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INTRODUCTION

EDITOR'S FOREWORD

The second issue of *Eurázsia Szemle* in 2024 focuses mainly on Southeast Asia. But what does “Southeast Asia” actually mean? The term itself was first coined in the book *Travels in South-eastern Asia, Embracing Hindustan, Malaya, Siam, and China* by the American pastor Howard Malcolm, published in 1839. At that time, Malcolm understood Southeast Asia to mean only the mainland. Until the early twentieth century, several names were coined for the different regions, but the term Southeast Asia did not officially gain acceptance until the middle of the Second World War with the establishment of the Allied Command in Southeast Asia (SEAC) in 1943. Although, thanks to SEAC, the terminology gradually spread, the concept of Southeast Asia at that time did not include the Philippines or most of Indonesia, while Sri Lanka was included. By the late 1970s, however, the term Southeast Asia and the areas it covered had been largely standardised. Today, the ten countries of the Association of Southeast Asian Nations (ASEAN) – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand, the Philippines and Vietnam – and Timor-Leste constitute Southeast Asia in political terms, although there are different interpretations.

Geographically, the Southeast Asian mainland consists of Cambodia, Laos, Myanmar (Burma), Thailand, Vietnam, and the small city-state of Singapore at the southern tip of the Malay Peninsula. Cambodia, Laos and Vietnam, which occupy the eastern part of the mainland, are often referred to as the Indochinese Peninsula. Malaysia is both a mainland and an island state, its western part being on the Malay Peninsula and its eastern part located on the island of Borneo. With the exception of the small sultanate of Brunei (also on Borneo), the rest of the archipelago consists of Indonesia, the Philippines and Timor-Leste (East Timor), which became independent in 2002.

The significance of Southeast Asia, the most accessible tropical region in the world, is enhanced by the fact that it is strategically located at the sea gate between East Asia and the Middle East and the Mediterranean Sea. It is also home to the South China Sea, one of the world's busiest shipping lanes, which is a source of serious conflict between China and the Southeast Asian nations due to disputed maritime boundaries.

Demographically, the region is strikingly heterogeneous. The population of Southeast Asia is predominantly rural, with three quarters of the populace living in non-urban areas. With approximately 280 million inhabitants, the most populous country in the region – and also the largest – is Indonesia, although the majority of the population is concentrated on the island of Java. Indonesia's capital, Jakarta, as well as Bangkok in Thailand, and Manila in the Philippines are all major metropolises which are among the most populous cities in the world.

The presence of large minorities is a source of serious political tension in many countries. In mainland Southeast Asia, the Burmese make up more than two-thirds of Myanmar's population, but the country also has a number of regional ethnic groups, mainly living in states specifically created for them.

The countries of Southeast Asia are home to many world faiths. In terms of population, Islam is the most widely followed religion. Its 240 million adherents, about 40% of the total population, are mainly concentrated in Indonesia, Brunei, Malaysia, southern Thailand and the southern Philippines. Indonesia is the most populous Muslim-majority country in the world, while Islam is the state religion in Malaysia and Brunei.

There are around 205 million Buddhists in Southeast Asia. This makes Buddhism the second largest religion in the region after Islam. Buddhism is the predominant faith in Vietnam, Thailand, Laos, Cambodia, Myanmar and Singapore, with the majority of followers belonging to the Theravada or Mahayana schools. Christianity dominates in the Philippines, eastern Indonesia, East Malaysia and Timor-Leste. The Philippines is the only country in Southeast Asia where the inhabitants have adopted the religion of the former colonial rulers, and more than 80% of the population still profess Catholicism.

ASEAN is the fifth largest economy in the world, which naturally makes it a heterogeneous region. In 2022, the region's total GDP reached USD 3.6 trillion, while GDP per capita was USD 5,392.

Southeast Asia's role in the global economy is illustrated by the fact that the region is a global manufacturing hub. Manufacturing accounts for 20% of ASEAN's GDP, and the Association is not only one of the most important markets in this sector, but it also boasts the third largest labour force in the world. Although the region's economy is heavily dependent on agriculture, the manufacturing and service sectors are becoming increasingly important. Malaysia is the only country in Southeast Asia that is able to export domestically produced cars to other parts of the world, including Europe, Australia, the Middle East, Africa, South America and South Asia. Southeast Asia is not far behind the world's other regions in terms of raw material resources. It is no coincidence that tourism is also a key factor in the development of many Southeast Asian countries. After the shock of Covid-19, this sector is now recovering, with a positive impact on growth in individual countries, which is important at a time when the fallout from geopolitical tensions can be acutely felt in the global economy.

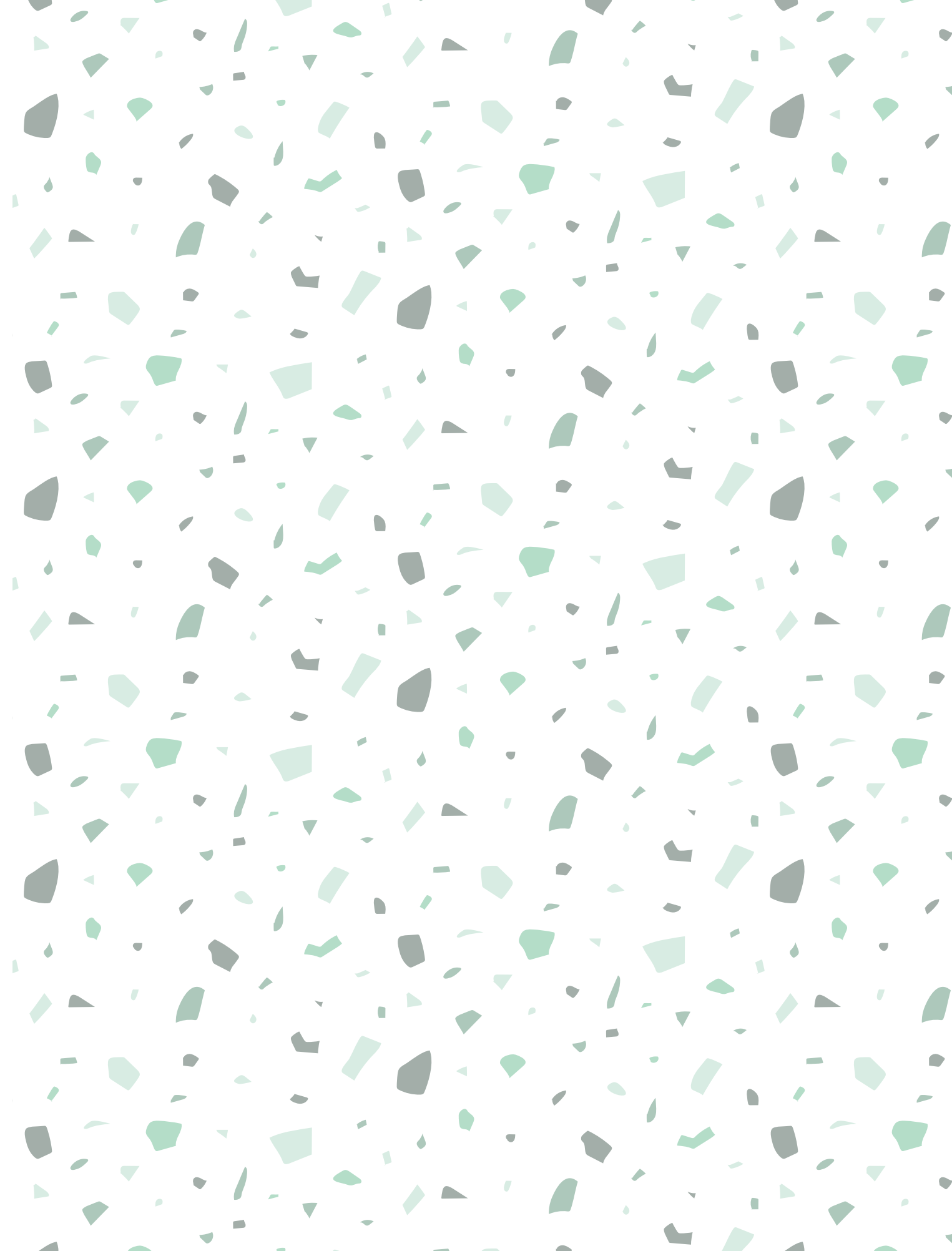
The development of Southeast Asia appears to be unbroken, although there are major differences within the individual countries due to the region's heterogeneity. In addition to investment, increasing innovation is also an important component of growth. However, it should be borne in mind that the only long-term solution to the area's abiding political, economic and social problems (e.g. ethnic and religious conflicts, terrorism, population explosion, extreme poverty, dictatorships, human rights violations, etc.) is inclusive development that involves as many people as possible.

Among the discussion of other crucial topics, the present issue of our journal includes studies on finance, cultural heritage and regionalism, with each of our international authors taking a specific approach to one of the region's current problems.

I sincerely hope that this issue of *Eurázsia Szemle* will help disseminate knowledge about Southeast Asia, promote academic discourse and influence political and economic decisions. I believe that without an understanding of this region, the concept of Eurasia as a whole, which is the *raison d'être* of our journal, cannot be fully understood.

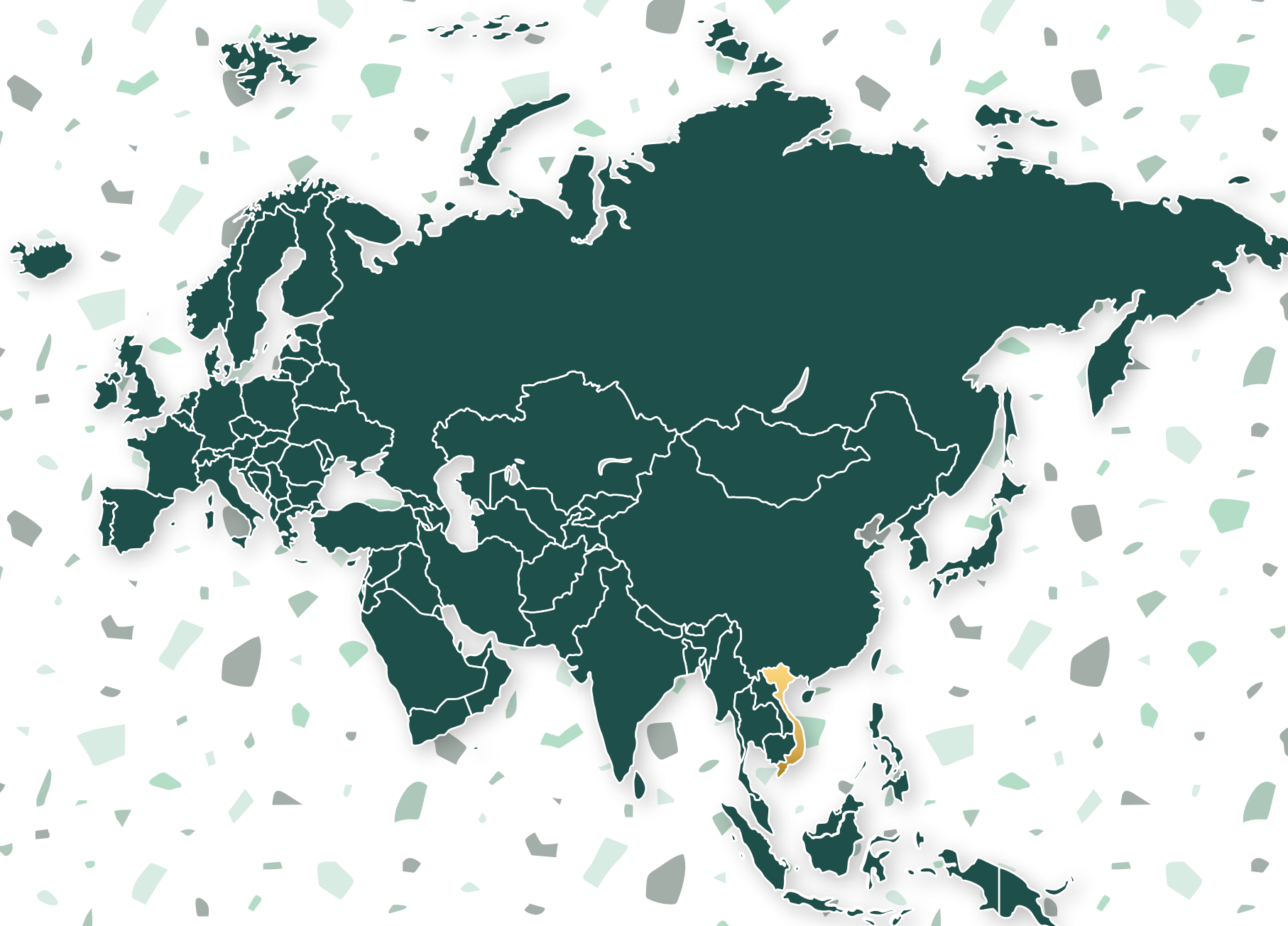
Péter Klemensits, PhD
Head of Southeast Asia Column

I
SOUTHEAST ASIA
COLUMN



THI THANH
TU NGUYEN

An Assessment of the Legal
Framework for the Derivative
Securities Market in Vietnam



AN ASSESSMENT OF THE LEGAL FRAMEWORK FOR THE DERIVATIVE SECURITIES MARKET IN VIETNAM

THI THANH TU NGUYEN¹

Abstract

The derivative securities market has garnered significant attention from financial professionals and policymakers in recent decades. This market offers substantial benefits to its participants, notably establishing investment channels and serving as a risk mitigation tool. However, the derivative securities market also imposes requirements on management and regulatory authorities, necessitating careful consideration to ensure stable and sustainable market development while safeguarding investors' freedom to engage in business investment. Officially operating since 2017, the derivative securities market of Vietnam has experienced rapid growth, accompanied by efforts to enhance regulatory frameworks. With the characteristics of an emerging market, such as a relatively small scale, predominantly individual investors, high speculative tendencies, and limited product offerings, the Vietnamese derivative securities market is raising questions about the level of legal regulation concerning the market to ensure stable development, risk mitigation and the attraction of investors, especially institutional investors. This article provides an overview of the current legal framework governing the derivative securities market in Vietnam, assessing several legal issues related to factors influencing investors' decisions, such as market access rights, transaction costs, advisory activities, support, etc. Additionally, it presents some legal proposals aimed at fostering a safe and efficient market development.

