a diplomatic forum but as an institutional platform through which educational cooperation can support domestic development processes.

This study relies exclusively on qualitative secondary data gathered through document-based research. Source selection was guided by relevance to four interconnected themes: (1) educational cooperation, (2) educational development, (3) institutional strengthening, and (4) human development in Timor-Leste. To ensure analytical consistency, the materials were organized into four categories. The first consists of academic literature, including peer-reviewed journal articles, books, and book chapters addressing international cooperation, development partnerships, liberal institutionalism, and Timor-Leste's education sector. These sources provide both the theoretical foundation and empirical context for the study. The second category comprises publications produced by international organizations, including reports and statistical assessments from UNDP, UNESCO, UNICEF, and the World Bank. These documents provide information on educational performance, HDI trends, and broader development conditions in Timor-Leste. The third category focuses on CPLP publications, including cooperation frameworks, strategic plans, institutional reports, and program documents related to educational initiatives in Timor-Leste. The fourth and final category includes institutional guidelines, technical manuals, and policy frameworks issued by international organizations and educational agencies. These materials provide additional insights into

educational governance, institutional development, and practices associated with capacity enhancement in the education sector.

The analysis follows a qualitative content analysis approach because it enables the systematic examination of textual materials while preserving the contextual meaning of policy documents and institutional reports (Krippendorff, 2013). The analysis began with document screening. Each source was reviewed to determine its relevance to the research question, and materials lacking substantive discussions of CPLP educational cooperation, educational development, institutional reform, or HDI related indicators were excluded. The remaining documents were then examined to identify meaningful units of information relevant to the study.

Codes were generated through a combination of deductive and inductive coding. Several codes were derived from Liberal Institutional concepts identified in the theoretical framework, while others emerged from recurring patterns in the empirical materials. Examples include teacher training, educational governance, knowledge transfer, institutional support, policy coordination, scholarship programs, academic mobility, and human capital development. Rather than treating these codes as isolated observations, the analysis focused on how they interacted across different forms of cooperation.

As patterns emerged from the coding process, related codes were grouped into broader analytical categories representing the principal mechanisms through which educational cooperation operates. Three categories appeared consistently across the dataset: human resource development, institutional strengthening, and knowledge transfer. These categories subsequently served as the main analytical lenses for interpreting the data and tracing the relationship between CPLP initiatives and developments within Timor-Leste's education sector. Academic literature, institutional reports, and development assessments were then compared through thematic interpretation and pattern matching to identify recurring connections between educational cooperation, educational reform, governance improvements, and HDI-related educational indicators. Rather than seeking to establish direct causal effects, the analysis focused on identifying plausible institutional pathways through which cooperation initiatives may contribute to broader development processes.

To strengthen the credibility of the findings, this study employs source triangulation by systematically cross-checking information from CPLP publications against evidence from international organizations, academic literature, and, where

available, domestic policy documents. Given that institutional reports may reflect the priorities and perspectives of the organizations that produce them, claims regarding educational cooperation activities were verified through multiple sources. For example, descriptions of teacher training initiatives reported by CPLP were compared with educational assessments published by UNESCO, UNICEF, and the World Bank, while claims regarding educational progress were evaluated against HDI statistics and educational indicators reported by UNDP. Academic studies provided an additional layer of verification by offering independent assessments of educational development and international cooperation in Timor-Leste. Only findings supported by multiple categories of sources were incorporated into the final analysis, thereby reducing the risk of institutional bias and increasing confidence in the study's interpretations.

The study makes no causal claim linking CPLP cooperation to Timor-Leste's HDI; that index moves with petroleum revenues, public health, and a dozen other forces well beyond the education sector. The aim is narrower and more political: to trace the institutional pathways—knowledge transfer, governance support, capacity building, and human resource development—through which an external bloc embeds its practices, standards, and language in a host state, and to identify where that influence takes hold and where it meets resistance. The evidence is read as a demonstration of process and of strategic reach, not as proof of outcome.

## RESULT AND DISCUSSION

### *The Comunidade dos Países de Língua Portuguesa (CPLP) Programmes in Timor-Leste's Education Sect*

By 2018, Timor-Leste had entered a period of greater political stability following a series of democratic elections. Freedom House (2018) upgraded Timor-Leste's status from "Partly Free" to "Free," citing the successful conduct of elections and the peaceful transfer of power. This development suggests a more stable political environment in which the government was potentially better positioned to pursue longer-term development objectives, including reforms in the education sector. At the same time, the CPLP was implementing its New Strategic Vision 2016–2026, adopted at the XI CPLP Summit in Brasília in 2016. The document positioned the 2030 Agenda for Sustainable Development as a common normative framework for cooperation among member states. Within the education sector, SDG 4, which emphasizes inclusive, equitable, and quality education,

became a central reference point for cooperation initiatives undertaken in Timor-Leste (CPLP, 2021). Consequently, 2018 marked a period in which several programs developed under this strategic framework had moved beyond initial implementation and entered phases of institutional consolidation.

One of the most prominent areas of cooperation concerned teacher professional development, particularly in Portuguese-language instruction. The Pro-Portugues program was introduced to address a longstanding challenge within Timor-Leste's education system: the limited number of teachers capable of delivering instruction in Portuguese, one of the country's official languages and a key medium of instruction within the national curriculum. Rather than operating solely as a language-training initiative, the program functioned as a mechanism for transferring pedagogical knowledge and professional standards across the Lusophone community. Its implementation was coordinated through Instituto Nacional de Formacao de Docentes e Profissionais da Educacao (INFORDEPE), which served as the principal institutional interface between Timor-Leste and CPLP member states, particularly Portugal and Brazil. Through INFORDEPE, cooperation extended beyond the deployment of foreign trainers to include efforts aimed at strengthening domestic teacher-training structures and enhancing their long-term capacity to manage professional development independently. From a liberal institutionalist perspective, this arrangement reflects how international institutions facilitate cooperation by reducing knowledge gaps and supporting local capacity development through sustained institutional partnerships. Portugal's role was particularly significant due to its historical and linguistic ties with Timor-Leste. Through institutions such as Instituto Camoes, Portugal continued to support Portuguese-language education, while OECD data indicate that approximately USD 24 million in Portuguese official development assistance was disbursed to Timor-Leste between 2011 and 2012, with around 15 percent allocated to the education, health, and population sectors. This pattern of support continued in subsequent years and remained an important component of educational cooperation by 2018 (Lucas et al., 2015).

Teacher professionalization was closely linked to broader efforts to reform curriculum and educational governance. A major example was the General Secondary Education Restructuring Project (RSGE-Reestruturacao do Ensino Secundario Geral), developed through cooperation between the Ministry of Education of Timor-Leste and the University of Avero in Portugal, with funding support from the Portugues de Apoio ao Desenvolvimento (now Camoes Instituto). The project introduced a new secondary school

curriculum organized into two academic streams, which are Science and Technology, and Social Sciences and Humanities, while maintaining a common curriculum that included Tetum, Portuguese, English, Indonesia, Civic Education, Multimedia Technology, Religious Education, and Physical Education. Beyond curriculum revision, the RSGE represented an effort to transfer governance practices and educational planning models from a Lusophone context into Timor-Leste's education system (Gomes et al., 2024). By 2018, the curriculum had been fully implemented across grade 10 to 12 and had entered a stage of evaluation and refinement. The adaptation process revealed several structural constraints. Interviews with education policymakers identified three recurring challenges: limited Portuguese-language proficiency resulting from decades of prohibition during the Indonesian occupation, weaknesses in the scientific and pedagogical preparation of teachers, and insufficient administrative and pedagogical management capacity at the school level. These obstacles highlight that institutional transfer is not a linear process. External models require continuous adaptation, local ownership, and sustained mentoring if they are to become embedded within domestic educational structures.

Cooperation also extended to vocational and non-formal education through the AQEP Programme (*Aumento da Qualidade da Educação e dos Profissionais*), which sought to improve educational quality and strengthen workforce competencies. The program covered both formal and non-formal educational pathways and received support from CPLP member states through the deployment of teachers, technical specialists, and vocational instructors across all thirteen districts of Timor-Leste. Its underlying objective was to align educational outcomes more closely with labor market needs. This orientation reflects what educational scholars describe as "education for employability," an approach that emphasizes the relationship between learning and economic participation. Given Timor-Leste's continued dependence on the hydrocarbon sector and persistent youth unemployment during this period, vocational training represented an important policy instrument for broadening economic opportunities. Contributions from Portugal and Brazil included curriculum design, technical training modules, and expertise derived from similar vocational programs implemented in their own national contexts. In this sense, AQEP functioned not only as a skills development initiative but also as a channel for transferring institutional knowledge related to workforce preparation and vocational governance.

At the tertiary level, CPLP cooperation focused on academic mobility and access to higher education. The *Programa de Mobilidade Académica* facilitated exchanges of students

and academic staff among member states, creating opportunities for Timorese institutions to engage with broader Lusophone academic networks. These exchanges supported the internationalization of higher education while exposing participants to alternative teaching practices, research environments, and institutional experiences. Complementing this initiative, the *Programa de Bolsas de Estudo CPLP* provided scholarship opportunities for Timorese students to pursue higher education abroad. Priority was often given to students from disadvantaged backgrounds, reflecting an effort to expand access to educational opportunities that might otherwise remain inaccessible. From the perspective of educational equity, these programs carried significance beyond academic mobility alone. They also functioned as mechanisms for widening access to cultural and educational capital, a process that Pierre Bourdieu (1986) argues is central to addressing the reproduction of social inequality through unequal access to educational resources.

The scope of cooperation extended beyond teaching and curriculum reform to include technical assistance, educational infrastructure, and learning resources. Through the *Plano Estratégico de Cooperação Multilateral na Área da Educação*, CPLP member states contributed to the rehabilitation and construction of school facilities, the distribution of textbooks, and the development of educational assessment systems. Such support addressed structural constraints that had long affected the Timorese education sector. Earlier international assessments documented schools lacking adequate sanitation, clean water, classroom furniture, and basic learning materials. Infrastructure assistance therefore contributed to creating more conducive learning environments, while the provision of textbooks in Portuguese and Tetum helped address persistent shortages of teaching materials associated with the implementation of the revised curriculum. Although these initiatives do not directly demonstrate improvements in educational outcomes, they strengthened institutional conditions necessary for the effective delivery of education and supported the broader objective of enhancing educational capacity within Timor-Leste.