Keywords: Vietnam, legal framework for derivative securities, derivative securities market, stock market, securities investors

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1. Introduction

The Vietnamese derivatives market was officially launched on 8 October 2017, with the VN30-Index futures contract at the Hanoi Stock Exchange (HNX) and under the oversight of the Ministry of Finance and the State Securities Commission. The market has experienced rapid development but remains relatively small with a limited range of products and investors, predominantly individual investors. To ensure the development of the derivatives market, the legal framework has progressively evolved. The Securities Law of 2019, which replaced the Securities Law of 2006, marks a significant legal transformation that aligns with market conditions and the development of Vietnam's securities market. In 2021, the Government of Vietnam issued decrees specifically focusing on derivative securities and the derivative securities market, accompanied by guiding documents from the Ministry of Finance. These adjustments address fundamental market functions including market entities, organisation, products, transaction methods, inspections and the handling of violations.

The Vietnamese securities market officially commenced operations in 2000, associated with the activities of the Ho Chi Minh City Stock Exchange. Since then, the market has achieved remarkable developmental strides. Continuously improving in structure and growing robustly, it has become a vital channel for capital mobilisation for the economy. From 2011 to 2020, the scale of capital raised through the securities market reached nearly VND 2.9 quadrillion, almost ten times the amount raised in the previous decade and contributing an average of 19.5% to the total social investment capital. Following the successful development of the primary securities market, the emergence and growth of the derivatives market has garnered considerable attention due to its benefits. Investments in derivative securities help investors diversify their portfolios, enhance speculative opportunities and hedge against risks, while providing high liquidity and leverage capabilities.

Despite this, due to the market's small size and recent formation, considerable attention is also given to its organisational operations and the protection of stakeholders' interests. Numerous studies (IMF, 2002a; Chui, 2012; Matumo et al., 2013; Pawlowski, 2013; Bhattarai, 2020; Lannoo & Lannoo, 2020; Tran et al., 2020; Nguyen, V. H., 2023) emphasise the critical and decisive role of the legal framework in the development of the derivatives market, particularly in Vietnam. They argue that the current inconsistencies and lack of integration in the legal framework pose certain obstacles to market development, raising issues concerning the protection of investors and other market participants. This paper focuses on three issues:

1. the current state of the legal framework for the derivatives market in Vietnam;
2. the impact of this on market development;
3. proposals for further legal provisions based on current market conditions.

To address the above, this study primarily relies on a literature review, including sources such as regulations, research articles, institutional and strategic documents, and project reports. The structure of the research comprises three main parts:

1. An overview of the derivatives market.
2. The legal framework for the derivative securities market, which is divided into several regulatory contents, including regulations on products, market organisation, market participants, clearing and settlement regulations, market management and supervision, prevention, risk handling, and investor protection.
3. The proposal of several recommendations to develop the derivative securities market in Vietnam. The principal solutions advocated involve diversifying market products, strengthening and encouraging the role of entities in the market through incentive policies, establishing strict management and supervision mechanisms, and enhancing investor protection measures.

2. An Overview of the Derivatives Market in Vietnam

Globally, the derivatives market has had a long history of development since the late nineteenth century with pioneering countries such as the United States and Japan (Chui, 2012; Ali, 2001). The derivatives market fundamentally aims at risk prevention, the provision of an investment channel for investors, and the stabilisation and regulation of the underlying stock market. Today, Asian derivatives markets make up one-third of the global foreign exchange market, and over 40% of equity trading. Korea is home to the world's largest derivatives exchange, while India boasts the fastest-growing exchange in the world (Sankarshan Basu, 2006). Among the emerging markets of Asia, Singapore has the largest foreign exchange derivatives market (IMF, 2002b).

In Vietnam, the derivatives market was officially launched on 8 October 2017, and it commenced operations at the Hanoi Stock Exchange, inaugurating its activities with the VN30 index futures contract as the first tradable product. As per regulatory guidelines, the Ministry of Finance and the State Securities Commission of Vietnam implements state management responsibilities for the market, issuing relevant documents and overseeing licensing operations. The trading membership system was established with 24 members. Clearing activities operate under the Central Clearing Counterparty (CCP) model, where the Vietnam Securities Depository and Clearing Corporation (VSDC) plays a pivotal role in clearing and settling derivative securities transactions.

Over the seven years since its inception, the stock market has surpassed expectations in terms of market size, investor numbers and product offerings. In 2024, the derivatives market comprises three product categories with a total of ten futures contract codes: (i) VN30 stock index futures, featuring four contract codes (VN30F1M, VN30F2M, VN30F1Q, VN30F2Q); (ii) Government bond futures contract with a five-year term, comprising three contract codes; (iii) Government bond futures contract with a ten-year term, also comprising three contract codes. The trading of VN30 index contracts has experienced robust growth, averaging a 38.65% annual increase during the period from 2018 to 2022. Notably, the year 2020 witnessed the highest growth rate, reaching 79.9%

compared to 2019, while 2022 growth was 43.8% compared to 2021 (HNX, 2024). The number of derivatives trading accounts has exhibited a continuous upward trend, with the figure reaching 1,414,685 by the end of September 2023 – over 550 times higher than the initial count when the market first opened. Particularly noteworthy is the rapid increase in the number of foreign investors. As of July 2023, foreign investors contributed to 3.47% of the total trading volume in the entire market, a significant rise from the 0.1% recorded at the end of 2017 (Ha Anh, 2023).

While achieving dramatic growth, however, the derivatives market has some characteristics of a newly formed and growing market, namely a small market size with a limited number of products and limited investors, of whom the majority are individual investors.

Regarding products, derivative instruments on the market are not diversified, with only three products in the initial period to attract domestic and foreign investors. The VN30 index contract has been successfully traded, but it is only traded on the underlying asset, the VN30 index, and not on other stock indexes that may be more representative. The government bond future contracts (five years and ten years) have not been successful, proving less attractive and having extremely low liquidity. In comparison, in Korea the first derivatives and index stock futures contract (KOSPI 200, introduced in May 1996) was based on the calculation of the price index shares on the Korea Stock Exchange (KRX). At the time of writing, there are 19 derivative products listed and traded mainly on the Korean Exchange: seven index products, two capital products, three bond products, five financial products, and two commodity products (KRX, 2024). In Taiwan, according to the Taiwan Future Exchange (TAIFEX), the products are diversities which range across seven classes, namely equity index futures contracts, equity index options contracts, equity futures contracts, equity options contracts, FX futures contracts, commodity futures contracts, and commodity options contracts (TAIFEX, 2024).

Regarding the structure of investors in Vietnam, the participation of individual investors still plays a leading role. This situation is similar to many markets such as those of Japan, Korea and Taiwan (Phùng, 2017). This impacts the speculative nature of the market to a great extent. In the early stages, nearly 99% of transactions were made by individual investors, although by the end of July 2023 this had fallen to 67%. The proportion of transactions by foreign institutional investors also increased sharply. At the time of market launch, transactions of foreign investors were carried out by individual investors; by 2022, the trading volume of foreign institutional investors had reached nearly 2.1 million contracts, making it about five times higher than the trading volume of foreign individual investors (Ha Anh, 2023).

Regarding the participation of investors as organisations, especially foreign organisations, although rapid growth has been recorded, the rate is still limited. Institutional investors may include the main professional investors on the stock market, who are commercial banks, derivatives companies, investment companies, insurance companies, mutual funds, pension funds, and other social insurance funds.

3. The Legal Framework for the Derivative Securities Market in Vietnam

3.1. The Legal Basis for the Formation and Organisation of the Derivative Securities Market

In Vietnam, the policy of building and developing stock markets has been mentioned since 2006, as reflected in documents of the prime minister and the Ministry of Finance. Decision No. 898/QĐ-BTC dated 20/02/2006 of the minister of finance promulgating the Vietnam Stock Market Development Plan 2006–2010 set as its objective the development of other commodities on the stock market, including securities investment fund certificates and derivative securities. The Project on the Development of Vietnam's Capital Market to 2010 and Vision to 2020 issued together with Decision No. 128/2007/QĐ-TTg dated 02/08/2007 also affirmed the intention to develop the capital market in a modern direction, including the development of the stock market, bond market and market of derivatives among its priorities. The Stock Market Development Strategy for the period 2011–2020 issued together with Decision No. 252/QĐ-TTg dated 01/03/2012 once again affirmed the target of restructuring the organisational model of the Vietnam stock market, including organising securities trading so that Vietnam has only one stock exchange and clearly delineating separate market areas. In 2014, the prime minister issued Decision No. 366/QĐ-TTg approving the Project on the Construction and Development of Stock Markets in Vietnam with specific roadmaps and steps as a premise for market formation. To create a legal basis for the market, the Government of Vietnam and its Ministry of Finance continue to issue many documents that create a foundation for the market. These include Decree No. 42/2015/ND-CP on the organisation and operation of stock markets, followed by guiding documents such as Circular No. 11/2016/TT-BTC dated 19/01/2016 and Circular No. 23/2017/TT-BTC dated 16/03/2017 guiding Decree No. 42/2015/ND-CP on stock markets; Circular No. 272/2016/TT-BTC dated 14/11/2016 supplementing regulations on fees and taxes related to stock market activities; documents guiding the accounting regime for service provision and business activities on the stock market.

The enactment of Securities Law No. 54/2019/QH14 signalled a significant shift, replacing the previous Securities Law of 2006. Subsequently, Decree No. 158/2020/ND-CP was formulated. Building upon existing regulations that align with market practices, this decree has had a positive impact on the development of derivatives stock markets. It revisits and supplements several provisions of Decree No. 42/2015/ND-CP, dated 05/05/2015, adjusting them to suit current operational practices and new information technology systems. The primary aim is to address current issues and limitations within the stock market, establishing the groundwork for ongoing development and the refinement of market products in the future. Following this, the Ministry of Finance issued Circular No. 58/2021/TT-BTC focusing on derivative securities and the derivative securities market. Circular No. 06/2022/TT-BTC guides the State Securities Commission's compliance supervision for securities activities carried out by the Vietnam Stock Exchange and its subsidiaries, as well as the

Vietnam Securities Depository and Clearing Corporation, while Circular No. 25/2022/TT-BTC outlines the collection rates, the collection regime, and the management and utilisation of fees in the securities sector. These measures collectively aim to enhance the regulatory environment, adapt to evolving market dynamics, and facilitate the continued growth and improvement of the securities market in Vietnam.

On the basis of the existing legal framework, the State Securities Commission (SSC) has approved regulations and operational procedures related to the Stock Trading System of the Hanoi Stock Exchange and the Vietnam Securities Depository and Clearing Corporation. Among other things, these regulations include rules for trading members, clearing members, the listing and trading of futures contracts, reserve and clearing regulations for derivative securities, and the management and use of the clearing fund.

Given the current legal provisions and operational guidelines for market participants, the legal aspects related to the organisation of the market have been adequately adjusted. There is sufficient legal basis for the establishment and operation of entities participating in market operations, such as market organisers, securities trading entities, entities providing clearing and settlement services for securities transactions, trading members, and market creation members. Regulations regarding the listing and trading of derivative securities on the market have also been fully issued, along with legal mechanisms for market management and supervision. The activities of clearing and settlement of derivative securities transactions are detailed and guided by the Ministry of Finance and the operating guidelines of the Vietnam Securities Depository and Clearing Corporation. Additionally, the reporting and disclosure of information are also specified.

In summary, the legal framework for regulating the derivative securities market has been comprehensively developed and effectively meets the needs of a well-operating and stable market, aligning with the strategic development plan for the securities market.

3.2. Evaluating the Law Governing the Derivative Securities Market in Vietnam

3.2.1. Regulations on Market Products

The Securities Law of 2019 defines derivative securities as 'financial instruments in the form of contracts, options, futures, forwards that determine rights and obligations of the parties to pay money and transfer a specific quantity of underlying assets at a specified strike price prior to or on a specified date in the future'. Similar approaches can be observed in the regulations on derivative securities of the China's 2022 Futures and Derivatives Law and Thailand's 2003 Derivatives Act BE 2546 (Section 3).

Although approaching and regulating many types of products, the Vietnam Stock Market is in fact currently implementing only three derivative product lines, and it only revolves around one type of derivative security, which is the contract. In particular, the government bond future contracts

have low liquidity, so the VN30 index contract is the main product of the stock market. The implementation of the VN30 index contract is considered quite suitable in the early stages of market implementation because the level of risk is much lower than that of the underlying asset classes such as stocks or corporate bonds. However, once a stock market has built a foundation, such a limited number of derivative products will not attract investors or create momentum for that market. Comparing derivatives in the Southeast Asian region, the Thailand Futures Exchange (TFEX) offers 16 derivative products.²

3.2.2. Regulations on Market Organisation

In the current global context, two predominant organisational models govern the operation of derivative securities markets. The first model involves a separation between the derivatives exchange and the stock exchange, as seen, for instance, in Taiwan, China and Thailand. The second model, on the other hand, embraces a unified approach, integrating both the stock exchange and the derivatives exchange, exemplified by countries such as Japan, Hong Kong, South Korea and Australia.

According to the Securities Law of 2019, Vietnam has chosen a model similar to that of Singapore, which is a merger between the underlying stock exchange and the derivatives exchange. Currently in Vietnam, the stock exchange plays the role of organising the trading market for derivative securities (Decree 158/2020/ND-CP, Article 14). In terms of the market organisation model, whether it follows a consolidation model or a split model between the underlying stock exchange and the middle derivatives exchange, it is important that the formation of the derivatives market does not cause large fluctuations in the underlying market. In Vietnam, the derivatives market is still in its initial stage and the products are mainly based on the underlying securities products; this consolidation model is considered to be appropriate, facilitating market management and supervision activities, and minimising costs.

3.2.3. The Regulation of Market Participants

In Vietnam, participants in the derivatives market include derivatives traders (securities companies, commercial banks), investors and self-governing organisations in accordance with the law. Entities wishing to conduct derivative securities trading activities are required to satisfy many conditions on charter capital and equity, internal control, risk management and human resources, and they must go through the licensing procedures of state management agencies in the field of securities. This helps to ensure the safe and effective provision of derivative securities trading services, thus hedging risks for investors.

² SET50 Index Futures; SET50 Index Options; SET50 Index Futures; Single Stock Futures; 3M Bibor Futures; 5Y Gov Bond Futures; Gold Futures; Gold Online Futures; Silver Online Futures; Gold-D; Japanese Rubber Futures; RSSeD Futures; RSS3 Futures; USD Futures; EURUSD Futures; USDJPY Futures. Retrieved January 10, 2024, from <https://www.tfex.co.th/en/products/main>.

Securities trading organisations

Vietnam's securities law stipulates that securities companies and securities investment fund management companies shall only trade derivatives after obtaining a certificate of eligibility from the SSC. In order to be issued with a certificate of eligibility to trade derivatives, subjects are required to meet many requirements, including charter capital (VND 25 billion for fund management companies and from VND 250 billion to VND 800 billion for securities companies), internal control and risk management criteria, personnel requirements, financial safety indicators and business performance (Decree 158/2020/ND-CP, Article 4). On the basis of these conditions being satisfied, the stock company must carry out procedures to apply to the SSC for the Certificate of Eligibility for trading in derivative securities. Because of its important role, as well as specific requirements in brokerage activities, before the Vietnam derivatives market officially had its first trading session on 10 August 2017, only seven securities companies were eligible to be licensed as trading members. Over seven years of operation, by November 2024 the number of accounts had reached over 1.8 million (SSC, 2024).

The organisation providing clearing and settlement services for derivative securities trading

Similar to a trading member, an entity wishing to become a clearing member of derivative securities must also go through two legal procedures. Securities companies, commercial banks and foreign bank branches are authorised to provide clearing and settlement services only after obtaining a certificate of eligibility from the SSC. Additionally, these entities must complete the procedures to become members of the Vietnam Securities Depository and Clearing Corporation. From a legal perspective, a trading member may not be a clearing member, but typically, securities companies apply for a license to perform both of these roles at the same time. The actual data on the list of the 24 securities companies that are trading members of HNX and also clearing members of the VSDC clearly prove this. Over seven years of operation, it can be assessed that the role of payment intermediary performed through clearing and settlement activities of derivative securities transactions has been implemented safely and smoothly by securities companies and has grown over the years. According to data published by the VSDC, as of 31 December 2022, there were 1,173,510 investor accounts opened on its derivatives clearing system through clearing members, an increase of 60.1% compared to the end of 2021.

Investors

Traditionally, investors who participate in the derivatives market are often classified as “hedgers”, “speculators” (Chui, 2012), or “arbitrageurs”. Individual investors tend to speculate higher, while institutional investors tend to hedge risks when using tools and derivatives to protect their own underlying securities trading activities.

Vietnam's derivatives market has recorded a large increase in the number of investors participating in it. Be that as it may, the number of institutional investors has increased but remains limited. According to statistics, individual investors initially accounted for up to 99% of trading volume, which decreased to 70% in 2023 and further to just over 63% in 2024 (Thai, 2024). There are many reasons for this problem, including the fact that the market is new and small-scale, and the lack of

diversity in its products. In addition, considering the practice of the derivatives market, there are still many factors that reduce investors' motivation to enter the market, especially investment costs manifested through fees and taxes.

In principle, imposing transaction fees increases investment costs and is a barrier for investors when participating in the derivatives market. Investors participating in the underlying securities market, or derivative securities, incur financial obligations including transaction fees and taxes. Considering market practices and comparing them with the economic context, the current fees and taxes applied to investors are high and lack incentive support.

Taxes: While being exempt from VAT (Circular No. 219/2013/TT-BTC, Article 4, Points d and g, Clause 8), investors who are individuals or organisations when investing in derivative securities are liable for personal income tax (PIT) and corporate income tax (CIT). CIT is applied to domestic enterprises (according to net position profit and loss results) (Circular No. 78/2014/TT-BTC, Article 7, Clause 1, and Article 15, Clause 2) and foreign enterprises (tax rate of 0.1% on securities transfer price each time) (Circular No. 103/2014/TT-BTC, Article 13, Clause 2).

Fees: To conduct transactions on the derivatives market, investors are required to pay fees to market organisations and securities companies for their services. Derivatives trading fees for securities companies are calculated based on the transaction value and are applied according to the regulations of the securities company, typically ranging from VND 1,000 to 4,000 per contract. The trading organisation fees include fees payable to the SSC and VSCD, which are collected on behalf of these organisations by the securities companies. These fees, determined by the number of contracts executed per day, are uniform across all securities companies. Additionally, fees payable to the VSDC consist of position management fees calculated per contract on a daily basis, as well as fees for managing collateral assets and fees arising from collateral withdrawal requests.

The current application of fees and taxes in Vietnam is said to create a burden for investors, especially individual investors who trade at a modest rate.

3.2.4. Clearing and Settlement Regulations

In the 2014 proposal by the prime minister on the development and construction of Vietnam's derivatives market, it was determined that the derivatives market would be established under a centralised model. Furthermore, a central counterparty clearing model would be organised as a unit directly under the Vietnam Securities Depository, which is the sole entity authorised to perform the functions of securities registration, depository, clearing and settlement in Vietnam. Decree 155/2020/ND-CP (Article 150) specifies that the CCP model applies to both the spot market and the derivatives market. However, in practice, clearing activities in the spot market still follow a multilateral netting mechanism, requiring investors to fully deposit 100% of funds before placing orders to purchase securities.

The immediate implementation of the CCP model after the establishment of Vietnam's derivatives market does not align with certain perspectives and recommendations. According to the International

Swaps and Derivatives Association (ISDA), mandatory clearing for derivatives instruments may not be a viable option for countries with small market sizes, as derivatives in such markets may fail to meet the required standards. Additionally, adopting a centralised clearing model in these markets may result in substantial fixed costs for establishing and maintaining the system, while also posing challenges to state management. This is due to the mismatch between the professional capacity and technological expertise of the personnel directly overseeing the derivatives market and the requirements for effectively operating such a model.

However, given the rapid development of Vietnam's securities market and the goal of upgrading its classification from a frontier market to an emerging market by 2025 according to the international market classification standards outlined (Prime Minister's Decision No. 1726/QĐ-TTg on the Development Strategy for the Securities Market through 2030), the implementing the CCP model for the spot market is a fundamental solution. This implementation addresses issues related to the lack of upfront payment requirements for foreign investors when placing orders. Additionally, the CCP mechanism ensures compliance with an essential international market operation principle: the irrevocability of securities transactions. This principle safeguards the legal rights and interests of investors and provides an advantage over the current settlement mechanism in Vietnam, which remains susceptible to payment risks that may result in transaction cancellations.

3.2.5. Regulations on Market Management and Supervision

Market supervision activities are carried out uniformly on the Vietnam stock market, including the derivatives market. The Ministry of Finance has issued detailed guidelines on supervision activities (Circular no.95/2020/TT-BTC, guidance on supervision of securities transactions on the securities market), defining the supervision model organised with four supervisory entities: (i) the State Securities Commission; (ii) the Vietnam Stock Exchange; (iii) the Vietnam Securities Depository and Clearing Corporation; (iv) Trading Members. Monitoring activities are carried out through two methods: (i) remote monitoring through information sources from monitoring reports, reports of monitoring subjects and other information sources from the mass media, and rumours; (ii) direct supervision through atypical inspection of surveillance objects. The monitoring content features two components to monitor compliance and to supervise abnormal transactions, transactions that are likely to affect the stock market, ensure the legitimate rights and interests of investors, and ensure the stability of the market. In general, the supervisory subject system is fully formed with a clear delineation of responsibilities. However, regulations on the content of supervision and methods of supervision have not been specific and have not clearly defined the difference between the underlying and derivatives markets, or the mechanism to monitor the impact of these two markets. Therefore, regulations as well as supervision mechanisms need to continue to improve, especially in the context of the stock market developing new products and an increase in market size.

3.2.6 Regulations on Risk Prevention and Handling and Investor Protection

For regulations on risk prevention and handling in the derivatives market, Vietnamese law establishes regulations on such aspects as transaction deposits, market stabilisation measures, supervision activities, and the competence of state management agencies.

The protection of derivatives investors along with the protection of securities investors and investors from the financial sector is limited. Vietnam currently has no associations or organisations representing investors. Although Vietnam has a consumer protection body, the level of this organisation to the financial sector is very limited. Elsewhere in the region, for example in Thailand, there is a derivatives investor protection fund. In Thailand, this fund is formed of contributions from organisations providing derivatives trading services and is managed by independent entities. The fund was set up with the goal of compensating individual and institutional investors when investing in derivative contracts that encounter losses from members of the fund. In Vietnam, there are currently no regulations on this type of fund, but in the Securities Law of 2006, amended and supplemented in 2010, lawmakers once introduced the idea of establishing a fund to protect securities investors in general. With the enactment of the Securities Law of 2019, regulations on securities investor protection funds were abolished.

4. Conclusions and Recommendations to Develop the Derivative Securities Market in Vietnam

The regulatory framework has a great impact on the development of the derivatives market. With the characteristics of a financial and monetary market such as that in Vietnam, creating a strict legal framework is a necessary condition when investors' financial knowledge is still far from comprehensive, the market lacks market makers and financial intermediaries are limited.

First, create a basis and a legal basis for market product development

In its Draft Stock Market Development Strategy to 2030, the Vietnamese Ministry of Finance has set the goal to continue developing both the scale and quality of stock market activities in general and the stock market in particular, striving for the stock market to grow at an average of 20-30% per year in the period 2021-30. To achieve this target, it is necessary to continue diversifying derivative securities products through the continued implementation of securities contract products based on stock indices and bond futures contracts, deploying step by step stock index option contracts, contract products, and options contracts based on single shares or groups of stocks. The deployment of more derivative products is an inevitable requirement for the development of the stock market.

Second, strengthen and encourage the role of entities in the market by guiding regulations on conditions for the establishment and creation of incentive policies

For entities organising and operating the market: Vietnam is currently following the model of merging the grassroots stock exchange and derivatives stock exchange, which is said to be in line with the

development of the current stage of the market. However, in the long term, the diversification of capital ownership in derivatives exchanges is also an issue that needs further consideration and study. Currently, the Vietnam Stock Exchange – the entity operating both the underlying securities market and the derivative securities market – is still a 100% state-owned enterprise. This needs to be adjusted to ensure that the burden of the state is reduced, as well as to mobilise greater resources from the investment market in exchanges.³

For market participants: The participation of financial institutions as market makers is encouraged. The role of market makers on the stock market has been affirmed. In Vietnam, the role of a stock market maker has not yet manifested itself even in the underlying market.⁴ Therefore, there is a need to establish incentive mechanisms, especially financial incentives for investors to act as market makers, and to develop preferential mechanisms for transaction fees with market makers. In addition, it is also necessary to support the payment mechanism, saving both time and cost when borrowing securities.

For investors: It is necessary to have solutions to attract and diversify investors, especially institutional investors and professional investors to reduce weight loss imbalance between individual and institutional investors, and professional and non-professional investors. Accordingly, it is essential to implement a legal mechanism to facilitate and encourage institutional investors to participate in the market. Possible solutions need to be considered based on addressing the concerns of investors in the market, which may not be uniform. Investors are generally concerned with factors that directly impact investment performance, such as costs or market entry procedures. Additionally, institutional investors pay attention to policy factors, the investment environment, market openness and other related aspects (Nagy & Obenberger, 1994; IOSCO, 2012). Meanwhile, individual investors are influenced by information, psychology and advisory services that support investment knowledge (Al-Tamimi, 2006; WFE, 2017).

The following two steps are recommended:

1. Mechanisms to encourage the participation of institutional investors investing in the stock market should be developed with the aim of hedging risks for the underlying securities held by these institutions. This must be done simultaneously with the continuing improvement of the mechanism to encourage the participation of these investors in the underlying securities market.

Vietnam's current regulations have recognised an open mechanism for individual and institutional investors to invest in securities companies, especially financial institutions such as securities companies, fund management companies, credit institutions, insurance

³ The Securities Law of 2019 adjusted to reduce the state capital ownership ratio in the Vietnam Stock Exchange, but there is a need for a specific roadmap and solutions to implement this regulation in practice.

⁴ On the stock market, in August 2017, the Hanoi Stock Exchange decided to approve IB Securities Company (IBSC) as a member of the listing market creation and trading registration of HNX. IBSC plans to negotiate as a market maker for VTL stock code of Thang Long Wine Joint Stock Company. However, due to the unsuccessful contract negotiation process between IBSC and VTL, IBSC has not yet been able to carry out market-making activities as announced.

enterprises or state-owned economic groups, etc. State-owned corporations and enterprises must be licensed or approved by competent state agencies according to specialised laws. However, considering specialised regulations on insurance, banking and securities, there are certain limits for these entities when participating in the stock market. The Law on Insurance Business of 2022 (Article 99) stipulates that reinsurers may not invest in derivative securities or derivative contracts, except in the case of listed derivative securities for the purpose of hedging risks arising from insurance contracts and reinsurance, from the portfolio of securities insurers, reinsurance enterprises and foreign branches in Vietnam. For fund management companies, the regulations of the Ministry of Finance guiding the operation and management of securities investment funds (Circular 98/2020/TT-BTC) have also allowed them to include derivative securities in the investment fund's portfolio. However, trading in derivatives is limited to the objective of hedging the underlying securities that the fund holds. Limiting the target of participating in the stock market of the above-mentioned organisations is in line with the general goal of operating this market. However, in order to attract institutional investors to participate in the market, more solutions to encourage and facilitate the entry and investment process are needed.

2. More attractive financial mechanisms for investors should be established, such as reduced tax rates and fees in market participation. For taxation, the proposal to reduce the tax rate on income from derivative securities investment activities and consider tax policy is to consider the objectives of investors. Regarding taxation according to investment targets, this is a difficult issue because it is related to the management ability of tax collection agencies and derivatives trading management agencies. Currently, the tax policy applied is income tax, yet investors participating in the market may have different objectives such as institutional investors who can aim to hedge risks, or to distinguish between long-term investment and short-term speculation (Nguyen, T. T., 2017). Accordingly, the tax rate levied on investment activities for speculative and short-term purposes should be designed at a higher rate than long-term investment activities, for the purpose of risk prevention in order to limit speculation and market manipulation.