***Cooperation between Timor-Leste and the Comunidade dos Países de Língua Portuguesa (CPLP) in the Education Sector to Support Human Development Index (HDI) in Timor Leste***

The cooperation between Timor-Leste and the CPLP reflects a form of institutionalized international cooperation aimed at supporting human development through educational capacity building. It is also, read in strategic terms, a vehicle of soft

power: by financing teacher training, supplying curricula, and underwriting scholarships, Portugal and Brazil cultivate professional and linguistic ties that extend their reach into a strategically located corner of maritime Southeast Asia at modest cost. Within the framework of Liberal Institutionalism, international institutions are understood not merely as diplomatic forums, but as mechanisms that facilitate cooperation, reduce structural constraints, and promote the exchange of resources, knowledge, and expertise among member states (Keohane, 1984). In the case of Timor-Leste, the CPLP functions as an institutional platform through which educational assistance, professional training, and policy support can be mobilized to address limitations within the national education system.

Since gaining independence in 2002, Timor-Leste has faced persistent challenges in educational development. Limited infrastructure, shortages of qualified teachers, uneven educational access between urban and rural areas, and institutional capacity constraints have affected the country's ability to strengthen human capital. These challenges are particularly relevant to the education dimension of the HDI, which is measured through indicators such as Mean Years of Schooling (MYS) and Expected Years of Schooling (EYS). As education constitutes one of the three core dimensions of HDI, improvements in educational access, quality, and institutional effectiveness remain closely connected to broader human development objectives (Citrawan et al., 2018).

**Figure 1. Timor Leste's Human Development Index Data from 2018-2023**



Source: <https://hdr.undp.org/data-center/country-insights#/countries/TLS>

Figure 1 is presented to provide contextual background regarding broader human development trends in Timor-Leste during the period under study. According to data published by UNDP (2023), Timor-Leste's HDI increased from 0.606 in 2018 to 0.634 in 2023, indicating gradual progress in overall human development. However, this trend should not be interpreted as evidence of a direct relationship between CPLP educational cooperation and changes in HDI. As a multidimensional indicator, HDI is shaped by forces that lie largely outside the education sector—income, health, and public expenditure chief among them—and that no single program can claim to drive. This caution does not diminish the analytical interest of the case; it sharpens it, directing attention away from outcome metrics and toward the institutional and strategic channels through which external cooperation alone. Developments in national income, fluctuations in petroleum revenues, government expenditure on infrastructure and public services, improvements in healthcare provision, and development assistance provided by international organizations such as the World Bank, UNDP, UNICEF, and the Asian Development Bank have all influenced Timor-Leste's broader development trajectory. Consequently, while the increase in HDI provides important contextual evidence of human development progress during the period under study, it cannot be attributed exclusively to CPLP educational programs (Gomes et al., 2024).

Within this broader context, the significance of CPLP cooperation lies primarily in its contribution to strengthening the institutional foundations of the education sector. Through teacher training programs implemented by INFORDEPE, Portuguese-language capacity building under the Pro-Portugues initiative, curriculum reform through the RSGE

vocational education support under AQEP, and academic mobility programs among member states, the CPLP has contributed to the development of educational institutions and human resources in Timor-Leste. These initiatives provided access to pedagogical expertise, professional networks, technical assistance, and governance practices that were not always readily available within domestic institutions.

From the perspective of Liberal Institutionalism, such programs illustrate how international institutions facilitate cooperation by reducing domestic capacity constraints and creating structured channels for knowledge transfer. Rather than focusing solely on material assistance, CPLP cooperation has emphasized the strengthening of institutional capabilities that support the long-term delivery of education. Teacher professionalization programs sought to improve pedagogical competence and language proficiency, curriculum reform initiatives supported the modernization of educational governance, while scholarship and academic mobility schemes expanded opportunities for higher education and professional development. Together, these initiatives contributed to the institutional conditions necessary for sustaining educational development.

The relevance of these programs became particularly evident during the COVID-19 pandemic, when education systems across the world faced significant disruption. While the available evidence does not permit a direct assessment of the extent to which CPLP initiatives affected HDI outcomes, the continued operation of teacher training programs, institutional partnerships, and educational support mechanisms helped maintain important components of educational capacity during a period of considerable uncertainty. In this regard, CPLP cooperation can be understood as supporting the resilience of educational institutions rather than directly determining national human development outcomes.

The relationship between CPLP cooperation and HDI is therefore better understood as a process of institutional contribution rather than one of direct causation. Educational cooperation occurred alongside broader national and international development efforts, making it difficult to isolate the effects of any single program on overall HDI performance. Nevertheless, the evidence suggests that CPLP initiatives contributed positively to the strengthening of educational institutions, human resource development, and governance capacity, all of which are associated with the education dimension of human development.

The relevance of Liberal Institutionalism becomes particularly visible in explaining this process. Keohane (1984) argues that international institutions facilitate cooperation by reducing uncertainty, providing coordination mechanisms, and encouraging the exchange of information and resources among states. In Timor-Leste's case, the CPLP provided a framework through which educational cooperation became more structured, predictable, and sustainable (Hickel, 2020). Through this institutional framework, member states such as Portugal and Brazil were able to support educational development in ways that extended beyond financial assistance alone, encompassing technical expertise, professional training, and policy coordination.

This pattern of cooperation also aligns closely with the SDGs, particularly SDG 4 on Quality Education and SDG 17 on Partnerships for the Goals. Improvements in educational capacity, teacher training, curriculum development, and access to higher education reflect objectives associated with SDG 4, while the collaborative nature of CPLP initiatives demonstrates the practical importance of international partnerships emphasized by SDG 17. The Timor-Leste case therefore illustrates how multilateral educational cooperation can support national development priorities while simultaneously advancing broader international development agendas.

At the same time, several structural challenges continue to affect the effectiveness of educational cooperation in Timor-Leste. Educational inequalities between urban and rural areas remain visible in access to qualified teachers, learning resources, and institutional support, while continued reliance on external assistance raises questions about the long-term sustainability of certain programs. Linguistic barriers also persist, particularly as Portuguese-language educational frameworks interact with local realities in which Tetum and regional languages remain more widely used. These challenges indicate that the success of international cooperation depends not only on support from external partners but also on the ability of domestic institutions to adapt reforms to local conditions and sustain them over time. Within these limitations, CPLP cooperation has nevertheless contributed to strengthening educational capacity in Timor-Leste through teacher professionalization, curriculum reform, academic mobility, and institutional support in the education sector. However, the increase in Timor-Leste's HDI between 2018 and 2023 cannot be attributed solely to CPLP programs, as human development outcomes are influenced by a wide range of economic, social, political, and institutional factors. The findings instead suggest that CPLP cooperation contributed to the educational conditions

associated with human development, particularly through efforts to strengthen institutions, expand educational opportunities, and support human resource development.

*Liberal Institutionalism and the Contribution of CPLP to Human Development in Timor-Leste*

While Liberal Institutionalism provides a useful framework for understanding how international institutions facilitate cooperation, the Timor-Leste case also reveals several limitations that cannot be fully explained through institutionalist assumptions alone. Keohane (1984) argues that international institutions reduce uncertainty, facilitate coordination, and promote mutually beneficial cooperation among states. The experience of CPLP educational cooperation in Timor-Leste partially supports this argument. Through teacher training programs, curriculum restructuring initiatives, academic mobility schemes, and vocational education support, the CPLP has provided institutional resources that assisted the development of educational governance and human resource capacity during a period of post-conflict state consolidation.

The transfer of educational norms and governance practices through programs such as Pro-Português, INFORDEPE, and the General Secondary Education Restructuring Project (RSGE) illustrates how international cooperation can function as a process of norm diffusion and governance transfer. Educational actors in Timor-Leste were exposed to administrative models, professional standards, and pedagogical approaches originating from other Lusophone countries. Rurahman (2016) argues that such forms of cooperation often operate through the gradual internalization of institutional practices rather than through direct intervention. Similarly, Cabral and Martin-Jones (2017) highlight how educational cooperation between Portugal and Timor-Leste involved not only technical assistance but also the transfer of educational governance frameworks and curriculum models. From a liberal institutionalist perspective, these processes demonstrate how international institutions can support domestic capacity building by providing access to expertise, policy coordination, and administrative guidance.

Human capital development represents another important dimension of CPLP cooperation. Academic mobility programs and scholarship schemes expanded opportunities for Timorese students to access higher education institutions across the Lusophone world. These initiatives facilitated exposure to new academic environments, professional networks, and forms of technical knowledge that were less accessible within

the domestic education system. Miranda (2024) notes that educational mobility programs can contribute to long-term capacity formation by strengthening professional competencies and expanding access to higher education. Vocational education initiatives such as AQEP similarly sought to improve workforce preparedness by aligning educational training with labor-market requirements. These programs created institutional pathways through which knowledge, skills, and professional standards could circulate between Timor-Leste and other CPLP member states.

At the same time, a more critical perspective suggests that the benefits of international cooperation are neither automatic nor evenly distributed. Dependency Theory offers an alternative interpretation by emphasizing the unequal power relations that often characterize development cooperation. Rather than viewing external assistance solely as a mechanism for capacity building, dependency scholars argue that sustained reliance on foreign expertise, funding, and technical support may limit the development of autonomous domestic institutions. In the Timorese context, many educational programs remain closely connected to financial and technical assistance provided by Portugal and Brazil. While such support has facilitated educational reforms, it also raises questions regarding long-term sustainability and domestic policy ownership. Educational institutions that rely extensively on external expertise may encounter difficulties maintaining programs independently if international support diminishes.

Postcolonial perspectives raise an additional concern regarding the sociolinguistic foundations of educational cooperation. Portuguese occupies a central position within many CPLP educational initiatives and continues to function as an important language of instruction, administration, and academic exchange. However, this institutional preference does not always correspond to the linguistic realities of Timorese society, where Tetum and various local languages remain the primary means of communication for much of the population. Cabral and Martin-Jones (2017) note that the promotion of Portuguese within educational policy has generated practical and pedagogical challenges, particularly in communities where exposure to Portuguese remains limited. From a postcolonial perspective, the transfer of Lusophone educational models may therefore reproduce certain forms of cultural hierarchy in which externally derived norms receive greater institutional legitimacy than locally embedded linguistic practices.

Policy transfer literature further complicates the assumption that successful institutional models can be easily transplanted across national contexts. Educational reforms that perform effectively in Portugal or other CPLP member states may encounter

implementation difficulties when introduced into Timor-Leste's distinct political, administrative, and socio-cultural environment. Bureaucratic capacity constraints, uneven resource distribution, and regional disparities continue to affect the implementation of educational programs across the country. Schools in rural areas frequently face shortages of qualified teachers, educational materials, and administrative support, limiting the extent to which transferred policies can be implemented uniformly. These challenges suggest that governance transfer is not a linear process of institutional replication but rather a negotiated process of adaptation shaped by local realities and institutional constraints.