Third, complete regulations on payment activities

CCP facilitates more effective market management and supervision, as the VSDC transitions from being merely a service provider to a professional risk management organisation tasked with guaranteeing payment obligations. Currently, CCP has not been implemented in Vietnam's securities market, which remains one of the criteria preventing the market's upgrade to emerging market status. Specifically, the settlement cycle (DvP) is still classified as limited. In the pursuit of upgrading the securities market, the Government of Vietnam and the Ministry of Finance are actively supporting this objective by amending relevant legal frameworks, including the revision of the 2024 Securities Law. Particular emphasis is placed on Article 56 regarding CCP, which is considered a pivotal factor in upgrading the securities market. With the context being that the market is small and newly

formed, CCP implementation needs to solve a number of problems to ensure efficiency. According to ISDA's recommendations, in applying CCP, the country should meet the following conditions:

1. Ensuring a legal framework to support clearing – Vietnam is currently doing this well with clear regulations on CCP implementation.
2. The derivatives market must have a sufficient number of products meeting the standard.
3. The effective management and supervision of collateral (cash/securities) and liquidity assurance, which are currently being promoted.
4. Technically, there must be a standard “close-out netting” mechanism, as the risk management of CCPs cannot be achieved without this mechanism. Recommendations on the close-out netting mechanism should be considered and evaluated.

Fourth, establish strict management and supervision mechanisms and investor protection measures

A model of a derivatives investor protection fund that could be set up in Vietnam must be studied. A derivatives investor protection fund is an effective tool to help investors participate in the market with peace of mind. This is a direct and relatively effective method of investor protection that has been implemented in many stock markets around the world (for example in Thailand and China). The fund is established to protect investors when organisations providing derivative securities trading services are unable to pay investors due to default or bankruptcy, or when investors suffer losses due to the illegal acts of intermediaries. Funds are usually contributed to by intermediaries in the market and managed by independent actors. In order to consider and establish its own fund, at a time suitable to the development of the domestic derivatives market, Vietnam needs to study this fund model in developed derivatives markets in detail.

Derivatives stock markets are playing an increasingly pivotal role in fostering the growth of Vietnam's stock market. They contribute to refining the stock market structure, which is a prerequisite for Vietnam's stock market to potentially rise from being a marginal market to being an emerging market in the near future. To fortify the market's foundation, it is imperative to advance and refine the legal framework governing market operations. State regulations are essential to ensure the transparent, efficient and equitable operation of the market, promoting its overall strength and stability, and this legal infrastructure will serve as the cornerstone for establishing a more centralised, diversified and expansive derivatives market.

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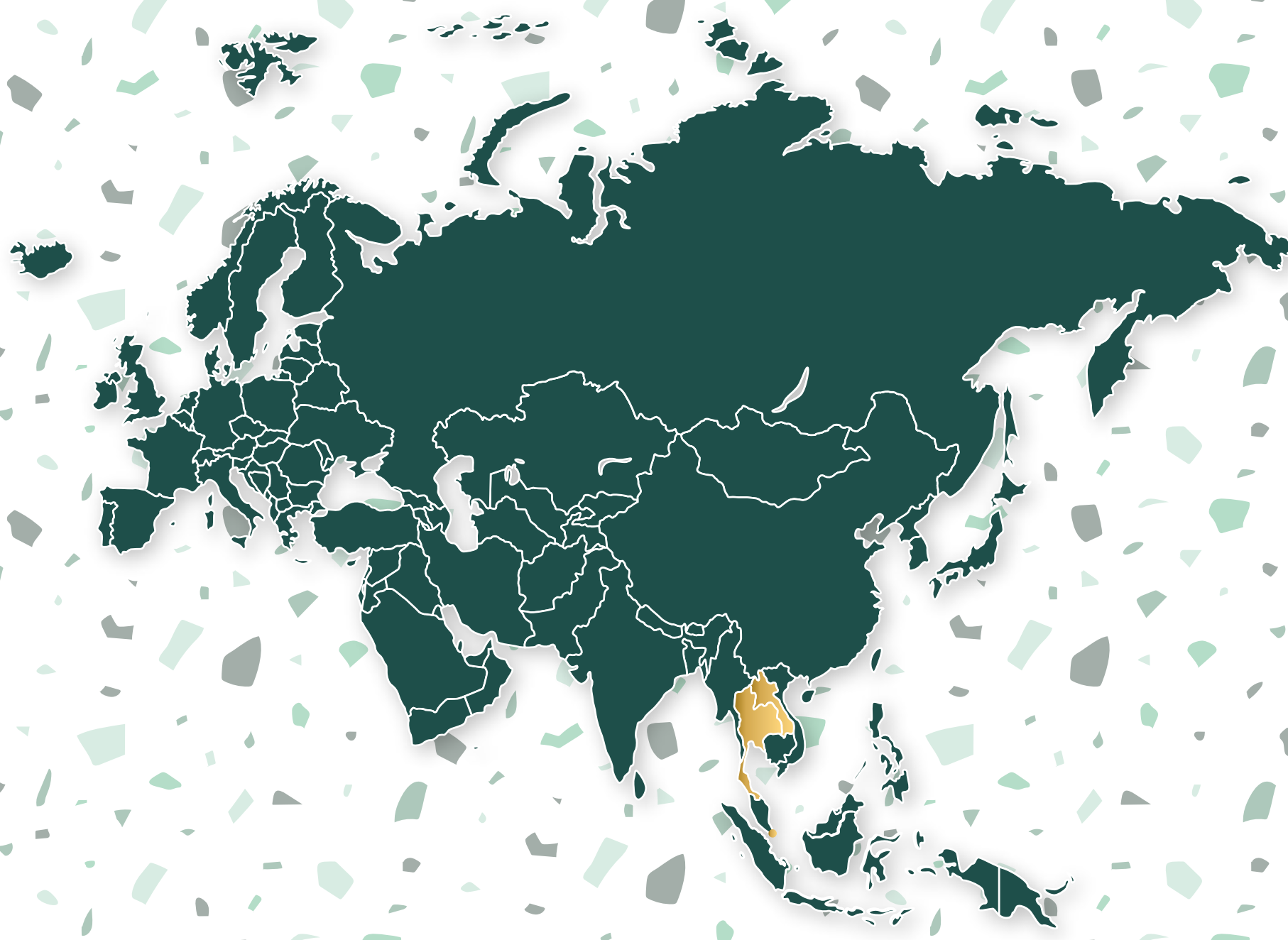
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KORAKIT CHOOMGRANT

Out of the Closet:
A Process of Making Queer
Heritage in Southeast Asia



OUT OF THE CLOSET: A PROCESS OF MAKING QUEER HERITAGE IN SOUTHEAST ASIA

KORAKIT CHOOMGRANT¹

Abstract

This paper aims to investigate whether there is any space for “queer heritage” in Southeast Asia by applying the concept of heritage-making that critically argues that heritage is a “doing process”. Moreover, this study aims at constructing knowledge regarding queer values associated with a gay subculture designed for survival in the heteronormative space. The spatialised morphology of gay values could be argued to be queer heritage, especially in the context of major tourist cities in Southeast Asia including Bangkok, Luang Prabang and Singapore. This is because the queer heritage proposed in this paper features significant attributes of authorised/official heritage and is socially and culturally constructed.

Keywords: Queer heritage, homosexuality, sexual minority, subculture for survival

1. Introduction

Recently, more and more scholars have been paying critical attention to the process of heritage-making which enhances the understanding that heritage is not only a word, but also an action of society towards collective values in material or abstract forms. Moreover, heritage is largely used to represent national identities, to cover all possible conflicts and to stimulate the tourism industry. However, due to its protection and preservation by the state, this type of heritage is regarded as being authorised and official. In other words, it is top-down heritage.

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If heritage is socially, politically and economically represented as such, speaking of an alternative heritage that does not support core national values is rather difficult and risky – particularly for groups of people who may have different beliefs, lifestyles or traditions. These people could be regarded as minorities. The heritage-making process of minorities could be parallel with those of the state, but take a different direction. This is a bottom-up process. However, there are successful examples of bottom-up heritage-making that are regarded as being official as a means to appreciate those different cultures that are likely to have lesser impacts on collective values. Additionally, the failure of a bottom-up process could be regarded in a different way, as it may damage collective values or may endanger society as a whole, and it might not represent what is good for the nation.

Although the conceptual and theoretical frameworks of how to study heritage are discussed and presented variously and intensively, from world heritage to community heritage, from national heritage to individual heritage, and from majority heritage to minority heritage (Brett, 1996; Smith, 2006; Harrison, 2013), there is a very limited amount of academic research dealing with the heritage of sexual minorities. The starting point for the present study is two papers related to queer heritage: “Excavating Desire: Queer Heritage in the Asia-Pacific Region” (Byrne, 2005) and “Curating Queer Heritage: Queer Knowledge and Museum Practice” (Steorn, 2012). These two papers do not, in the main, deal with the construction of queer heritage, rather they deal with existing heritage that may be regarded as queer heritage and the important role the places they discuss play in making homosexuals “more visible” within more sexually liberal countries, like those of the two authors, Australia and Sweden. Interestingly, differences in the visibility of homosexuals can be observed in the Eurasian region, although the human rights aspects are of public concern.

While the concept of “homosexuality” as an identity marker is rather new (in contrast to the sexual practices between men that have existed throughout recorded history) and might be considered as alien to Southeast Asian cultures, and the concept of a sexual binary system (heterosexual/homosexual) was never prevalent in pre-colonial Southeast Asian contexts as a means of identifying “homosexual men”, the impacts of globalisation and Western cultural norms nevertheless have many implications for Southeast Asian same-sex attracted males. Whatever the prevailing local ideas about gender and sexuality may be, they have been, to an extent, overtaken by globalised constructions (Jackson & Cook, 1999; Jackson & Sullivan, 2000). Today, when mixed with tourism, the dominant globalised constructions of sexuality can lead to a misunderstanding among “foreigners” visiting some Southeast Asia cities – and Bangkok is a good example – where certain urban places are dubbed the “gay capital of Asia” or a “gay paradise” (Waitt & Markwell, 2006; Atkins, 2012).

By denoting something as “heritage”, it has an indirect impact on the visibility of sub-groups in society. This study focuses on queer groups in Southeast Asia, as although they are not officially recognised, they are certainly used as a means of economic acceleration. It is very contradictory that on the one hand these groups are allowed to be visible, but on the other hand, they are not equally protected, particularly in terms of heritage. It can therefore be argued that the official heritage discourse has suppressed the visibility of queer groups.

In light of the above, the first part of this paper aims to examine the existing literature regarding “doing heritage”, with a subsequent discussion of the queer-related literature relevant to Bangkok in Thailand, Luang Prabang in Laos, and Singapore. The following section includes the theoretical frameworks which are useful to formulate an understanding of queer heritage in the context of Southeast Asia. Lastly, the paper indicates that queer heritage could be understood and tangibly seen as a value of a “subculture for survival”.

2. The Construction of Heritage

The naming of this first section of the literature review mirrors the book entitled *The Construction of Heritage* (Brett, 1996). Brett argues that heritage is ‘the representation of the past, that is how groups, regions, and nations view themselves and are viewed by others, as historical entities, and through what tints of which spectacles’ (Brett, 1996, p. 1). He emphasises visual and architectural heritage and its implications of imagery; hence, he brings up the issue of popular histories and the development of such stories which are politically and culturally used in Ireland. Smith, in her influential book *The Uses of Heritage* (2006), also addresses the issue in a similar way, as does Harrison in *Heritage: Critical Approaches* (2013).

These three scholars share a consensus about how heritage expresses, through representation, a relationship between the past, the present and the future. Thus, one of the characteristics of heritage is to present the relationship between what happened in the past, how it is important in the present day and why it should be passed on. Additionally and importantly, heritage is not just a representation of the past; heritage is something we make. To illustrate this, the authors deconstruct prevailing ideas about heritage so as to develop an understanding of how existing heritage is formulated and articulated.

Going further, these three scholarly books emphasise that doing heritage starts from intangible rather than tangible forms. Smith suggests that a social and cultural process is at the core of making things heritage; therefore, in this sense, ‘there is, really, no such thing as heritage’ (Smith, 2006, p. 11). Harrison emphasises that the way to understand heritage is from ‘a series of interlinked concepts – materiality, connectivity and dialogue’ (Harrison, 2013, p. 4), which leads him to conclude that ‘heritage is everywhere’ (Harrison, 2013, p. 1). Brett’s suggestion is that the concept of heritage is ‘in relation to the activity of history, and to the development of forms of popular, rather than academic or scholarly, history’ (Brett, 1996, p. 1). By integrating the aforementioned ideas, it can be concluded that heritage is not really about tangible forms alone. What truly makes something heritage is the intangible, the social and cultural processes which connect the chosen past with the contemporary present for a supposed future purpose.

Due to the above, choosing aspects of the past from which to construct heritage is usually the function of the state, which aims to promulgate ‘a consensus version of history by state-sanctioned cultural institutions and elites to regulate cultural and social tensions in the present’ (Smith, 2006,

p. 4), and to engender ‘a sense of nationalism’ (Harrison, 2013, p. 95). This leads to the construction of ‘authorized heritage discourse’ (Smith, 2006, p. 29). What Harrison terms ‘official heritage’, referring to ‘a set of professional practices that are authorised by the state and motivated by some form of legislation or written charter’ (Harrison, 2013, p. 14), might, more or less, be similar to Smith’s authorised heritage discourse and it seems to give no space for any other heritage that may contest or challenge socially accepted and politically sanctioned knowledge, memories, histories, monuments, sites and landscapes.

Heritage may also be understood as a discourse concerned with the negotiation and regulation of social meaning and practices associated with the creation and re-creation of ‘identity’ (Smith, 2006, p. 5). If this process is intentionally performed by authorised bodies, such as governments at the national level, heritage in this sense could be used as a tool to construct national identity, frame an individual’s mentality and behaviour, create harmony both culturally and socially, and legitimise and delegitimise politically, as in the case of George Town in Malaysia (Harrison, 2013). Likewise, heritage constructed in the same way as mentioned above could produce legitimacy for non-authorised heritage.

It can be seen that “doing heritage” should be considered as a verb; it is not a neutral action and cannot be neutralised because it is relevant to subjectivity, meaning and value creation, and as a tool to define “others” and to unite “us”. In contrast, heritage itself has the power to neutralise and generalise. Smith also points out that heritage is considered innately valuable. This is because it is seen to represent all that is good and important about the past, and which has contributed to the development of the cultural character of the present. However, unofficial heritage can be changed so that it becomes official depending on the contemporary political situation.

Harrison correctly points out that heritage as a production of the past in the present leads to a reassessment of who and what is involved in the process of making heritage, and where the production of heritage might be located within contemporary societies. Therefore, when considering the consequences of having national heritage, doing heritage is a majority affair. Minority groups can have their own visible heritage if it does not challenge national heritage, in other words, if it does not challenge the social perception of the relation of the past, present and future created by (official) heritage discourse. According to Smith (2006), in order to exhibit the relationship between the past and the present, representational tangible things are needed to give the (official) past meaning and value so as to make it visible. Having a physical symbol helps confirm the process of doing heritage, and helps insist that heritage is all about tangible things even though, in reality, it is impossible to separate the intangible from the tangible. In the absence of tangible things, knowledge and memories can still be passed on – only the evidence of how important and valuable they are cannot be seen and touched.

In a nutshell, these three scholars provide very insightful critical analyses of what constitutes heritage, offering compelling ways to begin to understand queer heritage. However, it must be emphasised once more that the works in question are based on existing heritage (in whatever form) and, from the existence of heritage sites, it can be deduced that heritage is not a thing but a social and cultural

process that consciously constructs a relationship between the past, present and future. Hence, within the process of making heritage, it is unavoidable to insert “self” into the process of understanding the current phenomenon operating in the present, selecting the “past” which is related to the present, and constructing the relationship between them for a future purpose. It would seem correct to state that doing heritage is subjective and not neutral or objective. The physical preservation of things might be scientific and technical, but the reasons for doing so are cultural, social and political.

Noticeably, the heritage of minorities is not clearly discussed in the literature because of the presupposition that heritage is a “doing process” and that it is mainly done by the national authority. The priority of these studies is to analyse and criticise the use of heritage in various ways, and also to employ such concepts to study unauthorised heritage and unofficial heritage in order to reaffirm their main argument regarding doing heritage. While these scholars have been busy scrutinising how to define heritage and how heritage is constructed and used, their discussions shed light on how to understand minority heritage – in our case, sexual minority heritage in a Southeast Asian context.

An important aspect of doing heritage is enhancing a sense of attachment through identity formation (Brett, 1996; Smith, 2006; Harrison, 2013); hence, apart from the comprehension of how heritage is “made”, it is necessary to analyse the attachment of people to heritage. However, it is also vital to examine what makes people feel attached to the (real or imagined) past and what a representation of the past from a so-called sexual minority point of view could be.

There is no ongoing academic research or popular discourse about “gay heritage” in Southeast Asian cities; rather, most gay-related issues are studied from historical, sociological, anthropological and medical perspectives, with only a few papers dealing with gay heritage. “Excavating Desire: Queer Heritage in the Asia-Pacific Region” (Byrne, 2005) and “Curating Queer Heritage: Queer Knowledge and Museum Practice” (Steorn, 2012) are examples. These two papers are very interestingly written and in a way that indicates the authors have been educated in a Western system, and it can be assumed that, for them, the issue of queer heritage is not about visibility but about preservation and management which is also true of a recent work by Immonen (2022). Both Steorn and Byrne view the past as something to be understood in the present and the evolution of a historical narrative into the future. This is not only a historical project; because it also involves material culture and sites, it is a heritage affair too. For Byrne, the link between past and present has to do with erotic sentiments remaining in the memories (one form of the past) of homosexual men. He says that places which can be regarded as queer heritage sites include those where queer people have created gardens, painted, written novels or fallen in love. They also include gay beaches and beach resorts, the sites of lesbian music camps, famous cruising areas in public parks or shopping malls, saunas and sex clubs, gay hairdressers, drag clubs, and gay and lesbian discos – and also, of course, sites of discrimination and physical violence against homosexuals.

Surprisingly, the two aforementioned works refer to the eroticism of queerness, and it may raise the question as to why, when discussing queer heritage, memories of sexual behaviour arise. This question could be simply answered by referring to why authorised and official heritage discourse has been created and its impact on non-authorised and unofficial heritage discourse. The way of making

authorised heritage can be considered as a tool to create an “imagined community” (Anderson, 1991). When sexual normativity is described by the binary system of male and female sexuality, other sexualities are excluded from normal practices. The expression of homosexual behaviours/identities, as the core analysis in this paper, is always seen differently from “normal” sexual behaviours/identities.

In the Southeast Asian context, the notion of homosexuality is even more recent than in the West, and the emergence of homosexuality has typically not been regarded as a pleasing phenomenon – indeed, it is often characterised as a “Western perversion”. For homosexuals, the sense of sexual desire and eroticism, the need to meet others of their own kind who have the same sexual preferences, and the intention of having social interaction comes with feelings of fear, and potentially being arrested, losing integrity or social position and so on. Any erotic memories are accompanied by memories of how it may feel to be “found out”. It can be therefore argued that these memories are associated with the vulnerability of homosexual men, with discrimination being either overt or covert, and within an environment of social norms, like those operating in Bangkok and Luang Prabang, or of both legislation and social norms as was, until very recently, the case in Singapore. In all three places, if seen or noticed by society, the expression of homosexual identity is not accepted, and it is consequently expressed in places hidden from “normative eyes”. It is even more interesting that in Southeast Asian cities where the level of sexual liberalisation is not as culturally and legislatively high as in Sydney, for example, the visibility of queerness is observable and it is a symbol of a high level of tolerance. In Southeast Asian cities, everything connected with gay heritage is about visibility, and, as is the case of other minority groups, it is intrinsically linked with struggle – because ‘not to struggle is to remain invisible in the heritage landscape’ (Byrne, 2005, p. 6).

If the given memories of the past are mainly about a sense of difference, which places, then, could be queer heritage? This is a very simple question, yet it is difficult to answer. We need to carefully consider the contexts, as well as the contemporary present and the future purpose. If among gay men, a sense of vulnerability is a shared memory, it may reflect tangible things that could be gay heritage to be preserved for the future if those shared memories are specific to places.

Queer heritage from this standpoint is not “pleasant”, as it might be perceived to challenge the authorised heritage discourse. In addition to this, queer heritage may probably blur the line that separates “normative practices” from “non-normative practices” and enhance a greater understanding towards a social discourse of “deviancy” through the representation of queer heritage.

If no specific places are identified as being present in the collective memories of the gay men who live in the three case study cities, what might be an alternative? This question raises an even more critical one: What is to be preserved?

Though not discussing sexual minority heritage, the scholarly books of Brett, Smith and Harrison are important for shaping the conceptual framework of how to “do” heritage by deconstructing its implications. It is revealed that heritage must present those parts of the past that have meaning and value to the contemporary present and should be consciously preserved for the future. To do heritage, three dimensions must be taken into account: first, the contemporary phenomenon; second, the past;

and last, the objective of preservation for the future. The core of doing heritage is to go from the smallest unit to the largest one, from the family to the nation. This implies that, in fact, people are the main actors in doing heritage. Things will have no value if we do not assign value to them. Things will not be heritage if we do not make them heritage. Likewise, queer things will have no value unless their importance to queer people is truly understood. Queer heritage will be useless if it does not reflect the contemporary phenomenon necessitating its preservation. In this sense, queer things need to be preserved because gay men need to be visible within Southeast Asian contexts. Therefore, this paper argues that they should negotiate their visibility by doing queer heritage.

3. Collective Gay Values as a Subculture for Survival

By taking Sedgwick's *Epistemology of the Closet* (1990) as a conceptual framework to scrutinise how gay men have historically survived but have been invisible, and by participatory action research (PAR) and observation in Bangkok, Singapore and Luang Prabang, it can be seen that gay men are often rejected by the communities within which they live, homosexuality obviously being harmful to individuals who find themselves same-sex oriented. In these three cities, gay men are living in a situation where homosexuality is still not regarded as being socially acceptable or an appropriate gender role, form of sexual behaviour, or identity. Therefore, to be coherent, gay men must go underground to seek other gay men, but as such behaviour is not socially sanctioned, from a normative perspective, it is unusual. Nevertheless, under certain conditions and within certain spaces, this seeking contributes much to gay visibility in societies where homosexuality is regarded as deviant. Therefore, to protect queer values as a subculture for survival means queer people protecting their visibility – in society, in the nation and in the world. To not protect one's visibility results in being intentionally or unintentionally forgotten or even silenced. To consciously protect one's visibility, one's subculture and one's spaces – based on the values that drive these social, cultural and spatial processes and with an eye on the future – is a heritage affair. It is also an example of where heritage and human rights intersect (see the important volume by Langfield, Logan & Craith, 2010).

The survival mechanism gay men use collectively in Bangkok, Luang Prabang and Singapore is a set of values embracing what is considered important and significant for gay men in a world that is not sympathetic and, in the case of Singapore, was until recently legally hostile (until the repeal of Section 377A in 2022). This survival mechanism is on the one hand in opposition to the regime of normative gender and sexuality (sexual majorities), while on the other hand it creates, performs, ritualises, socialises, celebrates and signifies spaces that are marked out as being places where gay men can be themselves and freely express their sexuality. Over time, this process of spatial performance and signification can produce the conditions for such places to be regarded as heritage. Like heteronormative heritage, the values are culturally and socially constructed, they can often be traced back to the past (that is, these places have a history), and they often remain extremely important to sexual minorities in the present.

Being forced to live “in the closet” is a form of political and social oppression. Reacting to dominant values and norms by hiding means being rendered powerless, marginalised and denied access to everything heterosexual people enjoy. What is significant, as many scholars have observed (Lugosi, 2007; Choomgrant, 2009; Obendorf, 2012), is the way gay men have produced their own spaces. In the present paper, however, digital spaces and socially networked spaces produced by gay men (Phillips, 2008) are not included, as this is beyond the scope of its research. Here the exclusive focus is on physical spaces, the contention being that the production of gay spaces in Southeast Asia is related to the values of what can be termed a subculture for survival. To live in the closet is not only a metaphor; rather it expresses gay men's values of belonging to a subculture for survival that can be understood spatially and tangibly alike. Likewise, the spaces related to gay men's closet lives represent the values associated with gay men leading double lives.

4. Queer Heritage in Its Southeast Asian Context

We must understand the process whereby gay values are expressed tangibly in the form of material entities. Such material entities, under certain conditions, can potentially become the basis of queer heritage. To understand the process whereby queer values become tangible, Lefebvre's *Production of Space* (1991) and Tuan's *Topophilia* (1974) are used as the conceptual framework. The present section is thus structured into two main parts. The first part examines the spatialisation of gay values, while the second examines the relationships between gay men and their spaces in order to present a queer sense of place and a queer sense of belonging, leading to a greater understanding of how the spaces in question are on the one hand significant for gay men, and on the other hand factors to make queer heritage possible in the future.

Lefebvre's *Production of Space* is crucial to an understanding of how space is socially and politically formulated. In addition, his argument is based on the production of a heteronormative space that contains normative characteristics defined by its users. Therefore, if the space is normatively produced, the non-normative characteristics will be repressed – as in Bangkok and Luang Prabang – or oppressed (legally until 2022 and still socially at present) as in Singapore. By implication, this fundamental argument leads to the blurring of the visibility of others, something Sedgwick (1990) metaphorically terms a ‘closet’, a reference to gay men's private lives in secretive spaces.

Recently, Lefebvre's concept has been used to delineate the notion of the “closet” that is also created and spatialised through the process of heteronormative space production. In other words, heteronormative space production also simultaneously produces other spaces, the spaces of the marginalised, as noted by Brown (2000) and Immonen (2022).

This idea of spatialising invisibility with regard to the closet leads to a more concrete understanding of queer spaces in reality. However, Brown mainly analyses the spatiality of the closet by emphasising only the materiality of a place and its location in relation to the whole entity, whether a neighbourhood or a city. He does not investigate the closet as an expression of gay men's values

associated with belonging to a subculture for survival. All the same, it is clear that this is something that has historically been practised. Gay men as a subcultural group produce their own spaces that allow them not to be “deviant”. The space produced by gay men is significant and provides them with places where they are unnoticed – except by themselves – within the entire societal precinct. Such spaces exist in parallel with heteronormative spaces. Gay spaces are not strange entities; rather, they are very real for those gay men who seek contact with other same-sex attracted men in a place they can call their own, if only temporarily.

The predominant factor for producing space for each group in society is a collective set of social values. In other words, these shared values are what connects an individual’s space with that of a wider social space. Dominant spaces produced by a majority consensus therefore house the majority’s values in all aspects – including everything from culture to politics, from non-materiality to materiality, and from personal characteristics to national identity. It can be surmised that the production of gay space is partially like the heritage-making process. They are both socially and culturally constructed. Thus, applying Lefebvre’s ideas to understand the production of homosexual space leads to a deeper understanding of the relationship between gay men and spaces.

5. Spatialising the Values of a Subculture for Survival: The Production of Gay Space

The socially constructed perceptions with regard to the indigenous categories of gender and sexuality in the cities featured in this study, and how, in part, gay men act because of the fear of having no legitimate space or, at best, ones which are often only temporary, or only exist at certain times of the day/night have been discussed above. In order to express homosexual lifestyles and erotic sentiments, as part of their subculture for survival, gay men have produced spaces to serve their desire to meet other gay men and where their same-sex attraction can be fulfilled in friendships and relationships. Thus, the relevance of Lefebvre’s conceptual triad for the making of space is useful to identify how gay space is formed and under what conditions.

Lefebvre’s conceptual triad is composed of three main elements. The first is spatial practice that embraces production and reproduction, and the particular locations and spatial sets characteristic of each social formation. Spatial practice ensures continuity and some degree of cohesion. In terms of social space, and of each member of a given society’s relationship to that space, this cohesion implies a guaranteed level of competence and a specific level of performance. The second element encompasses the representations of space that are tied to the relations of production and to the order which those relations impose, and hence to knowledge, signs, codes and frontal relations. The third element comprises representational spaces embodying complex symbolisms – sometimes coded, sometimes not – linked to the clandestine or underground side of social life, as also to art (which may eventually come to be defined less as a code of space than as a code of representational spaces).

Referring to homophobia as representing on the one hand the sexual majority’s fear of losing control of its space to homosexual people, and on the other hand a sexual minority’s fear of having no legitimate space in a heteronormative society, the heterosexual majority exploits social values to occupy and give meaning to the spaces it inhabits. Therefore, social practices that are correlated to majority values constitute the normative meanings of “space”.

Groups of people are culturally and socially bound within the heteronormative space. In his highly influential study of nationalism and belonging in Southeast Asia, Anderson (1991) explains this as an imagined community where most citizens help strengthen the meaning of a space, influence others to follow their social practices within that space, and dominate the space’s use both tangibly and intangibly to serve their political, social or economic purposes.