The relationship between CPLP cooperation and Timor-Leste's Human Development Index must therefore be interpreted with caution. Timor-Leste's HDI increased from approximately 0.606 in 2018 to 0.634 in 2023 (UNDP, 2023). However, this improvement represents a multidimensional development outcome influenced by a wide range of factors extending beyond educational cooperation alone. Economic performance, petroleum revenues, public health interventions, government expenditure, infrastructure development, and assistance from other international organizations all interact in shaping human development outcomes. Consequently, the findings of this study do not establish a direct causal relationship between CPLP educational programs and changes in HDI.

A more appropriate interpretation is that CPLP cooperation functioned as a supporting institutional factor within a broader development environment. Teacher professionalization initiatives, curriculum reforms, vocational education programs, and academic mobility schemes strengthened institutional conditions associated with educational development and state capacity building. These initiatives contributed to the consolidation of educational governance structures and expanded opportunities for knowledge exchange and human resource development. Their significance lies less in producing measurable changes in HDI itself and more in supporting the institutional processes through which long-term human development may be pursued. Viewed from this perspective, the CPLP operates not as a direct driver of human development outcomes but as an institutional platform that facilitates cooperation, governance adaptation, and capacity-building efforts within Timor-Leste's evolving education system.

## CONCLUSION

This study has examined how educational cooperation between Timor-Leste and the Comunidade dos Países de Língua Portuguesa (CPLP) has operated as a form of institutionalized international cooperation within the education sector between 2018 and 2023. The findings indicate that CPLP cooperation has supported educational development through a range of initiatives, including teacher professionalization programs, curriculum reform, academic mobility schemes, technical assistance, and educational governance support. These initiatives facilitated the transfer of professional standards, educational practices, and institutional knowledge from Lusophone member states into Timor-Leste's educational system. Rather than functioning solely as a platform for interstate cooperation, the CPLP served as a channel through which educational norms, administrative practices, and governance models were introduced and adapted within domestic institutions. The findings also suggest that these forms of cooperation contributed to strengthening institutional conditions associated with educational development, particularly through efforts to enhance teacher capacity, improve educational governance, and expand opportunities for human resource development.

The relationship between CPLP cooperation and broader human development outcomes, however, should be interpreted with caution. Although Timor-Leste's Human Development Index increased from 0.606 in 2018 to 0.634 in 2023 (UNDP, 2023), this improvement reflects a complex interaction of educational, economic, social, political, and public health factors that extend beyond the scope of educational cooperation alone. Consequently, the findings do not establish a direct causal relationship between CPLP programs and changes in HDI. Instead, the study identifies a set of institutional pathways through which educational cooperation may support broader human development objectives. In this regard, CPLP initiatives can be understood as supporting institutional factors that strengthen educational capacity and human resource development rather than as independent drivers of improvements in national development indicators. At the same time, the analysis highlights several constraints that shape the effectiveness of cooperation, including continued reliance on external expertise, uneven institutional capacity across regions, and sociolinguistic challenges associated with the implementation of Portuguese-language educational frameworks in a multilingual domestic context.

From a theoretical perspective, the findings are broadly consistent with Liberal Institutional arguments regarding the role of international institutions in facilitating cooperation, reducing uncertainty, and supporting capacity building among member states

(Keohane, 1984). At the same time, the Timor-Leste case demonstrates that the outcomes of international cooperation remain mediated by domestic institutional conditions and are not automatically translated into developmental gains. The study therefore does not seek to extend or revise Liberal Institutionalism, but rather to contextualize its application within a post-conflict developing state characterized by limited institutional capacity and ongoing development challenges. Considered alongside concerns raised by dependency perspectives, postcolonial critiques of knowledge transfer, and policy transfer literature, the findings suggest that international institutions operate within a more complex landscape than Liberal Institutionalism alone may imply. The contribution of this study lies in providing an empirically grounded account of how educational cooperation is negotiated, adapted, and constrained in practice, while illustrating both the possibilities and limitations of international institutional support in the pursuit of long-term educational and human development objectives. For the wider study of strategy, the case carries a clear lesson. Influence in small and fragile states is increasingly exercised not through coercion or large transfers of capital but through the slow, low-visibility shaping of institutions, professions, and languages—a register of competition in which middle and former colonial powers such as Portugal and Brazil can remain consequential. Yet the Timor-Leste experience also marks the limits of that register: where language policy outruns social reality and where host institutions lack the capacity to absorb what is offered, externally supplied models stall. The strategic value of educational cooperation, in other words, depends as much on the receptivity of the host state as on the ambitions of the sponsor—a finding with implications well beyond the Lusophone world, including for the larger powers now competing for influence across the Indo-Pacific.

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# PENETRATING AN ISOLATED MARKET: INDONESIA'S STRATEGIC RATIONALITY IN THE 2023 INDONESIA-IRAN PREFERENTIAL TRADE AGREEMENT

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*This article examines why Indonesia, during President Joko Widodo's push to expand economic diplomacy into the Middle East, deepened economic cooperation with Iran through the Indonesia-Iran Preferential Trade Agreement (II-PTA), signed on May 23, 2023, despite Iran's international isolation under a sanctions regime lasting more than four decades. The question is sharper than simply identifying Indonesia's interests, since every country has multidimensional interests in any trade agreement; what distinguishes Iran is that international sanctions themselves create strategic opportunities for Indonesia. Using Nuechterlein's national interest framework and political economy, this research shows that the II-PTA reflects a strategic choice driven by economic interest, regional geopolitical considerations, and the need to maintain foreign policy autonomy under sanctions pressure. Rather than a pure obstacle, the sanctions have increased demand for Indonesian non-energy commodities such as palm oil, paper, and light manufactured goods that fall outside their scope. The free and active principle is treated here as an operational mechanism for balancing economic benefit against geopolitical risk. Indonesia's exports to Iran are projected to reach USD 494 million by 2030 with a USD 468 million surplus, though success will depend on implementing countertrade mechanisms and resolving the banking obstacles created by US sanctions.*

**Keywords:** *National Interest; Iran Sanctions; Preferential Trade Agreement; Jokowi's Economic Diplomacy; Strategic Hedging*

## INTRODUCTION

On May 23, 2023, the 7th President of Indonesia, Joko Widodo, along with the then President of Iran, Seyyed Ebrahim Raisi, signed the Indonesia-Iran Preferential Trade Agreement (II-PTA) at the Bogor Presidential Palace. This signing was not a decision made in a short time, but rather the result of a long negotiation process that began in 2010, encompassing seven rounds of official negotiations and ten intersessional meetings. This agreement marks a new chapter in Indonesia-Iran bilateral relations while reaffirming Indonesia's commitment to continue expanding its trade cooperation network with countries in non-traditional regions (Santia, 2023).

The signing of the II-PTA needs to be placed within a broader analytical framework than just a general reading of trade interests. If it is only understood as a manifestation of economic interests, export promotion, and strengthening diplomatic relations, then this explanation is not sufficient to capture the uniqueness of the Indonesia-Iran case. What is actually important to examine is the reason Indonesia chose to deepen economic cooperation with Iran at a time when the country was still under the pressure of international isolation and a prolonged sanctions regime. In this context, Iran cannot be positioned the same as Indonesia's other PTA partners, because the geopolitical conditions surrounding it present different consequences, risks, and opportunities. Therefore, the II-PTA is better understood as the result of Indonesia's strategic calculations in responding to a specific economic-political configuration, where the sanctions situation against Iran is not merely seen as an obstacle, but also as a factor that shapes the strategic value of the agreement for Indonesia.

As a country that has adhered to an independent and active foreign policy since the era of independence, Indonesia has the freedom to establish cooperation with any country without being bound to any specific military bloc or pact (Santia, 2023). This principle serves as a solid foundation for Indonesia to maintain economic relations with Iran despite the country facing international sanctions imposed by the United States, the United Nations, and the European Union since 1979. These sanctions have significantly impacted Iran's economy, including a decrease in oil production and exports, contraction of Gross Domestic Product (GDP), high inflation, and currency depreciation (Farzanegan, 2023). In the context of the II-PTA, the principle of an independent-active foreign policy provides space for Indonesia to continue economic cooperation with Iran despite the pressure of international sanctions. A more detailed explanation of the operationalization of the free-active principle as a strategic hedging mechanism is discussed in the analytical

framework section: Indonesia consciously accepts the geopolitical cost of potential US diplomatic pressure in order to gain strategic benefits in the form of access to markets that are experiencing a demand vacuum due to the withdrawal of Western exporters (Haris, 2023).

Unlike other PTA trading partners of Indonesia, Iran operates under unique structural conditions due to an international sanctions regime that has been in place for over 40 years (Cirlig, 2025). The comprehensive sanctions imposed by the United States since 1979 and reinforced through President Trump's maximum pressure policy in 2018 have fundamentally distorted Iran's financial, banking, and insurance systems. As a result, despite Iran having a GDP of around USD 404 billion in 2023 and the second-largest energy reserves in the world, its market access to consumer products, processed foods, and light manufacturing from abroad is very limited (Farzanegan, 2023). This condition actually creates a very high demand for Indonesia's leading commodities such as palm oil (CPO), paper, coffee, and manufactured products that are not directly affected by the energy and technology sanctions that are at the core of the US sanctions regime. Thus, the context of the sanctions, which have long been perceived as an obstacle, has actually become a factor that widens the market gap for Indonesian products in Iran (Haris, 2023).

US sanctions against Iran have empirically proven to significantly alter Iran's trade patterns. Data shows that Iranian exporters have successfully shifted trade from Western destinations to markets in Asia, Africa, and Latin America (Haidar, 2013). In this context, Indonesia is in a very advantageous position: as a non-energy product exporter with high commodity complementarity to Iran, Indonesia can actually fill the market gap left by Western exporters due to sanctions (Laudati, 2023). This explains why the decrease in competition from Europe and North America, due to the reluctance of Western companies to operate in Iran, actually increases the attractiveness of the Iranian market for Indonesia (Biro Humas Kementrian Perdagangan RI, 2024).

In addition to being a bilateral market, Iran is also seen as having regional strategic value due to its position connected to the Eurasian cross-border trade network, including through the INSTC which links India with Russia via Iranian territory (Haris, 2023). With a population of 88 million and an untapped market, Iran represents a significant opportunity for the expansion of Indonesian products, which have so far been hindered by relatively high tariff structures (Biro Humas Kementrian Perdagangan RI, 2024).