Although it has no clear boundaries, the heteronormative space is certainly perceivable. Heteronormative space not only extends into the most private areas of the home, such as the bedroom, which is believed to be a space for reproduction, but also includes the widest representational space, the nation. In this sense, what is in the space of heteronormative genders and sexuality could be ostensibly comprehended as being produced by and for the heterosexual majority, ranging, for instance, from the intangible to the tangible, from language to housing.

Anderson’s concept is also applicable for understanding homosexual spatiality, including Brown’s concept of the closet as spatialising those who suffer and those who act. Thus, it can be argued that the collective queer values emanating from a subculture focused on survival and its related practices can provide a key concept to what is currently an unknown in the heritage field: the process of space production by minorities and, in the present case, the production of gay spaces by and for gay men, along with the desire to protect such places as a testimony to gay survival and gay histories.

Historically, gay men have utilised both natural and built environments to satisfy their sexual desires, their erotic needs and their feelings with great subtlety and ingenuity. The spatiality of queer values related to a subculture formed for survival can be observed with regard to the characteristics of those spaces and the associated meanings created by gay men in Bangkok, Singapore and Luang Prabang. Thus, space produced by homosexual men can be understood in at least three ways, including state-authorized space, dominated space and gay-owned space. These three characteristics represent and relate to queer values and do not illustrate a linear development. Indeed, the three forms can be observed contemporaneously. Gelder (2007) suggests that subcultures form gradually and that they are often considered strange in a society where the collective practices of the majority are deemed to be the norm. Spaces are then created by a given subcultural group – to both cater for their practices and constitute a group identity.

Sexual minorities do create spaces for themselves, but within heteronormative space. Thus, the proposed three characteristics of queer values that have been spatialised can be regarded as occurring within shared space. It is shared because homosexual space is neither legally protected nor socially accepted;

homosexual men struggle to produce legitimate space within the dominant social space because they lack legitimacy to produce space for their own practices and when they do, it is under the umbrella of heteronormative space. In other words, these are hidden spaces within heteronormative space.

The three characteristics related to queer values can be defined as follows:

State-authorized Space refers to places over which individuals cannot claim ownership, the space rather being protected by state surveillance and governed by state agencies. Such places include natural and cultural landscapes and public spaces. Gay men use the physical appearance of such spaces temporarily. In other words, what can be observed is the discreet temporary occupation of space by gay men.

Dominated Space, through ethnonormativity, refers to the combination of the concepts of heteronormativity and homonormativity, and recognises that – no matter how natural a particular racial group’s social, political and/or economic dominance may appear – that group must work to create and continuously reproduce this dominance, or risk losing its hegemonic position (Tan, 2011). In the context of this study, dominated space is that based on gay activities within spaces that are produced and actively dominated by heteronormative practices. Gay men knowingly enter dominant heterosexual spaces, where power is maintained through a variety of forms, functions and symbolism. The presence of gay activities, gay people and gay places in such spaces illustrates, firstly, the degree to which domination is fragile (and not as hegemonic as those in power think or desire) and, secondly, the degree to which the (heterosexual) dominance is constantly reproduced in the face of this fragility.

Gay-owned Space is space where form, function and symbolism are representational and produce and provide a gay atmosphere or environment. Such spaces can be used by everyone, but some spaces are strictly reserved for homosexual men only.

The temporary occupation of places by gay men is a key characteristic of the production of gay spaces. Since gay men have no authority to change the physicality and materiality of spaces, the use of temporary places – mainly related to homoeroticism – must be discreet to avoid being arrested if sexual behaviour is unintentionally witnessed.

6. The Characteristics of Queer Heritage

As also confirmed by a number of contemporary scholars, the focus of heritage today is not upon the physical properties of particular sites, but on the values and the processes of heritage construction. Queer values, already outlined in this study, are derived from characteristics of the double, closet lives associated with gay men. Double lives have continuously been treasured by homosexual men in certain parts of the world and at certain times in history, but in Southeast Asia they have been kept silent within (heteronormative) national history. In other words, what may constitute queer heritage in a Southeast Asian context are the spatial practices related to a gay subculture developed as a survival mechanism.

The material forms of queer heritage presented in this study are not directly regarded as being part of a nation-building process. Instead, they are characterised here as being hidden but known. Located in spaces identified as having overriding heteronormative values, queer heritage is considered as a subset within heteronormative space having high value for homosexual men. The materialities identified as containing queer values not only allow the sustainability of queerness and queer visibility, but also permit homosexual men to form and strengthen subcultural practices deemed crucial to their identity and their survival in a difficult social and political environment. What complicates the idea of queer heritage is the impermanency that exists spatially because the practising of queer values is not rooted to a place if that place is threatened and so there is constant mobility in the gay world. As one place becomes insecure for meeting and is abandoned, another place springs up. This is normal in gay culture in Southeast Asia, and it happens because of the uncertainty of living in a hostile society. In other words, the failure of any place to provide sanctuary from this uncertainty may result in its exclusion from queer spatial practices, although these “failed” places often become powerful in the collective memory of gay men.

7. Conclusions

To understand queer heritage in Southeast Asia is on the one hand to comprehend how the negative notion of “deviance” is constructed, and on the other hand to deconstruct the cause of this. The very idea of queer heritage should theoretically help advance understanding regarding the variety of genders and sexualities in Southeast Asian societies. To even dare to proclaim queer heritage should also foster equality and visibility for homosexuality in society. Significantly, to have queer heritage means to fortify the queer community in the same way as heritage functions in the wider society: it reinforces certain values, it is vital for the formation of identity, and it is increasingly used to negotiate social and political power. Although gradually, queer heritage will ultimately enhance human rights and stimulate society to have more understanding towards what is still today regarded as being deviant.

Because queer heritage is not officially accepted or acknowledged in Southeast Asia, this paper does not aim to propose management or preservation plans; its intention is rather to indicate that there is indeed a space for considering queer heritage. This study is only the first step in understanding the values of gay men in the context of the spatialised and material expressions of gay subcultures across the cities of Bangkok, Singapore and Luang Prabang. It is also a call for action within heritage studies on behalf of those minorities who by their very exclusion from the mainstream require a voice to express the things they regard as precious. For gay Southeast Asian men, it is time to come out of the closet.

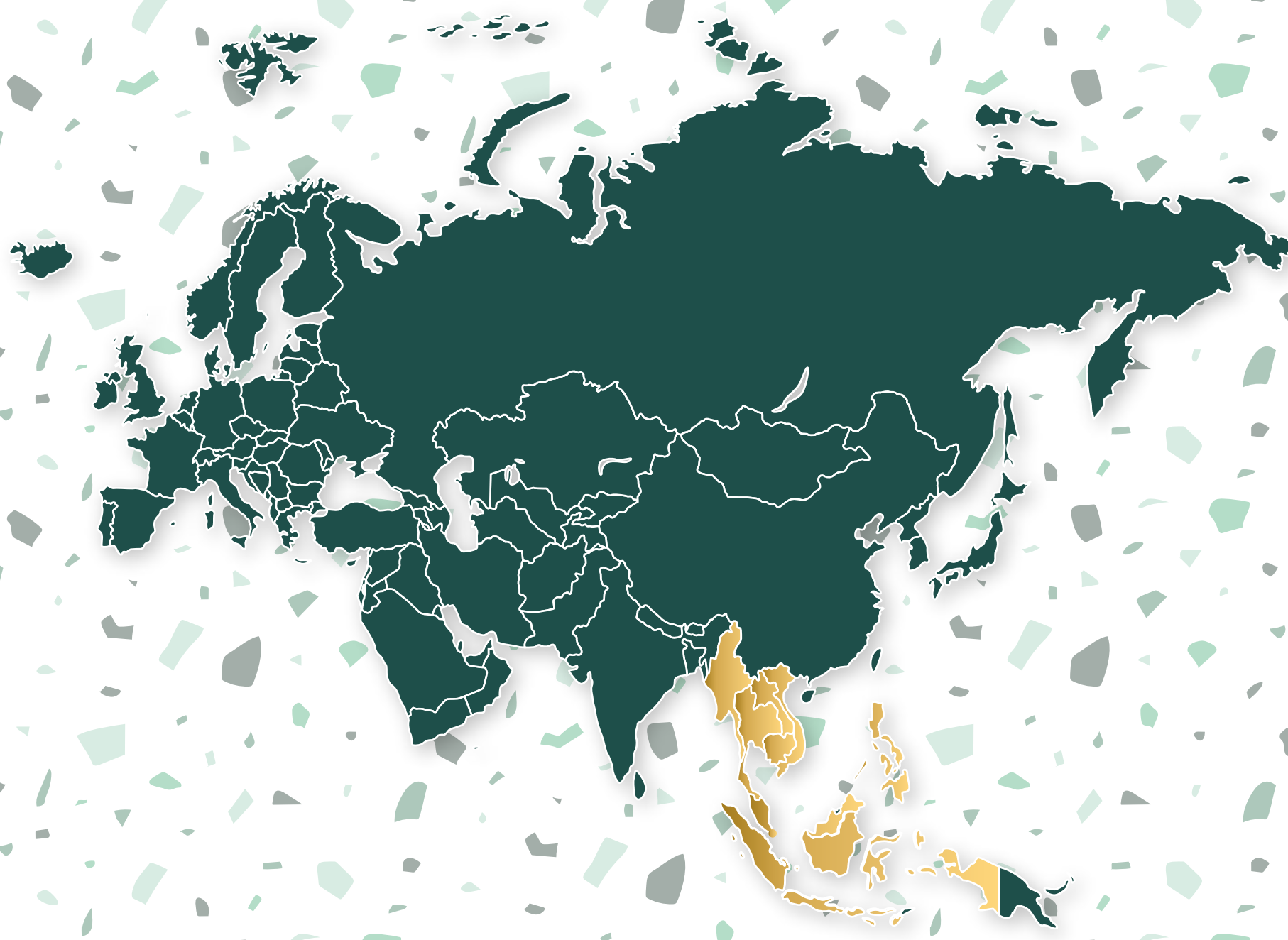
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BALÁZS MAYER

Afterthoughts on a Summit
- Perspectives on Advancing
ASEAN-Australia Cooperation



AFTERTHOUGHTS ON A SUMMIT – PERSPECTIVES ON ADVANCING ASEAN– AUSTRALIA COOPERATION

BALÁZS MAYER¹

Abstract

More than 800,000 Australians speak – in addition to English – one of the languages of the ten ASEAN member states. More than 100,000 students from ASEAN countries pursue their studies in Australia. The number of Australian citizens linked to one of the ASEAN states by their ancestry and family ties exceeds one million. The magnitude of bilateral trade between Australia and ASEAN exceeded AUD 178 billion in 2022, surpassing the size of Australia–Japan or Australia–USA trade relations. These figures in themselves would justify the focus of studies on the geopolitical and geoeconomic relationships between the Southeast Asian bloc and Canberra, as well as their possible development trajectories. In addition to all of this, however, the importance of regional cooperation is given special relevance by the fact that Melbourne was the host of the ASEAN–Australia Special Summit of 4–6 March 2024, which created a worthy forum for commemorating the five decades of the long-term relations between the Anglo-Saxon country and the Southeast Asian organisation. The present study aims to outline the substance of the economic and geopolitical cooperation between Australia and the ten Southeast Asian states, examining both the driving force behind it and the further potential evolution of the cooperation.

Keywords: ASEAN, Southeast Asia, Australia, global economy, international trade relations, geopolitics

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1. Introduction

In November 2022, the prime minister of Australia, Anthony Albanese, asked Nicholas Moore, the former chief executive officer of Australia’s leading financial, investment and securities advisory company, Macquarie Group, to put forward a national strategy with a view to enhance and expand trade and investment relations between Australia and Southeast Asia.

The ambition of the federal government was not unjustified. According to financial journalists, in 2010 the combined gross domestic product (GDP) of the Association of Southeast Asian Nations was USD 2 trillion; based on calculations, this figure will have doubled by the end of 2024, and it is expected to reach USD 6 trillion by the close of the decade. The share of bilateral trade between Australia and the bloc in the entire volume of Australian trade is, however, constantly shrinking. Canberra’s performance can also be considered “improvable” in terms of investments in Southeast Asia, since in 2022 only around AUD 106 billion of investments flowed into the member states of ASEAN, which is barely 3% of the country’s capital exports abroad (Goh, 2024).

Nicholas Moore’s report drew attention to the fact that by 2040, as a result of favourable demographic trends, industrialisation, robust urbanisation and technological development, Southeast Asia will become an economic powerhouse. Consequently, in less than 20 years, the ASEAN region will not only emerge as the world’s fourth economic engine – following the USA, China and India – but its consumer market is expected to be ten times that of Australia. The Moore Report also self-critically points out that Canberra’s regional investment and trade activity falls short of the required level and has not kept pace with the economic growth of Southeast Asia in the past two decades (Australian Government, DFAT, 2023).

The special ASEAN–Australia Summit held from 4–6 March 2024, the relevance of which was underlined by the fact that 50 years previously Australia had become a Dialogue Partner of the organisation (Merced, 2017),² the first country to assume this capacity, justifies its importance and offers us an opportunity to review the possibilities for the further advancement of the relationship and cooperation between ASEAN and Australia.

In this context, this paper also seeks insights as to whether, reflecting the changes in the regional economic environment and geopolitical arena in the last two decades, Australia’s political leadership recognises the necessity and possibility of harnessing the potential economic, trade and investment partnerships in the Southeast Asian region, thus benefitting from a more intensive regional relationship-building and strengthening of presence, whilst maintaining its traditional Western-oriented geopolitical posture and affiliation.

² The status of Dialogue Partner is characterised by an intensive cooperation structure for non-members, in the framework of which the parties engage in regular high-level exchanges and dialogue, including both ministerial meetings and summits. Currently the following 11 countries (or entities) have Dialogue Partner status with ASEAN: Australia, Canada, China, the European Union, India, Japan, New Zealand, South Korea, Russia, the United Kingdom and the United States. See *ASEAN – External Relations*: <https://asean.org/our-communities/asean-political-security-community/outward-looking-community/external-relations/>.

It is also worth investigating how Canberra is able to on one hand harmonise the ASEAN mentality, which requires increasingly intensive inclusivity and connectivity, focusing mainly on the principle of non-intervention, fostering political dialogues and de-ideologised pragmatic cooperation, with its active participation in US-dominated regional security architectures with “like-minded” countries, such as AUKUS or the Quad,³ on the other.

2. The Cooperation in Its Present Form

A milestone in the history of economic cooperation between ASEAN and Australia was the signing of the Agreement Establishing the ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) in February 2009. The Free Trade Agreement (FTA) between them covered regional rules of origin and commitments to significantly reduce or eliminate trade tariffs, as well as steps in the field of services that provide significant commercial benefits to the parties and further strengthen Australia’s trade relations with ASEAN. In November 2014, the relationship between Australia and ASEAN was further deepened when, on the fortieth anniversary of their cooperation, the partnership was elevated to the level of a strategic partnership at the summit held in Naypyidaw, Myanmar.

The current framework for cooperation between ASEAN and Australia is set out in the ASEAN–Australia Action Plan (2020–2024) (ASEAN, 2022), which was adopted in Bangkok on 1 August 2019. This agreement set the course for further increasing the intensity of cooperation between the parties, as a result of which – under the auspices of the first ASEAN–Australia Summit – the leaders decided to launch the Comprehensive Strategic Partnership (CSP) in October 2021.

2.1. The ASEAN–Australia Action Plan and Comprehensive Strategic Partnership

The ambitious ASEAN–Australia Action Plan (2020–2024), which puts the Comprehensive Strategic Partnership into practice, seeks to give substance to the cooperation in a very broad policy area.

For Australia, the projects and activities agreed under the CSP and to be implemented under the Action Plan are actively developed to align with ASEAN’s pillars, defining the goals and deliverables of the relevant pillars with the need for attention to the increasingly complex issues defined as “cross-pillar” for current and future work with ASEAN. According to senior Southeast Asian officials, Australia is one of ASEAN’s most active Dialogue Partners, and the country’s leverage is apparent when it comes to getting agreement on new initiatives within the pillars, which is not so difficult when Australia proposes something (Farrelly et al., 2024).

³ See Section 3.7 of this paper.

As intended by the parties, and in addition to bilateral intergovernmental relations, political and security cooperation includes interparliamentary dialogue (AIPA, n.d.)⁴ and extends to various regional meetings that emphasise political dialogue (the East Asian Summit, the ASEAN Regional Forum, etc.). Furthermore, in connection with the security dimension, the cooperation also incorporates defence policy issues, joint policing and preventive actions against terrorism and international crime, capacity-building and training programmes. Joint actions in maritime affairs – in accordance with the UN Convention on the Law of the Sea (ITLOS, signed in 1982) and the rules of the International Maritime Organization (IMO) – and support for the protection and promotion of human rights are part of political and security cooperation as well.

In the context of economy, among the largest joint projects are the implementation of the Agreement on the ASEAN–Australia–New Zealand Free Trade Area and the Regional Comprehensive Economic Partnership (RCEP),⁵ as well as the stimulation of trade relations and investments, the strengthening of regional economic integration and connectivity, and the exploiting and furthering of the potential of regional and global supply chains. In the economic component of the Action Plan, the creation of a sustainable entrepreneurial and business environment based on digital capabilities plays a prominent role, as does the training of a labour force equipped with digital knowledge that meets the requirements of the Fourth Industrial Revolution. In the ASEAN–Australia relationship, the ASEAN–Australia Digital Trade Standards (DTS) Initiative, announced in March 2018, is a key tool for these efforts, and it will additionally contribute to the development and strengthening of digital connectivity and trade with digital tools. In the area of energy policy, the Action Plan sets the goal of creating energy security; regional energy integration and the exploitation of renewable and alternative energy sources are at the heart of these endeavours (ASEAN, 2022).

The ASEAN–Australia Action Plan (2020–2024) envisages wide-ranging cooperation opportunities in ASEAN’s third pillar as well. In this spirit, the parties have pledged to strengthen their partnership in the fields of disaster management and humanitarian assistance, increase their efforts in the segments of the humanitarian subsystem (such as in the health, education, scientific and research sectors), engage in common sport and cultural programmes, and also commit themselves to the economic and social empowerment of women, social inclusion, gender equality and children’s rights. Environmental issues and mitigating the effects of climate change are also policy areas brought into the focus of the Action Plan; in this regard encouraging cooperation with the ASEAN Centre for Biodiversity plays a vital role (ASEAN, 2022).

The cooperation between Australia and ASEAN is also ambitious in the horizontal segments. One of the priority areas of cross-pillar cooperation is the promotion of connectivity, the action line of which was adopted by the member countries at ASEAN’s 28th and 29th Summit held in Vientiane, Laos, in September 2016. The document entitled Master Plan on Connectivity 2025 – the ultimate

⁴ The Parliament of Australia has been represented in the ASEAN Inter-Parliamentary Assembly as an observer since 1979.

⁵ The Regional Comprehensive Economic Partnership is a free trade area that is the largest trade bloc in world history in terms of the GDP of its members. In addition to the ten ASEAN countries, it also includes Australia, China, Japan, New Zealand and South Korea.

goal of which is the realisation of a seamlessly and comprehensively connected and integrated ASEAN (ASEAN, 2016a) – focuses on five strategic areas: sustainable infrastructure, digital innovation, smooth logistics, efficient and appropriate regulatory environment, and (educational and tourism) mobility (ASEAN, 2016b). In addition to interconnectivity and horizontal cooperation, the programme involves the creation of a network of “smart city” projects designed to promote intelligent and sustainable urban development, joint efforts in the field of cybersecurity, and the further strengthening of dialogue and joint work in the field of development policy, in line with the UN’s Sustainable Development Goals.

Under the auspices of the Comprehensive Strategic Partnership, Canberra is also committed to supporting specific projects aimed at deepening its existing relations with ASEAN. Some of them – similarly to those formulated in the Action Plan – fit into ASEAN’s pillar structure, others are horizontal in nature. The third group of concrete projects includes the so-called “Australia for ASEAN” initiatives, in which Canberra has committed to spending AUD 154 million over ten years to address regional challenges, provide 100 scholarships for talented young people in ASEAN countries for leadership training programmes, and support the acquisition of digital and related future-oriented skills and qualifications (ASEAN, 2022).

3. Factors Affecting the Development of the Relationship

After our review of the framework currently defining ASEAN–Australia relations, it is necessary to take into account the components, events and conditions that may have an impact on the future evolution of the two parties’ relations. One of these variables is the consecutive chairmanship of ASEAN and the incumbent’s preferences. The chairmanship of the organisation is shared by member states, rotating on a yearly basis, and the priorities articulated by the country presiding at any given time are of particular importance in determining the track of ASEAN.

When examining Southeast Asia, the February 2024 presidential, parliamentary and municipal elections in Indonesia carry special significance, the internal political processes of ASEAN’s most populous founding state, which also has the greatest economic potential, providing an essential reference point for analysis.

Scrutiny of the relationship between ASEAN and Australia, and the possible dynamics, should also consider the perceptions and attitudes of the Southeast Asian and Australian public. As individuals and the economic and social elites are involved in shaping the bilateral and intraregional relations, their mapping serves understanding and analysis.

As a final perspective, it is also legitimate to take stock of the programmes of Australia’s politicians, and conclusions can be drawn from their objectives regarding the direction of Canberra’s possible future decisions.

3.1. The Laotian Chairmanship of ASEAN (2024)

The diplomatic relations that have existed between Vientiane and Canberra since 1952 are unique in the sense that they represent Laos’s longest uninterrupted bilateral relationship with any country. This stable bilateral connection creates a good basis for the two governments to take advantage of the opportunities existing in the economic sphere as well. The main sector of the Laotian economy is agriculture (including forestry), and although its share is constantly decreasing, in 2022 the sector still employed 69.5% of the total labour force (Statista, 2024). Mining, tourism and energy production are also significant. Regarding the latter, it should be stressed that Laos is one of the largest energy exporters in the region – fundamentally based on hydropower – and it intends to increase its production in the coming years. Australia has significant interests in these areas, and these factors enable the strengthening of Australian investments in Laos, and thus within the framework of ASEAN.

In 2024, Laos holds the consecutive chairmanship of ASEAN. The Laotian chairmanship took over the baton from Indonesia during a rather turbulent period that was characterised not only by security challenges (Sino–American global rivalry, the Russo–Ukrainian War, the conflict between Palestine and Israel, tensions around the South China Sea, instability in Myanmar), but also by economic difficulties; moreover, the consequences of climate change have also raised serious issues. The priorities set by the Laotian chairmanship are reflected in the motto chosen for the one-year period: “ASEAN: Strengthening Connectivity and Resilience”. Emphasising connectivity in the further deepening of ASEAN’s economic integration is of particular importance for Vientiane. Since this country with a population of 7.5 million inhabitants is the only member state of the organisation with no seacoast, it is decisive for Laos to become a *land-linked* country rather than remaining a *land-locked* one – especially in light of the economic difficulties (soaring inflation, significant foreign public debt, devaluation of the national currency) that it has been facing for years.

The Laotian chairmanship’s priorities of highlighting connectivity and strengthening ASEAN’s importance and resilience create a good basis for expanding relations with Australia. On the basis of its chairmanship, Vientiane can play a prominent role in setting relations with Canberra in motion; by the same token, the fact that between 2021 and 2024 Vientiane is acting as Country Coordinator⁶ for Australia adds extra weight to its position. What’s more, in November 2022 the partners agreed to elevate their bilateral relationship to the level of a comprehensive partnership (PM of Australia, 2022).

⁶ Article 42 of the ASEAN Charter stipulates that member states, acting as Country Coordinators, shall take turns to take overall responsibility in coordinating and promoting the interests of ASEAN in its relations with the relevant Dialogue Partners and regional and international organisations and institutions.

3.2. The 2024 Indonesian Presidential Elections

Following the victory of Prabowo Subianto at the Indonesian presidential elections held in February 2024, the continuity with the preceding era remains implicit, with the appointment as vice president of the son of the outgoing President Widodo, Gibran Rakabuming, being an expected guarantee that the former political direction will persist.

Of course, it is of utmost importance for Australia to maintain – and even perhaps expand – a stable and cooperative relationship with its largest neighbour. The bilateral Comprehensive Strategic Partnership launched between the two countries in 2018 (Australian Government, DFAT, 2018) provides a suitable starting point for this. The further expansion of cooperation is in the fundamental interests of both parties, and President Subianto will continue⁷ the pragmatic policy of balancing and keeping an equal distance from global powers, which is decisive in Indonesian politics and also at the level of ASEAN (Sambhi, 2024).

3.3. The Stance of the Southeast Asian Public

In order to map the future of the ASEAN–Australia relationship and assess its possible trajectory, it is worth looking at the perceptions mirrored in the public opinion of ASEAN citizens. The Singapore-based ISEAS – Yusof Ishak Institute (formerly the Institute of Southeast Asian Studies) has been publishing its State of Southeast Asia Survey since 2019, in which it regularly examines the preferences and attitudes of the region's public opinion regarding regional affairs and international developments.

In its most recent report (ISEAS, 2024), the Institute's researchers sought to discover the opinion of respondents as to which country in the world could do most to 'champion the global free trade agenda'. From the point of view of our topic it is noteworthy that compared to its 2023 figure of 3.0%, Australia now received a significantly more modest evaluation of 1.7%. A similar negative trend was also visible regarding the question 'Who do you have the most confidence in to provide leadership to maintain the rules-based order and uphold international law?' In relation to this issue, Australia's index has practically halved: from 3.4% in 2023 to 1.6% in 2024. The authors of the survey were also curious as to which countries (or entities) Southeast Asian citizens would most trust if ASEAN had to 'seek out "third parties" to hedge against the uncertainties of the US–China strategic rivalry'. In this ranking, Australia – as in 2023 – finished in fourth place (9.5%), behind the EU (37.2%), Japan (27.7%), and India (10.5%).

From the above figures, it can be concluded that although Australia is an important player in local economic and geopolitical processes, its global influence beyond regional conditions is more moderate in this coordinate system, which is in line with the country's status as a middle power as perceived

⁷ At a roundtable discussion organised by the Asia Society Australia at the Royal Melbourne Institute of Technology (RMIT) in Melbourne in early March 2024, local experts confirmed to the author of this paper that Australian–Indonesian relations go back so long and are built on such solid foundations that a presidential succession would not induce significant changes, and possible minimal shifts and volatilities in presidential attitudes would be addressed by Indonesian diplomacy.

by its former prime minister, Kevin Rudd (Rudd, 2009), as well as the Sydney-based Lowy Institute (Lowy Institute, 2024).

If the scope of the analysis is extended to probing individual lifestyles, Australia can boast a very favourable position. Completing the statement 'If I had a choice, I would like to live or work in this country...', although most of the ISEAS survey's respondents opted for an ASEAN nation (22.4%), followed by Japan (17.1%) and the USA (15.9%), Australia received a creditable 12.0%.

Regarding 'the most popular destination to visit' for Southeast Asians, Australia can only claim more modest indicators. Its result of 7.9% (which even shows a slight decline compared to 2023's similarly modest 8.0%) puts it behind Japan, 'an ASEAN member state', South Korea and 'an EU member state', but ahead of, for example, New Zealand, the USA and China. In this context, in a breakdown by the countries of ASEAN, respondents from Singapore (13.6%), Vietnam (13.0%), and Malaysia (10.2%) voted in highest proportion for Australia as a holiday destination – in comparison, in 2023 those from Cambodia (15.7%), Brunei (10.8%), and Malaysia (10.5%) chose Australia in the highest proportion as a preferred travel destination (ISEAS, 2023).

As for ASEAN citizens' universal sentiment towards Australia, the emphasis should be placed on sustaining institutional links and maintaining high-level connections between the parties – which is obviously considered the essence of good diplomacy. According to surveys, younger leaders in ASEAN countries are almost all strongly focused on the need to find more innovative and creative ways to foster exchanges, and they seek deeper relationships for a more coherent set of opportunities to build joint ASEAN–Australia capabilities. They would also like greater opportunities to connect with like-minded, emerging Australian leaders, particularly on issues related to the environment and social and human rights (Farrelly, 2024).

3.4. The Stance of the Australian Public

To examine the geopolitical attitudes and regional orientation of Australian citizens, a survey conducted by the aforementioned Lowy Institute was used. The Sydney-based researchers intended to explore Australians' perceptions of other countries on a scale of 100, where values approaching 100 signified the most positive feelings, values approaching 0 indicated the most negative attitudes, and indexes around 50 showed a somewhat neutral or indifferent stance. Based on 2023 figures, it can be ascertained that among the top five countries – i.e. the states that evoke the most positive emotions – there is only one ASEAN member, Singapore (72), which is surpassed by New Zealand (85), Japan (75), and the UK (75). Australian individuals still mentioned the Philippines (60) and Indonesia (57) in the group of ASEAN countries that elicited positive reactions. (At scores of 16, 20 and 33 respectively, North Korea, Russia and China came bottom in this survey.) When asked about the Asian country they considered as being Australia's best friend, those surveyed ranked Japan (44% of respondents), India (16%), and Singapore (15%) as the top three (Neelam, 2023).