The signing of the new II-PTA materialized in 2023 after a long negotiation process lasting 13 years, influenced by the interconnection of four main factors. First, the completion of seven rounds of technical negotiations covering the harmonization of tariff item lists, rules of origin, and countertrade mechanisms, factors that technically took a long time given the complexity of Iran's tariff structure. Second, President Raisi's state visit to Indonesia in May 2023 provided high-level diplomatic momentum that accelerated the finalization of the agreement. Third, the escalation of the US-China trade war since 2018, which has shaken global supply chains, has prompted Indonesia to accelerate the diversification of its export markets to non-traditional regions as a strategy to mitigate structural risks. Fourth, the domestic factor is the legacy policy agenda of President Jokowi, who wants to finalize as many trade agreements as possible before the end of his term in October 2024, a commitment reflected in the 27 trade agreements signed during his two terms (Antara, 2024). From a substantive perspective, the II-PTA 2023 has significant novelties: first, it is the first preferential trade agreement between Iran and any ASEAN member country (TEMPO, 2023); second, the II-PTA includes a countertrade clause, a bilateral barter mechanism that Indonesia has included in its trade agreements for the first time as a pragmatic solution to banking obstacles due to international sanctions (Niaga Asia, 2024).

Several previous studies have examined the theme of Indonesia's PTA with various trading partners. Sakinah Arif and Paksi (2022) examined the Indonesia-Mozambique PTA as Indonesia's stepping stone in the African continent. Pratama (2014) analyzes Indonesia's motivation for signing a PTA with Egypt. Nugroho (2021) examined the effectiveness of the IP-PTA on Indonesia's tea exports to Pakistan. Pulungan and Nurhayati (2020) examined the optimization of the utilization of the Indonesia-Peru PTA, while Ingot and Ulfa (2023) researched the potential increase in trade through the ASEAN-Bangladesh PTA. However, there has been no research specifically discussing the interests of the Indonesian Government in the Indonesia-Iran PTA in 2023. This research gap is the basis for the novelty of this article.

This research aims to explain the strategic rationality behind Indonesia's decision to deepen economic cooperation with Iran under conditions of international isolation and sanctions, by tracing how economic interests, geopolitical configurations, and the free-active principle interact within the framework of the II PTA: Indonesia utilizes the free-active principle not merely as a descriptive label, but as an operational mechanism to pursue long-term economic interests in a market that is experiencing a demand vacuum

due to sanctions, while simultaneously asserting foreign policy autonomy amidst great power competition (Rosyidin & Andika, 2017). The novelty of this research lies in the contextual analysis that explains why the timing factor (2023) and the agreement format (PTA with countertrade clause) have strategic significance that goes beyond merely signing a regular trade agreement.

## **ANALYTICAL FRAMEWORK**

### *National Interest*

Each country has different goals known as national interest. This concept has evolved into a fundamental foundation in the study of international relations, highlighting the importance of the state's role as a primary contributor in the process of shaping the framework of international interaction. National interest can be defined as the goals to be achieved in relation to the needs of the nation or state, and simultaneously serves as a benchmark for decision makers before formulating foreign policy attitudes or actions (Aliza, 2024).

Historically, the theory of national interest was first proposed by Hans J. Morgenthau in his essay 'The Primacy of the National Interest' (1949). Morgenthau asserts that the national interest of each country is fundamentally the pursuit of power, specifically all means that can build and maintain a country's dominance over another. Morgenthau categorizes national interest into two levels: primary (vital) national interest, which relates to the preservation of a country's physical, political, and cultural identity as well as the security of its existence; and secondary national interest, which can be negotiated and discussed with other countries (Mas'oeed, 1990).

Furthermore, Donald E. Nuechterlein categorizes national interests into four fundamental goals that drive a country's foreign relations: (1) defense and security interests; (2) economic interests aimed at improving the economy through cooperation with other countries; (3) world order interests; and (4) ideological interests. In his explanation, Nuechterlein believes that economic interest is the most important aspect beside defense objectives, as the contemporary economy serves as a new source of influence that earns a country global respect (Nuechterlein, 1979).

However, the use of Donald E. Nuechterlein's framework in analyzing II-PTA is insufficient if it only stops at categorizing interests into general categories. Analytically,

what is more important is to prioritize these interests and explain the relationships between them in shaping policy decisions. In the context of the II-PTA, economic interests hold the highest position because this agreement is directly related to Indonesia's need to expand its export market to non-traditional regions, while also taking advantage of the opened demand niche in the Iranian market due to the reduced involvement of Western exporters amid the sanctions regime. The significance of this interest is reflected in the opening of preferential tariff access and the projected increase in Indonesia's exports to Iran after the agreement is implemented. (Biro Humas Kementrian Perdagangan RI, 2024).

Under these economic interests, there are other secondary interests, namely those related to Iran's strategic position in the regional trade network and South-South economic relations. At the secondary level, Iran's value lies in its position as a strategic hub in the regional trade network, which expands the meaning of the II-PTA beyond bilateral relations. Moreover, the closeness between Indonesia and Iran in forums for cooperation among developing countries, including D-8, demonstrates that II-PTA also has a broader dimension in efforts to strengthen economic networks beyond traditional markets.. (Haris, 2023).

Meanwhile, the supporting dimensions of Indonesia's interests in the II-PTA can be seen in the ideational and diplomatic aspects. The principle of an independent-active foreign policy allows Indonesia to continue building cooperation with Iran without having to fully submit to the pressures of certain power blocs, while the element of identity closeness as fellow Muslim countries also provides a normative foundation that strengthens the relationship between the two countries. However, the ideational factor does not stand alone as the main explanation; rather, it functions as a supporting element that facilitates the realization of more dominant economic and strategic interests. Thus, the hierarchy of Indonesia's interests in the II-PTA can be understood as a structure primarily based on economic interests, then reinforced by strategic interests in the international trade system, and further supported by diplomatic and ideational dimensions that provide additional legitimacy to the policy (Athallah et al., 2025).

The arrangement of interests needs to be stated explicitly because this is where the main distinction of this research lies compared to most previous studies that only inventory interests without specifying which ones most determine the direction of policy. In the II-PTA framework, economic interests are the main drivers, while the diplomatic and ideational dimensions serve as supporting elements for the policy choices made, rather

than as independent and autonomous driving forces from economic-strategic calculations (Haris, 2023).

Indonesia's national interest, as stipulated in Law Number 3 of 2002 on State Defense, is to ensure the continued integrity of the Unitary State of the Republic of Indonesia (NKRI) based on Pancasila and the 1945 Constitution, as well as to guarantee the smooth progress of national development (Kementerian Pertahanan RI, 2015). However, national interests cannot be verified solely from legal texts. In practice, national interests are operational and manifested in concrete directives given by the government to its diplomatic apparatus. In the context of the II-PTA, Indonesia's operational national interests can be verified through a series of official policy documents, including: (1) a strategic study by the Center for Policy Studies and Development of the Indonesian Ministry of Foreign Affairs, which explicitly identifies Iran as an untapped strategic market (Haris, 2023); (2) a study by Sabaruddin (2017) from the Indonesian Ministry of Foreign Affairs that classifies Iran among the 219 non-traditional priority markets for Indonesia (Sabaruddin, 2017); (3) an official statement by Minister of Trade Zulkifli Hasan when advocating for the ratification of the II-PTA in the House of Representatives (Biro Humas Kementerian Perdagangan RI, 2024); and (4) a consistent record of bilateral diplomatic visits from 2006 to 2023, reflecting the government's sustained commitment to strengthening Indonesia-Iran relations (US-ASEAN Business Council, 2023).

In the modern era, conflicts between countries do not always take the form of direct military confrontations, but have instead evolved into trade conflicts or trade wars. Economic protectionism has become one of the main instruments in modern trade wars, where countries implement various protective policies in the form of tariffs, quotas, and embargoes to protect their domestic interests. Developing countries tend to be the most affected due to their dependence on exports to developed countries and the vulnerability of their economic structures (Rosdiana et al., 2025). In this context, developing countries including Indonesia must devise smart strategies, one of which is utilizing PTAs and other trade agreements to strengthen their economic resilience (US-ASEAN Business Council, 2023).

It is also important to understand the conceptual distinction between stated interests and actual strategic interests in the study of II-PTA. The official statements of the Indonesian government regarding "encouraging market diversification" or "utilizing Iran as a gateway" are normative stated interests (Biro Humas Kementerian Perdagangan RI, 2024). At the level of actual strategic interests, Indonesia's choice of Iran in the sanctions

situation cannot be explained merely by referring to the size of the market potential, but rather by the fact that the market has become increasingly attractive due to the reduction of competitors from Western countries as a result of the sanctions regime. This conceptual distinction helps prevent the analysis from being trapped in merely repeating the official government narrative, and forces the explanation to move toward the actual dynamics of decision-making (Haris, 2023).

### *Free-Active as a Strategic Hedging Mechanism*

The main analytical contribution of this article lies in the operational explanation of how the free-active principle works in the context of the II-PTA. The free-active principle in the context of Indonesia's foreign policy has evolved far beyond the mere non-aligned principle inherited from independence. Recent literature shows that Indonesia consistently implements a hedging strategy operationalized by the free-active principle, namely maintaining a balance of relations with various major powers while preserving strategic autonomy (Rosyidin & Andika, 2017). In the context of II-PTA specifically, the free-active principle as a hedging mechanism explains four aspects that cannot be solely explained through economic calculations. First, Indonesia consciously accepted the geopolitical cost of real risks from US diplomatic pressure due to secondary sanctions as a trade-off to gain access to a market experiencing a demand vacuum (Haris, 2023). Second, Indonesia chose the PTA format (not a comprehensive FTA) as a cautious form of geopolitical risk management: sufficient to open market access, but not too far to worsen relations with the US. Third, the addition of countertrade clauses reflects Indonesia's diplomatic adaptability in using conventional trade instruments to navigate a complex geopolitical environment (Niaga Asia, 2024). Fourth, the II-PTA is positioned as part of a broader portfolio of diversified trade partners, ensuring that dependence on Iran is never exclusive (Ditjen PPI kemendag, 2023).

In the perspective of contemporary international relations, Indonesia's actions are consistent with what is called a partial multi-alignment strategy: Indonesia is no longer merely non-aligned, but selectively manages engagement with various actors based on differentiated interest calculations (Rosyidin & Andika, 2017). Free-active in the Jokowi era is no longer passive-reactive, but rather active-assertive: proactively building trade networks in non-traditional markets while maintaining strategic relations with major powers. This strategy aligns with Indonesia's increasingly pragmatic-calculative foreign

policy orientation, where national interests are shaped not only by norms but also by dynamic geopolitical considerations (Trianjani et al., 2025).

As a form of strategic hedging, the signing of the II-PTA demonstrates Indonesia's efforts to expand its international economic maneuvering space without exclusively relying on a single group of trading partners for strategic independence in international economic policy (Mulya, 2025). In this context, the principle of free and active foreign policy not only serves as a philosophical foundation but also as a policy instrument that provides the necessary maneuvering space for Indonesia to establish trade relations with Iran without facing unmanaged diplomatic consequences (Haris, 2023).

### *Sanctions as a Strategic Explanatory Variable*

To understand II-PTA in depth, international sanctions against Iran must be viewed not merely as obstacles, but also as variables that paradoxically strengthen Indonesia's strategic calculations. Empirical research shows that US sanctions against Iran inadvertently created conditions favorable for non-Western exporters (Laudati, 2023). First, the withdrawal of European and American companies from the Iranian market created a supply gap that could be filled by exporters from Global South countries, including Indonesia (Haidar, 2013). Second, the limited access of Iran to conventional imported products increased the price premium that Iranian consumers were willing to pay for available commodities. Third, although sanctions hit oil exports, Iran's service sector contributes about 50 percent of the total GDP, while the oil sector only contributes 23 percent, and the manufacturing-mining sector contributes 20 percent, creating a sustained demand for raw materials and consumer products from abroad (Trading Economics, 2024).

This condition explains the II-PTA analytical paradox: sanctions that seemingly should deter Indonesia actually become a variable that strengthens Indonesia's strategic calculation to sign a trade agreement with Iran. Several studies in the field of international economics confirm this phenomenon, where the one-sided restriction of a country's market access actually opens up opportunities for other countries that are not bound by similar restrictions (Laudati, 2023). In the case of Indonesia, leading export commodities such as CPO, paper, and light manufacturing products are not the primary targets of sanctions, which focus on Iran's energy, military, and nuclear technology sectors, thus leaving room for normal trade to continue despite payment mechanism restrictions (Farzanegan, 2023).

It is also important to note that the biggest obstacle to the implementation of the II-PTA does not stem from the substance of the agreement itself, but rather from the supporting infrastructure for financial transactions affected by sanctions. The countertrade mechanism included in the II-PTA is an innovative response to this obstacle: by allowing direct exchange of goods without fully relying on the US dollar-based international banking system, Indonesia and Iran have created an alternative trade route that pragmatically circumvents the sanctions barrier (Niaga Asia, 2024). The innovation of this mechanism reflects the depth of understanding of Indonesian diplomats regarding the geopolitical complexities surrounding Iran, while also proving that the identified economic interests are not merely theoretical aspirations, but policies accompanied by concrete implementation plans.

### ***Political Economy and International Trade in the Context of Iran***

Political economy refers to the interaction between political and economic interests within the framework of society and governance. As Bruno S. Frey (1994) defines it, political economy is a collection of theories based on the understanding of the interconnection between the fields of economics and politics, where these two fields interact in the allocation of resources, distribution of income, and efforts to maintain stability (as cited in Mufti, 2018). Adam Smith's *The Wealth of Nations* (1776) is often invoked to illustrate the close relationship between economics and politics manifested through government policies, where the role of state regulation is necessary to ensure a fair distribution of wealth (as cited in Samuel & Kugler, 2023). This framework becomes relevant for understanding the goals and methods of the Indonesian Government in implementing the II-PTA, as through this agreement, the government pursues economic benefits while simultaneously strengthening its political position and strategic bilateral relations.

In the framework of WTO law, a Preferential Trade Agreement (PTA) is a trade agreement between two or more countries that provides special treatment in the form of tariff reductions or eliminations and other trade barriers for goods and services originating from the member countries of the agreement, while the Most Favored Nation (MFN) tariff remains applicable to non-member countries (Islam & Alam, 2009). PTAs are permitted within the WTO legal framework through three main foundations: Article XXIV of GATT 1947; Article V of GATS; and the Enabling Clause of 1979, which specifically allows

developing countries to establish preferential arrangements (Matsushita, 2002). In the specific context of Indonesia-Iran trade, the WTO Enabling Clause of 1979 is the most relevant foundation as it explicitly facilitates preferential arrangements among developing countries without having to adhere to the stricter requirements of Article XXIV (Teh & Rocha, 2011). This means that the II-PTA is not only legally valid under international law but also reflects the spirit of South-South trade, which is increasingly becoming an important trend in post-pandemic global trade, especially amid rising geopolitical fragmentation that drives developing countries to seek alternative partners outside the circle of Western powers (Mattoo et al., 2020).

Since the early 1990s, the number of active PTAs has surged sharply. WTO data shows that if in 1990 there were only about 70 PTAs in effect, by 2010 the number approached 300, with 378 PTAs notified and currently in effect (Teh & Rocha, 2011). For developing countries, participation in well-designed PTAs can help integrate into the global value chain, expand markets for manufactured goods and services, and support development goals through more inclusive economic growth (Maur & Chauffour, 2011).

International trade with Iran, as stated by Farzanegan (2023), cannot be analyzed using the conventional free market framework. Iran operates outside the mainstream international trade system due to sanctions that have lasted for more than four decades, resulting in its trade structure being formed under conditions where international financial mechanisms such as SWIFT, correspondent banking, and cargo insurance experience serious disruptions. This has led to significantly increased transaction costs and political risks for Iran's trading partners, including Indonesia (Haris, 2023). Nevertheless, the production structure patterns of both countries show strong complementarity: Indonesia has an advantage in tropical products, processed foods, and light manufacturing, while Iran has an advantage in energy, petrochemicals, and region-specific agricultural commodities (Azad, 2020). This complementarity is the basis of the rationality of the II-PTA, because trade based on differences in production structures and complementary import needs allows for the creation of trade relations that are not mutually exclusive, but rather expand mutually beneficial cooperation.

### *Philosophy and Policy of Indonesia in PTA Diplomacy*

Understanding Indonesia's interests in the II-PTA requires an understanding of why Indonesia philosophically and strategically chose the PTA format as a policy

instrument. Since the era of President Susilo Bambang Yudhoyono, Indonesia has systematically built a network of bilateral and multilateral trade agreements as part of its strategy to expand export market access. The Jokowi government continued and accelerated this strategy: during his two terms in office (2014-2024), Jokowi successfully signed 27 trade agreements, an achievement that reflects a strong commitment to the agenda of expanding export market access as a pillar of national economic growth (Antara, 2024).

And this is in line with what was stated in the State Address on the 72nd Anniversary of the Republic of Indonesia in front of the Joint Session of the DPR-DPD on August 16, 2017, where President Jokowi explicitly stated: "In economic diplomacy, our diplomatic machinery continues to work on non-traditional markets in Africa, the Middle East, and Asia" (Salim, 2017). This is not just rhetoric; this is a directive from the head of state that is then translated by the Ministry of Trade and the Ministry of Foreign Affairs into concrete trade negotiation agendas. In the Trade Ministry Working Meeting in February 2017, President Jokowi clearly emphasized the potential of the Middle Eastern market: "The Middle East has a very large opportunity, USD 975 billion, we have only entered USD 5.2 billion." The President specifically ordered that the completion of negotiations with potential countries be expedited and emphasized that Iran and the Middle East region are priorities that "we have never managed for decades." This directive is direct evidence that Indonesia's interest in the II-PTA has explicit political backing from the highest levels of government, something that cannot be obtained merely by reading laws or constitutions (Humas Kemasetneg RI, 2017).

In selecting PTA partners, Indonesia uses the export market clustering framework developed by Sabaruddin (2017) at the Indonesian Ministry of Foreign Affairs. This framework divides potential partner countries into traditional markets (12 countries, including Japan, the United States, and China) and non-traditional markets (219 economic entities). The criteria for selecting PTA partners in Indonesia encompass three dimensions: (1) the potential of untapped markets, measured by the magnitude of unmet import demand; (2) the complementarity of commodities, which refers to the alignment between Indonesia's export strengths and the import needs of the partner; and (3) regional geopolitical interests, which pertain to the potential of the partner country as a gateway to larger markets in the region. Iran meets all three criteria simultaneously, which explains why the II-PTA negotiations have been maintained for 13 years despite the ongoing obstacles of international sanctions (Sabaruddin, 2017).

Philosophically, Indonesia's approach to PTAs is selective-pragmatic: Indonesia does not pursue deep economic integration hastily, but rather opts for phased agreements that provide verified concrete benefits while carefully managing geopolitical risks (Haris, 2023). This is different from the approach of several developed countries that promote comprehensive FTAs covering investment, intellectual property rights, and government procurement. In the context of Iran, Indonesia chose the PTA format that only includes selective tariff reductions as the most realistic approach considering the complexity of international sanctions, and the addition of a countertrade clause in the II-PTA is a pragmatic innovation that demonstrates the ability of Indonesian diplomats to adapt conventional trade instruments to the existing geopolitical conditions (Rusmalina, 2023).

PTA is also the most realistic stepping stone given the sanctions surrounding Iran. As stated by the Director General of International Trade Negotiations at the Ministry of Trade, Djatmiko Bris Witjaksono, the PTA with Iran is aimed at being a solution to "penetrate export shares in non-traditional markets such as the Middle East region" (Rusmalina, 2023). In a situation where Iran's payment and banking systems are still disrupted by US sanctions, a PTA with a countertrade clause is a more pragmatic choice compared to an FTA, which requires much more comprehensive rule harmonization. The track record of Indonesia's PTA diplomacy shows a consistent pattern in partner selection, namely countries with high market potential and commodity complementarity (Sabaruddin, 2017). Indonesia's PTAs with Egypt (2010), Pakistan (2012), Peru (2017), and Mozambique (2022) follow the same pattern, and Iran follows this pattern too, with an additional, more complex geopolitical dimension due to international sanctions.

## **RESEARCH METHOD**

This research uses a descriptive qualitative approach to uncover data and information regarding Indonesia's interests in signing a Preferential Trade Agreement (PTA) with Iran. A descriptive qualitative approach is a type of research aimed at understanding the meaning and uniqueness of the object being studied by using descriptive data analysis, where the data collected consists of words or images and emphasizes the process rather than the outcome (Nasution, 2023).

This research focuses on Indonesia as the main subject of analysis and uses secondary data sources. Data were collected from various sources, including books, scientific journals, official reports, government publications, and leading online articles

relevant to the topic of the Indonesia-Iran PTA and Indonesia's international trade policy. To strengthen the empirical verification of national interests that are operational in nature, this research specifically relies on official policy documents from the Indonesian government, including studies from the Ministry of Foreign Affairs of the Republic of Indonesia, the Ministry of Trade of the Republic of Indonesia, and records of bilateral diplomatic visits as evidence that national interests in the II-PTA are not merely a normative construction of legal texts, but are manifested in verified policy actions. After data collection, the research draws conclusions through deductive reasoning, moving from general principles to specific applications in the case of the II-PTA. The scope of the research is limited to the year 2023, namely the time of the PTA agreement signing by the two related countries.

This research also applies a conceptual distinction between stated interests and actual strategic interests to avoid the analytical trap of merely repeating the government's official justifications without explaining the actual decision-making dynamics. Additionally, the strategic hedging framework is used to explain how the free-active principle operates as an explanatory variable, rather than merely a descriptive conclusion. These two approaches together enable a more in-depth analysis of Indonesia's strategic rationality in signing the II-PTA amidst the complexities of international sanctions (Rosyidin & Andika, 2017).

## DISCUSSION

### *The Dynamics of Indonesia-Iran Relations: From History to the Signing of the II-PTA*

Understanding why Indonesia signed the II-PTA in 2023 requires the right historical context, not just a chronicle of the long bilateral relationship, but the identification of specific moments where Indonesia's national interests toward Iran crystallized and why the II-PTA only materialized in 2023, not earlier.

The relationship between Iran (formerly known as Persia) and the Nusantara region (now Indonesia) had been established thousands of years before official diplomatic relations were formed. The Chinese traveler I-Tsing noted that in the autumn of 671 AD, he sailed from Canton to Sumatra on an Iranian ship, indicating that Iranian traders had been trading with China via sea routes through the Nusantara before the arrival of Islam

(Iqbal, 2022). The deep cultural relationship between the two nations is also evidenced by the absorption of around 400 Persian words into the Indonesian language, such as bandar, menara, anggur, and gandum (Jakarta, 2019b). The historical depth of the Indonesia-Iran relationship is analytically relevant because it explains that the decision to sign the II-PTA was not something done suddenly. On the contrary, the II-PTA is the institutionalization of a bilateral relationship that has long-standing historical, cultural, and complementary interests but has never been optimally formalized in a trade agreement.

Official diplomatic relations between Indonesia and Iran began in 1950 at the ministerial level and were later elevated to ambassadorial level in 1959 (Jakarta, 2019a). The Friendship Agreement between the two countries was signed in 1958 ( Undang-Undang Nomor 17 Tahun 1959). The first international sanctions against Iran were imposed by the United States through Executive Order 12170 in November 1979 by President Jimmy Carter (Widowati, 2020). After that, the UN issued six sanctions resolutions gradually from 2006 to 2010, namely Resolutions 1696, 1737, 1747, 1803, 1835, and 1929 (Mahdi, 2016; Kerr, 2019).

Despite facing international sanctions, Indonesia remains consistent in strengthening trade relations with Iran. This spirit is reflected in various high-level diplomatic visits between the two countries, starting from President Ahmadinejad's visit to Indonesia in 2006, which resulted in the signing of six cooperation agreement documents (Detik.com, 2006), President Joko Widodo's visit to Tehran in December 2016, which resulted in three strategic MoUs (Setkab RI, 2016a), to President Raisi's visit to Indonesia in May 2023, which finally marked the signing of the II-PTA (US-ASEAN Business Council, 2023).

During President Joko Widodo's era, the strategy toward Iran and the Middle East was part of a broader vision for diversifying export markets. During Jokowi's first term (2014-2019), a visit to Tehran in December 2016 resulted in three strategic MoUs in the fields of energy, industry, and agriculture, as well as a commitment to promote direct trade without the involvement of third countries. a breakthrough considering that, until now, Indonesia-Iran transactions had to go through a third country due to banking limitations (Setkab RI, 2016b). In the second period (2019-2024), the focus shifted to the finalization of the II-PTA in line with the increasing urgency of market diversification due to the US-China trade war. The signing of the II-PTA on May 23, 2023, just 17 months before the end of Jokowi's term, marks the culmination of a coherent and sustainable policy toward Iran. Furthermore, the ratification of the II-PTA by Commission VI of the Indonesian

House of Representatives in April 2024 proves that the national interests identified in this article are not merely policy rhetoric, but have gained institutional legitimacy through a democratic legislative process (Biro Humas Kementrian Perdagangan RI, 2024).

During the leadership era of President Susilo Bambang Yudhoyono, Indonesia's exports to Iran continued because many commodities were in demand by Iran, especially crude palm oil (CPO), paper, and light manufactured products (Husain et al., 2021). During the first term of President Joko Widodo (2014-2019), President Jokowi's visit to Tehran in 2016 became an important moment to affirm the great potential for cooperation in the energy sector, oil and gas, and the trade of commodities such as CPO, coffee, and cocoa, which are mainstay exports of Indonesia to Iran. However, the unilateral withdrawal of the United States from the JCPOA in 2018 and the reimposition of economic sanctions on Iran have once again created uncertainty for bilateral trade relations (Setkab RI, 2016b).

One interpretative error that must be corrected in the study of II-PTA is viewing Iran solely as an economy devastated by sanctions. Data shows a much more complex picture. Based on Trading Economics data, the services sector contributes about 50 percent of Iran's total GDP, while the oil sector contributes only 23 percent, and manufacturing-mining contributes 20 percent (Trading Economics, 2024). This is a sectorally diversified economy, unlike the Gulf petrodollar countries that are almost entirely dependent on oil. Iran's GDP in 2023 was recorded at USD 404.63 billion, with an economic growth of 5.4 percent according to the IMF (Parstoday, 2024). This growth is primarily driven by the industrial, mining, and services sectors, rather than just oil expansion. Iran's economic resilience amid these sanctions reflects that Iran has developed adaptation mechanisms over decades, including alternative export routes and trade networks bypassing third-country intermediaries (World Bank, 2024). Nevertheless, the ongoing sanctions remain a structural issue that complicates further economic expansion in Iran.

Why was the II-PTA only signed in 2023 and not earlier? This is a question that needs to be answered specifically. There are four converging factors that explain the timeliness of this: (1) the unilateral withdrawal of the US from the JCPOA in 2018, which actually strengthened Iran's determination to seek non-Western partners, thereby increasing Iran's willingness to offer more attractive tariff concessions to Indonesia; (2) the escalation of the US-China trade war, which created an urgency for Indonesia to diversify (Rosdiana et al., 2025); (3) President Raisi's state visit, which provided high-level diplomatic momentum; and (4) Jokowi's legacy policy agenda toward the end of his term,

which encouraged the acceleration of the agreement's finalization (Antara, 2024). Without the convergence of these four factors, the II-PTA would likely still be delayed even though the technical negotiations were nearly complete.

***Primary Interest: Export Diversification and Opportunities from Sanctioned Markets***

The Indonesian government's decision to sign the II-PTA is based on multidimensional national interests. Referring to the categorization of national interests proposed by Nuechterlein (1979), economic interest is the main factor driving the signing of this agreement. Indonesia faces structural challenges in the form of high export concentration in traditional markets, so diversifying export markets to non-traditional countries like Iran becomes an important strategy to strengthen national economic resilience (Hotsawadi & Widyastutik, 2020).

In this context, sanctions against Iran play a paradoxical dual role: on one hand, they hinder payment and logistics systems, but on the other hand, they create unique competitive opportunities. The reduction of competition from the West due to the reluctance of European and American companies to operate in Iran to avoid secondary sanctions effectively opens up a larger market space for exporters from non-Western bloc countries, including Indonesia. This is a strategic niche that is not available in Indonesia's PTA agreements with non-isolated countries (Haidar, 2013).

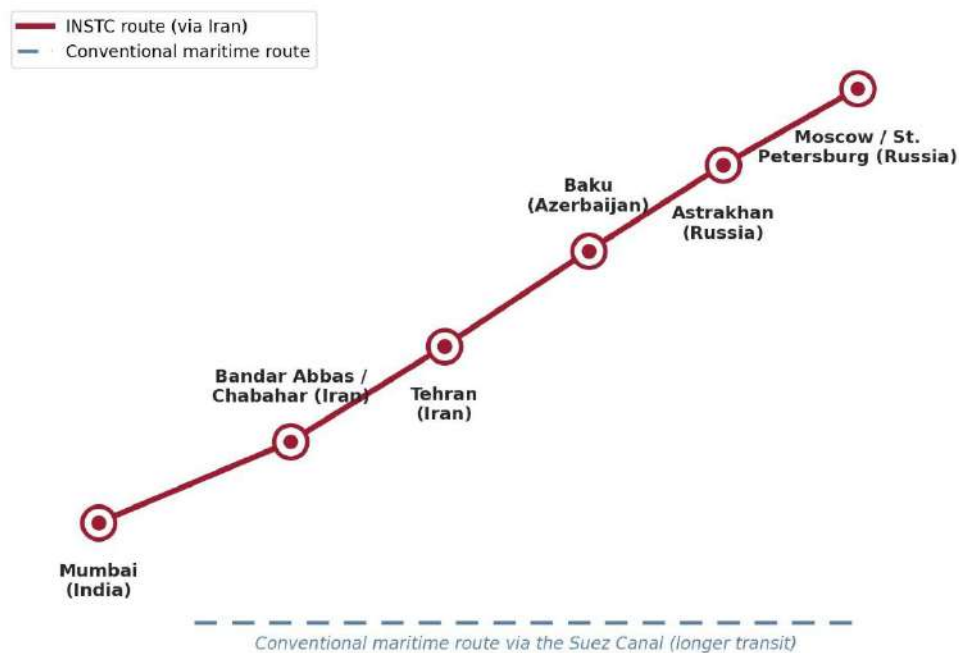
Based on Sabaruddin's (2017) quantitative study at the Indonesian Ministry of Foreign Affairs, Iran falls into the category of untapped markets for Indonesia. Out of the 219 economic entities in that category, Iran is considered to have very high strategic value due to its population of 88 million, its strategic geopolitical location, and its wealth of energy resources that complement Indonesia's advantages in the tropical products and manufacturing sectors (Azad, 2020). The concretization of Indonesia's national interests in the II-PTA is evident from the acquisition of preferential tariff access for 239 tariff lines, covering mineral, industrial, agricultural, and fishery products (Biro Humas Kementerian Perdagangan RI, 2024). With the acquisition of these tariff preferences, Indonesia's leading products such as legumes, motorcycles, industrial monocarboxylic fatty acids, wood fiber boards, and motor vehicle accessories now have a more competitive price in the Iranian market. Before the II-PTA, Iran's tariffs on these products ranged from 10-30%, making Indonesian products less competitive compared to those from countries that already had preferential tariff arrangements with Iran. Referring to the projections of the Ministry of

Trade, after the full implementation of the II-PTA, Indonesia's export value to Iran is expected to increase to USD 494 million by 2030, with a potential trade surplus of USD 468 million (Biro Humas Kementrian Perdagangan RI, 2024).

Beyond its bilateral value, Iran is also positioned as a connector to a broader regional trade network, thereby enhancing the strategic significance of the II-PTA for Indonesia. Iran's strategic position as a multimodal connector has concrete significance for Indonesia's export strategy. Through the International North-South Transport Corridor (INSTC) route, which connects the Port of Mumbai (India) with Russia via Iran and the Caspian Sea, Indonesian products entering through Indian ports can be forwarded to Eurasian markets, including Russia, Kazakhstan, Azerbaijan, and the Caucasus countries, with shorter transit times and lower logistics costs compared to conventional routes through the Suez Canal. The Indonesian Ministry of Foreign Affairs explicitly mentions the INSTC as one of the strategic considerations in finalizing the II-PTA, particularly for Indonesian commodities such as CPO, paper, and textile products that are in demand in Central Asian markets. Furthermore, Iran is also a member of the Economic Cooperation Organization (ECO), which connects 10 countries in Central Asia, the Caucasus, and the Middle East, making trade partnerships with Iran a potential gateway for Indonesian products into the intra-ECO trade network (Haris, 2023).

**Figure 1. Political Map: International North-South Transport Corridor (INSTC)**

### Schematic Route of the International North-South Transport Corridor (INSTC)



Source: author's own illustration of the INSTC route

The concretization of Indonesia's economic interests in the II-PTA can also be seen from the strong complementarity of the trade commodities between the two countries. Indonesia's leading export products to Iran include nuts, motorcycles, industrial monocarboxylic fatty acids, fiberboard, and motor vehicle accessories; while Iran exports to Indonesia products that do not directly compete with domestic industries such as dates, figs, natural and synthetic alkaloids, grapes, medical equipment instruments, and industrial packaging containers (Biro Humas Kementerian Perdagangan RI, 2024). This complementarity makes the Indonesia-Iran trade relationship mutually beneficial, rather than zero-sum, thereby strengthening the economic rationale behind the signing of the II-PTA (Azad, 2020).

Furthermore, it is important to understand that the II-PTA not only creates new trade (trade creation) but also diverts trade (trade diversion) that has been conducted through intermediaries in third countries such as Dubai, Turkey, and Oman into direct bilateral trade (Essra, 2017). Before II-PTA, some Indonesian commodities reached the Iranian market through re-export from Dubai or through other intermediaries, which increased transaction costs and reduced profits for Indonesian exporters. With the presence of tariff preferences and countertrade clauses, the II-PTA opens a more efficient direct trade route.

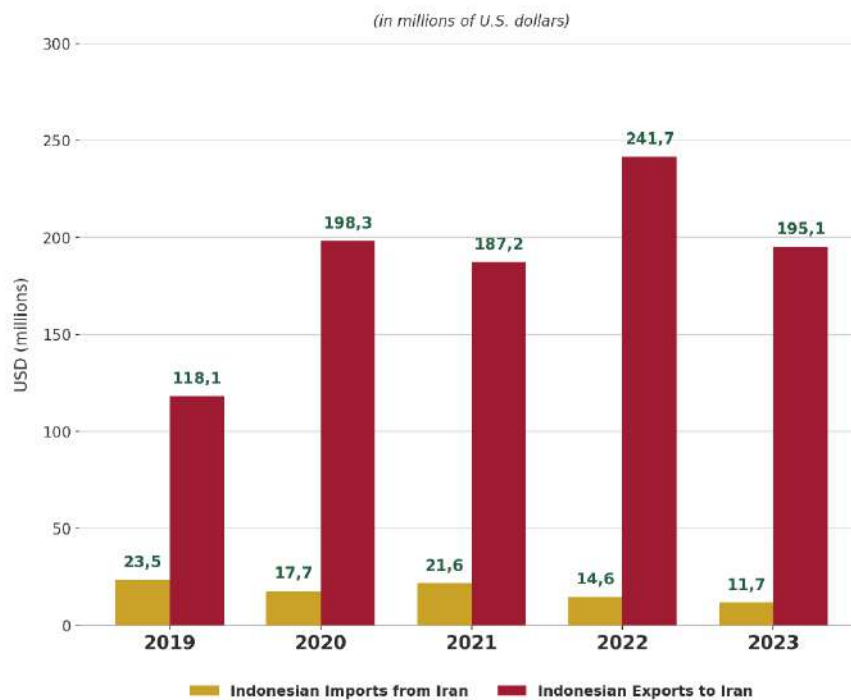
II-PTA is Indonesia's second trade agreement with a country in the Middle East after the Indonesia-UAE Comprehensive Economic Partnership Agreement (IUAE-CEPA) signed in 2022 (Ditjen PPI kemendag, 2023). This expansion pattern reflects the strategic orientation of the Indonesian government to build a strong trade network in a region that has not been optimally utilized until now. From this perspective, the II-PTA is not just a standalone bilateral agreement, but rather a part of the broader Middle Eastern trade architecture that Indonesia is systematically building.

### ***Secondary Interests: Political Economic Interests and Jokowi's Vision***

From a political economy perspective, the II-PTA reflects the interaction between political and economic interests within the framework of government policy (Mufti, 2018). Indonesia and Iran have strong economic complementarity: Iran possesses abundant energy resources, while Indonesia has advantages in tropical products and manufacturing (Azad, 2020).

The bilateral trade data between Indonesia and Iran during the period 2019-2023 strengthens the argument regarding the political-economic interests underlying the II-PTA. In 2019, total trade was recorded at around USD 141.6 million, then surged to around USD 216 million in 2020 and around USD 208.8 million in 2021. Trade performance peaked in 2022 with a value of around USD 256.3 million, before dropping again to around USD 206.8 million in 2023. If compared between 2019 and 2023, the total trade between Indonesia and Iran shows an increasing trend of about 46% over the past five years (Bisnis.com, 2024). Indonesia consistently recorded a trade surplus with Iran throughout that period, and this fact is one of the foundations of optimism for Minister of Trade Zulkifli Hasan in advocating for the ratification of the II-PTA (Biro Humas Kementerian Perdagangan RI, 2024).

**Table 1. Total Trade Value Between Indonesia and Iran**



Source: (Bisnis.com, 2024)

The signing of the II-PTA by President Joko Widodo on May 23, 2023, just a few months before the end of his term, is a concrete manifestation of the government's efforts to leave behind an ambitious and long-term trade policy legacy. During his two terms in office, Jokowi positioned trade agreements as the main instrument for strengthening Indonesia's economic diplomacy as a pillar of the national economic growth strategy (Antara, 2024). In the context of geopolitical interests, Jokowi's vision for Iran and the Middle East can be identified from a series of coherent policies: the IUAE-CEPA (2022) and the II-PTA (2023) are two strategic pillars in establishing Indonesia's presence in the Middle Eastern market, which has long been dominated by exporters from East Asia (China, Japan, South Korea) and Europe (Ditjen PPI kemendag, 2023).

However, Indonesia's political economy interests in the II-PTA also contain structural challenges that need to be anticipated. The unilateral sanctions imposed by the United States on Iran, which include restrictions on banking transactions, insurance, and the shipment of goods, remain a significant obstacle to realizing the benefits of the II-PTA. Haris (2023) in a study by the Indonesian Ministry of Foreign Affairs emphasizes that without concrete strategies to address financial transaction barriers such as local currency settlement mechanisms, countertrade, or the use of third-party banks, the goal of increasing trade value mandated by the II-PTA will be difficult to fully achieve. Therefore, from a

political economy perspective, the success of the II-PTA does not only depend on high-level political commitment but also on the government's ability to build institutional infrastructure capable of pragmatically addressing these geopolitical challenges (Haris, 2023).

From the perspective of foreign policy, economic relations with Iran also demonstrate Indonesia's efforts to maintain its policy autonomy amid geopolitical pressures, even though the country faces unilateral sanctions from the United States (Trianjani et al., 2025). This principle allows Indonesia to avoid being subordinated to the pressures of major powers in managing bilateral relations, while also demonstrating its foreign policy autonomy. This pattern of relations emphasizes that Indonesia's political economy interests in the II-PTA are layered: on one hand, pursuing long-term economic benefits, and on the other hand, asserting Indonesia's foreign policy independence that is not subordinated to the pressures of certain power blocs (Mulya, 2025).

The second dimension of political economy interest is the Indonesia-Iran relationship in the context of D-8 and the strengthening Global South agenda. Indonesia will take over the leadership of D-8 in January 2026, making the strengthening of bilateral cooperation with Iran, as one of the D-8 members, a medium-term strategic investment (Sofia, 2025). Strengthening the D-8 forum is part of Indonesia's agenda to enhance the diplomatic weight of Global South countries in an increasingly geopolitically fragmented international trade order (Guler, 2021). In this context, the II-PTA is not only a bilateral trade instrument but also an expression of Indonesia's geopolitical interests as the leader of the growing significance of the bloc of developing Muslim countries.

Furthermore, from the perspective of Indonesia's domestic political economy, the ratification of the II-PTA by the Indonesian House of Representatives (DPR RI) holds significance that goes beyond the technical aspects of legislation. The ratification process through Commission VI of the Indonesian House of Representatives (DPR) shows that Indonesia's national interest in the II-PTA has passed a stringent democratic legitimacy test: representatives from various factions collectively agreed that this agreement benefits Indonesia (Biro Humas Kementrian Perdagangan RI, 2024). Cross-faction support in this ratification is concrete evidence that Indonesia's political economy interests in the II-PTA are not only the executive's interests but also a broader institutional consensus, thereby strengthening the validity of the analysis in this article.

***Indonesia's Interests in II-PTA from an International Trade Perspective***

From the perspective of international trade, the II-PTA can be understood as a form of selective trade liberalization designed to reduce tariff barriers on certain commodities in order to enhance the efficiency of resource allocation and deepen bilateral economic integration. Through this agreement, Indonesia obtains facilities for tariff reductions and eliminations on a number of strategic commodities covering the mineral, industrial, agricultural, and fisheries sectors (Biro Humas Kementerian Perdagangan RI, 2024). This tariff preference becomes an important instrument considering that Iran's relatively high tariff structure has been a significant barrier to the competitiveness of Indonesian exports. With the reduction of tariff barriers, Indonesia is expected to be able to increase its market penetration in Iran more significantly, especially for leading commodities that already have a demand base there.

In conducting trade diplomacy, the Indonesian government has categorized partner countries into two groups: traditional markets and non-traditional markets. In the map of Indonesia's trade diplomacy, Iran is classified as a non-traditional market that is considered to have high potential for development through preferential instruments. This fact shows the immense untapped potential of the Iranian market, making the II-PTA a concrete instrument to open access to a market that has been closed until now (Sabaruddin, 2017).

**Table 2. Trends In Indonesia's Export and Import Values, 2019-2022**

**(Billions Of USD)**

<i>Tahun</i>	<i>Ekspor (Miliar USD)</i>	<i>Impor (Miliar USD)</i>	<i>Surplus / Defisit (Miliar USD)</i>
<b>2019</b>	167,7	171,3	-3,6 (defisit)
<b>2020</b>	163,3	141,6	+21,7
<b>2021</b>	231,6	195,7	+35,9
<b>2022</b>	292	237,4	+54,6

Source: (Revindo et al., 2023)

Table 2 shows that Indonesia's overall export performance significantly increased from 2019 to 2022. However, dependence on traditional markets makes Indonesia vulnerable to external shocks, including the dynamics of the trade war between the United States and China (Rosdiana et al., 2025). Therefore, the II-PTA can be seen as one of the

instruments to strengthen Indonesia's export resilience against external shocks to bolster national export resilience (Hotsawadi & Widyastutik, 2020).

II-PTA can also be positioned as a stepping stone toward deeper economic integration, as it provides initial experience for both countries in managing the architecture of preferential trade rules, harmonizing standards, and gradually resolving non-tariff technical barriers (Mulya, 2025). This agreement is Indonesia's first trade agreement with a country in the Middle East that includes a countertrade scheme as an alternative trade facilitation mechanism, and it is also Iran's first trade agreement with the Southeast Asian region (TEMPO, 2023).

Indonesia also needs to pay attention to the aspect of rules of origin (ROO) in the implementation of the II-PTA, considering that this provision is one of the key elements that determine the effectiveness of preferential benefits for business actors. Cadot et al. (2006) estimate that the cost of compliance with ROO ranges from 6.8% to 8% of the value of goods, which means that the tariff preference margin can be significantly eroded by this administrative burden. Therefore, socializing the ROO provisions in the II-PTA to Indonesian business actors becomes a strategic step that cannot be overlooked (World Trade Organization, 2011).

In the context of international trade theory, the II-PTA simultaneously creates complementary trade creation and trade diversion effects. The trade creation effect occurs because the tariff preferences granted encourage Iranian consumers to switch from more expensive domestic products to Indonesian products, which are now more competitively priced (Essra, 2017). Meanwhile, the trade diversion effect arises because the Indonesia-Iran trade route, which previously went through third countries like Dubai and Turkey, is now redirected to a more efficient direct trade, thereby reducing intermediation costs and increasing the net value received by Indonesian exporters. These two effects together enhance the economic welfare of both countries, which in turn strengthens the economic rationale behind the signing of the II-PTA (Mattoo et al., 2020).

### ***Supporting Interests: Free-Active, Islamic Solidarity, and Middle Power Affirmation***

In addition to the primary economic interests and secondary geopolitical interests, II-PTA also has a supporting dimension that cannot be overlooked. At the supporting level, II-PTA also reflects Indonesia's consistency in maintaining its foreign policy autonomy

amid external pressures, even though the country faces unilateral sanctions from the United States (Trianjani et al., 2025). By signing the II-PTA amid the pressure of unilateral US sanctions against Iran, Indonesia also indirectly reaffirms its commitment to the principles of multilateralism and non-discrimination in international trade as mandated by the WTO framework (Mulya, 2025).

The dimension of Islamic solidarity as a supporting interest is also relevant to discuss, although it is not the main interest. Athallah's (2025) research uses a constructivist framework to argue that a shared Islamic identity acts as a catalyst facilitating the II-PTA negotiations beyond mere rational economic calculations, by providing an ideational foundation that defines cooperation as a normatively appropriate action (Athallah et al., 2025). However, it is important not to overstate the role of Islamic solidarity: although it facilitated the negotiation process, the interest in Islamic solidarity alone cannot explain why the II-PTA negotiations lasted for 13 years and why a technical-economic PTA format was chosen. Strategic economic interests remain the main driving force, and Islamic solidarity functions as an ideational catalyst that facilitates, rather than replaces, these economic interests (Sabaruddin, 2017).

In a broader perspective, II-PTA also serves as an affirmation of Indonesia's middle power capacity. Indonesia consistently builds its identity as a middle power capable of playing on various strategic playing fields simultaneously: maintaining good relations with the US, managing economic dependence on China, and keeping open channels of cooperation with non-Western actors such as Iran (Rosyidin & Andika, 2017). The ability to build and implement the II-PTA amidst the complexities of international sanctions is a concrete demonstration of Indonesia's diplomatic capacity as an assertive middle power. Moreover, the success in adding an innovative countertrade clause to the agreement proves that Indonesian diplomats are capable of designing creative solutions to structural challenges that have no precedent in previous Indonesian trade agreements.

### ***Implementation Challenges: From Signature to Realization***

Although the II-PTA has been successfully ratified by Commission VI of the Indonesian House of Representatives in April 2024, the journey toward fully realizing the benefits of this agreement still faces significant structural challenges (Biro Humas Kementerian Perdagangan RI, 2024). First, banking and financial obstacles due to US sanctions against Iran remain the main challenge. Indonesian banks are generally reluctant

to facilitate transactions with Iran due to the risk of secondary sanctions from the US, making it difficult for Indonesian businesses to open Letters of Credit and insure shipments to Iran. Secondly, the absence of direct shipping routes between Indonesia and Iran results in high logistics costs because goods must go through a third country. Third, the lack of market knowledge among Indonesian entrepreneurs regarding Iran's import regulations, consumer preferences, and local distributor networks poses a significant non-tariff barrier (Haris, 2023).

To address these obstacles, the II-PTA has anticipated by including a countertrade clause as an alternative mechanism that allows direct exchange of goods without relying on the US dollar-based international banking system (Niaga Asia, 2024). However, the effectiveness of this mechanism still depends on the government's ability to build supporting institutional infrastructure: a bilateral countertrade facilitation body, a product origin verification system, and a reliable logistics network. Paryadi's (2021) study identifies that Indonesia's bilateral trade agreements generally face low utilization issues due to information and technical barriers at the business level, a pattern that could potentially recur in the II-PTA if not anticipated with intensive socialization and facilitation programs (Paryadi, 2021).

The actual implementation of II-PTA requires a series of institutional steps that have not yet been fully met: (1) the issuance of a Presidential Regulation on the enactment of II-PTA; (2) the preparation of technical guidelines for countertrade; (3) a socialization program for Indonesian exporter associations; and (4) negotiations with Indonesian banks to develop a legally secure trade financing scheme. Without these implementation steps, the projected economic benefits of the II-PTA will remain aspirational, not verified achievements (Biro Humas Kementrian Perdagangan RI, 2024).

Recent geopolitical developments also present new risk variables that need to be observed. The increasing tension between the US and Iran creates new risks for Indonesia's diplomatic position, where the strategic hedging that has been effective in maintaining relationships with various parties simultaneously is now facing heightened pressure as the space between the rivalries of major powers narrows (Insights Indonesia, 2026). Experts remind that Indonesia needs to "play smart" in managing its relationship with Iran so that the economic benefits of the II-PTA can be achieved without sacrificing its strategic relations with the US and other Western partners. Therefore, a proactive diplomatic communication strategy with Washington is necessary to explain that the II-PTA is a legitimate trade instrument that does not violate US sanctions against prohibited sectors,

but rather focuses on non-sensitive civilian commodities that are completely outside the scope of the sanctions (Haris, 2023).

## CONCLUSION

Based on the overall analysis that has been presented, the reasons behind Indonesia's choice to deepen economic cooperation with Iran, despite the country being in international isolation and overshadowed by a strict regime of sanctions, can be seen more clearly. The explanation for these dynamics is structured in three layers of mutually reinforcing arguments.

First, from the dimension of primary economic interests, the sanctions against Iran, instead of being a pure obstacle, have become a variable that increases Iran's strategic value for Indonesia. The reduced competition from Western exporters due to sanctions creates a demand vacuum that can be filled by Indonesian commodities (CPO, paper, light manufactured products) that are not directly affected by energy sanctions (Haidar, 2013). Tariff preferences and projections of trade increases post-implementation demonstrate a concrete manifestation of these economic interests (Biro Humas Kementerian Perdagangan RI, 2024). Historically, this interest is verified not only from the constitutional text but also from President Jokowi's policy directives documented in various speeches and ministry working meetings, as well as from the Ministry of Foreign Affairs' export market clustering study, which explicitly places Iran as an untapped market with the highest strategic value (Haris, 2023).

Second, from the dimension of secondary geopolitical interests, the II-PTA also reflects Indonesia's efforts to leverage Iran's position in the regional trade network and broader South-South cooperation (Guler, 2021). President Jokowi's vision for Iran and the Middle East, documented in various policy speeches and directives to his diplomatic apparatus, proves that Indonesia's national interest in the II-PTA is operational and empirically verified (Humas Kemensetneg RI, 2017). IUAE-CEPA (2022) and II-PTA (2023) together form a strategic pillar of Indonesia's presence in the Middle Eastern market, a geo-economic architecture that has been consistently built throughout two terms of Jokowi's leadership (Ditjen PPI kemendag, 2023).

Third, from the dimension of supporting interests, the free and active principle functions as a framework that allows Indonesia to balance geopolitical risks and economic

interests in establishing relations with Iran, explaining how Indonesia processes the cost-benefit calculation of engagement with a sanctioned country: accepting the geopolitical cost in the form of the risk of US diplomatic pressure to maintain foreign policy autonomy and secure long-term economic interests (Trianjani et al., 2025). Islamic identity solidarity as fellow Muslim countries strengthens the ideational foundation of cooperation, although it is not the main determining factor, as evidenced by the fact that the negotiation process lasted for 13 years and was only finalized when the economic-strategic calculations were fully matured (Athallah et al., 2025).

The signing of the II-PTA should also be seen as a reflection of structural changes in the global trade order. Amid the increasing geopolitical fragmentation and great power rivalry, developing countries are becoming more active in building alternative trade networks outside the architecture dominated by developed countries (Mattoo et al., 2020). Indonesia, as a developing country with middle power ambitions, is leveraging this momentum to build a more independent and influential position on the global trade map. II-PTA in this context is not just a technical trade agreement, but rather a strategic statement about how Indonesia positions itself in the changing geopolitical order.

The ratification of the II-PTA by Commission VI of the Indonesian House of Representatives in April 2024 is concrete evidence that the national interests identified in this study have received institutional legitimacy through a democratic process (Biro Humas Kementrian Perdagangan RI, 2024). However, the true success of the II-PTA will only be measurable when the actual trade volume increases significantly, an achievement that requires serious implementation of alternative banking aspects, countertrade facilitation, and the enhancement of domestic business actors' capacities (Paryadi, 2021). Without adequate implementation infrastructure, signing the agreement will not automatically result in a substantial increase in trade, and the identified national interests will remain unrealized potential.

This article proposes conducting further research in two main directions: (1) a quantitative study using the Computable General Equilibrium (CGE) model or the Global Trade Analysis Project (GTAP) to more accurately measure the macroeconomic impact of the II-PTA after the agreement comes into effect; and (2) a comparative study analyzing why other ASEAN countries have not yet replicated Indonesia's step in forming a bilateral PTA with Iran, which could significantly contribute to the literature on South-South trade diplomacy. These two research agendas will provide a stronger empirical verification dimension to the analytical findings produced by this article.

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