Given that free trade relations play a preeminent role in the ASEAN–Australia relationship and despite the fact that the impact of the Covid-19 epidemic was still reflected, in 2022 the Lowy

Institute assessed Australians' perceptions of free trade as well. As a result of the study, it was found that – compared to surveys of previous years – an increasing proportion of respondents embraced this achievement of globalisation. In 2022, 80% believed that free trade was beneficial for their own standard of living (16% against); 78% also regarded the opportunities offered by free trade as being positive for the Australian economy (18% against); while 71% found undisturbed trade relations to be beneficial for Australian companies (26% against). Compared to the above, the smallest percentage of respondents – yet still a two-thirds majority (66%) – believed free trade to be a favourable factor for job creation in Australia, with 31% disagreeing with the proposition (Neelam, 2024).

3.5. Major Australian Political Parties

In order to review the trends in the evolution of ASEAN–Australia relations, it seems reasonable to explore the positions of the Australian political elite in this regard. The programme of the incumbent government party (Labor), adopted in August 2023, makes reference to ASEAN six times. As to the government's foreign policy guidelines, the document states that Labor supports the extension of cooperation in key regional structures, including ASEAN, and in order to establish a strategic balance in the Southeast Asian region, it stands for deeper cooperation with ASEAN and its member states. The Australian Labor Party holds ASEAN to be a key player in regional stability and considers maintaining bilateral relations with the organisation's members as being vital. An interesting detail is that the party programme raises the possibility of Australia becoming a formal member of ASEAN, which, it says, 'could be a natural step, desired by our neighbours and seen as logical by Australians' (Australian Labor Party, 2023).⁸

The leading opposition force in the Australian federal parliament is the Liberal Party of Australia. In terms of foreign policy principles, like their left-wing opponents, the Liberals support the deepening and strengthening of relations with the region and specifically with ASEAN, and they have praised the importance of the Comprehensive Strategic Partnership (hammered out by the Morrison cabinet, previously led by the Liberals), and the significant development policy support rendered to the region by Australia (Payne, 2021).

3.6. The Recommendations of the Moore Report

Under the prime minister's mandate, Australia's Special Envoy for Southeast Asia, Nicholas Moore, conducted extensive consultations with business and government partners, as well as stakeholders in the civil sector, collecting hundreds of proposals and conveying numerous recommendations for the cabinet. The resulting document, Australia's Southeast Asian Economic Strategy to 2040, categorised these proposals into four major thematic groups: Raising Awareness, Building Capacity, Removing Blockages, and Deepening Investments (Australian Government, DFAT, 2023).

⁸ In Australian journalistic and academic discourse, this idea has both advocates (Dobell, 2023; Hartcher, 2018; Keating, 2012) and opponents (Cook, 2018).

As part of Raising Awareness, the report focuses on the need to increase awareness of Southeast Asia by launching education, business-development and investment campaigns for, among others, Southeast Asian communities in Australia and target groups in Southeast Asian countries. In the field of Building Capacity, it is necessary to establish cooperation and partnership programmes and to create a regulatory environment that promotes networking and building contacts between economic and higher education partners in Australia and Southeast Asia. Removing Blockages envisages measures and steps that contribute to the reduction of the regulatory burden, the updating and modernisation of free trade agreements, the extension of the harmonisation of standards, and the promotion of mobility. Lastly, Deepening Investments basically proposes financing solutions and tools that promote the further expansion of strategic investments, project-based and research collaborations, and infrastructural cooperation.

3.7. Australia as “Deputy Sheriff”?

Despite the favourable economic, political and cultural framework conditions and circumstances that could signify a prosperous cooperation between Australia and the ASEAN Ten, there are other factors that should be weighed in. In this context, the security initiatives of the Quadrilateral Security Dialogue (Quad, which encompasses the USA, India, Japan and Australia) and AUKUS (involving Australia, the UK and the USA) raise complex considerations for ASEAN–Australia relations.⁹ On the positive side, they align with ASEAN's vision for the Indo-Pacific – emphasising a peaceful, prosperous, inclusive and rules-based order – and potentially offer opportunities for cooperation in areas like maritime security, counterterrorism and disaster relief. However, concerns exist within ASEAN about the impact of these initiatives – especially AUKUS – on regional stability and inclusivity. Key anxieties include the potential undermining of ASEAN centrality, nuclear proliferation risks and heightened regional tensions (Lam, 2024).

When we take a closer look at Australia's strategic posture, divergent tendencies and complexities tend to arise – to put it another way, the security interests of the Quad's members are not perfectly aligned. Canberra's membership of the Quad highlights a clash between its security interests (which push it closer to India) and its economic interests (which are more aligned with China and ASEAN). In 2019, Australia's trade with India, China and ASEAN was worth USD 30 billion, USD 235 billion and USD 123 billion respectively. These figures underline the tough strategic choices Australia faces. As the renowned Singaporean scholar and former diplomat Kishore Mahbubani (2022) formulated it, Australia's approach makes it seem like it is acting as the USA's “deputy sheriff”. In order, however, for its relationship with ASEAN to be maintained and remain positive, Australia will have to work hard. The best vision, says Mahbubani, would be to position Australia as the natural bridge between the East and West.

⁹ The Quad is a diplomatic partnership bringing together the USA, India, Japan and Australia through their shared commitment to an open, stable and prosperous Indo-Pacific that is inclusive and resilient. The origins of the Quad date back to collaboration in the wake of the December 2004 Indian Ocean tsunami. In September 2021, the USA, Australia and the UK announced their collaboration through AUKUS, which is a new capability partnership. The first major initiative of AUKUS was to support Australia's acquisition of conventionally-armed, nuclear-powered submarines, with other elements focused on technical and defence cooperation.

4. The Outcomes of the 2024 Special Summit

In the context of Melbourne’s three-day 2024 ASEAN–Australia Special Summit, the host country announced a series of new and expanded initiatives.

One of the most significant initiatives put forward by Canberra – which apparently resonated well with the recommendations made in the Moore Report – was the creation of an AUD 2 billion Southeast Asia Investment Financing Facility (SEAIFF) to catalyse Australian private sector investment in one of the world’s fastest growing regions and to boost Australia’s trade and investment activities in Southeast Asia, as well as to support the region’s transition to green energy and infrastructure development. An additional AUD 140 million financial support was decided upon through the Partnerships for Infrastructure programme to support infrastructure development and attract diverse, quality infrastructure finance. In order to strengthen economic relations, ten senior figures from the private sector will be appointed as Business Champions to facilitate greater commercial links between Australia and Southeast Asia, and in addition, new regional technology Landing Pads¹⁰ will be established in Jakarta and Ho Chi Minh City bringing together start-ups, research institutions and tech players to drive digital transformation.

Travel between Southeast Asia and Australia will be easier. Extending the validity of the Business Visitor visa and introducing the Frequent Traveller stream will strengthen mobility pathways and boost the already robust people-to-people links. In order to strengthen cultural and education cooperation, a dedicated ASEAN–Australia Centre will be founded as a focal point for instilling greater knowledge of Southeast Asia in Australians and promoting greater investment, collaboration and cooperation. On top of this, more than 75 new Aus4ASEAN Scholarships, a number of which are co-funded by universities, and 55 Fellowships to support the region’s emerging leaders will be allocated to study in areas that reinforce ASEAN’s Outlook on the Indo-Pacific policy and build lasting ASEAN–Australia connections.

In the field of climate and energy policy, the leaders decided on an Energy Cooperation Package worth nearly AUD 7 million which will support the ASEAN Energy Centre, and the establishment of an ASEAN Climate Change Centre (PM of Australia, 2024a). In addition to the above, a number of other forward-looking agreements on socio-political, educational and maritime cooperation were concluded at the meeting (Australian Government, 2024).

Following the Special Summit, two official joint declarations were adopted: the Leaders’ Vision Statement, which contains shared strategic visions for the next 50 years (PM of Australia, 2024b), and the Melbourne Declaration. The Melbourne Declaration reflects a strong consensus and a common ambition, and – among many other topics – it accentuates the need to jointly address difficulties concerning complex environmental challenges, economic uncertainty and strategic competition

¹⁰ Landing Pads provide start-ups with a workspace in a global innovation hub for up to 90 days, along with access to coaching, investors, customers, training, and networking events. The programme also provides market-ready scale-ups with an operational base and customised support for their overseas expansion goals. So far, Landing Pads have been established in Bengaluru, London, New York, San Francisco, Shanghai and Singapore.

whilst preserving a rules-based regional framework built upon compliance with international law and shaping the collective future of the region (PM of Australia, 2024c). The prosperity, security, stability and economic future of ASEAN and Australia are closely intertwined, and the parties reaffirmed their commitment to working together to achieve stronger economic integration and promote closer ties between businesses and educational institutions.

The half-century of partnership between ASEAN and Australia provides a strong foundation for further growth, including through multilateral agreements, ASEAN mechanisms and existing subregional cooperation frameworks, as well as bilateral and regional trade agreements. As the Australian prime minister stated during the summit, from deepening economic and cultural ties to intensifying educational and environmental cooperation, the announced package worth more than AUD 500 million strengthens Australia’s commitment to Southeast Asia and ASEAN both now and in the future.

5. Conclusions

The summit that marked the fiftieth anniversary of ASEAN–Australia relations clearly emphasised that the strengthening of ties with Southeast Asia and its leading international organisation is a geopolitical and geoeconomic necessity for Australia, and that the country should take advantage of ASEAN’s perception of its role regarding “inclusive regionalism”. By itself, the AUD 2 billion investment financing facility announced by Canberra can give Australian companies a serious impetus for investments in renewable energy projects, infrastructure development and connectivity initiatives, and it can become similar to a kind of low-scale, regional Belt and Road Initiative, launched under the Australian flag. The Moore Report clearly reveals that ASEAN has extremely promising development potential and that Australia must make increasingly concerted efforts to keep up with the growth rate of its narrower region.

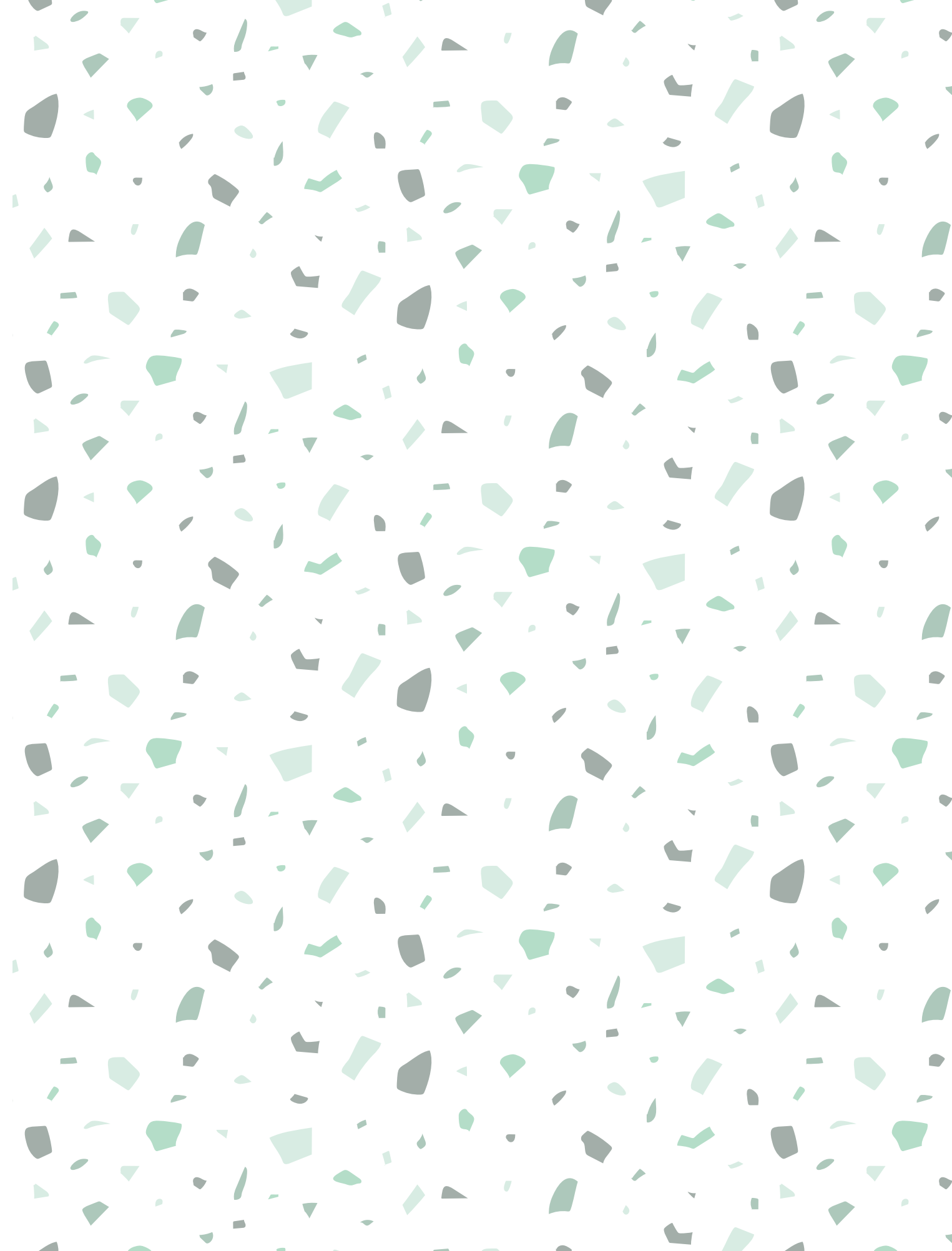
Through development programmes, not only can Australia’s economic and investment presence become more prominent in Southeast Asia, but – through its regional “activism” – its government can also increase its own influence in the region. Moreover, in the midst of international political relations moving towards multipolarity, it is also in Australia’s interest to reposition its regional identity. Although the formal membership in ASEAN envisioned by the Labor Party is perhaps not relevant at this moment in time, further strengthening and deepening ASEAN–Australia relations and cooperation is certainly the path Canberra should follow in the future.

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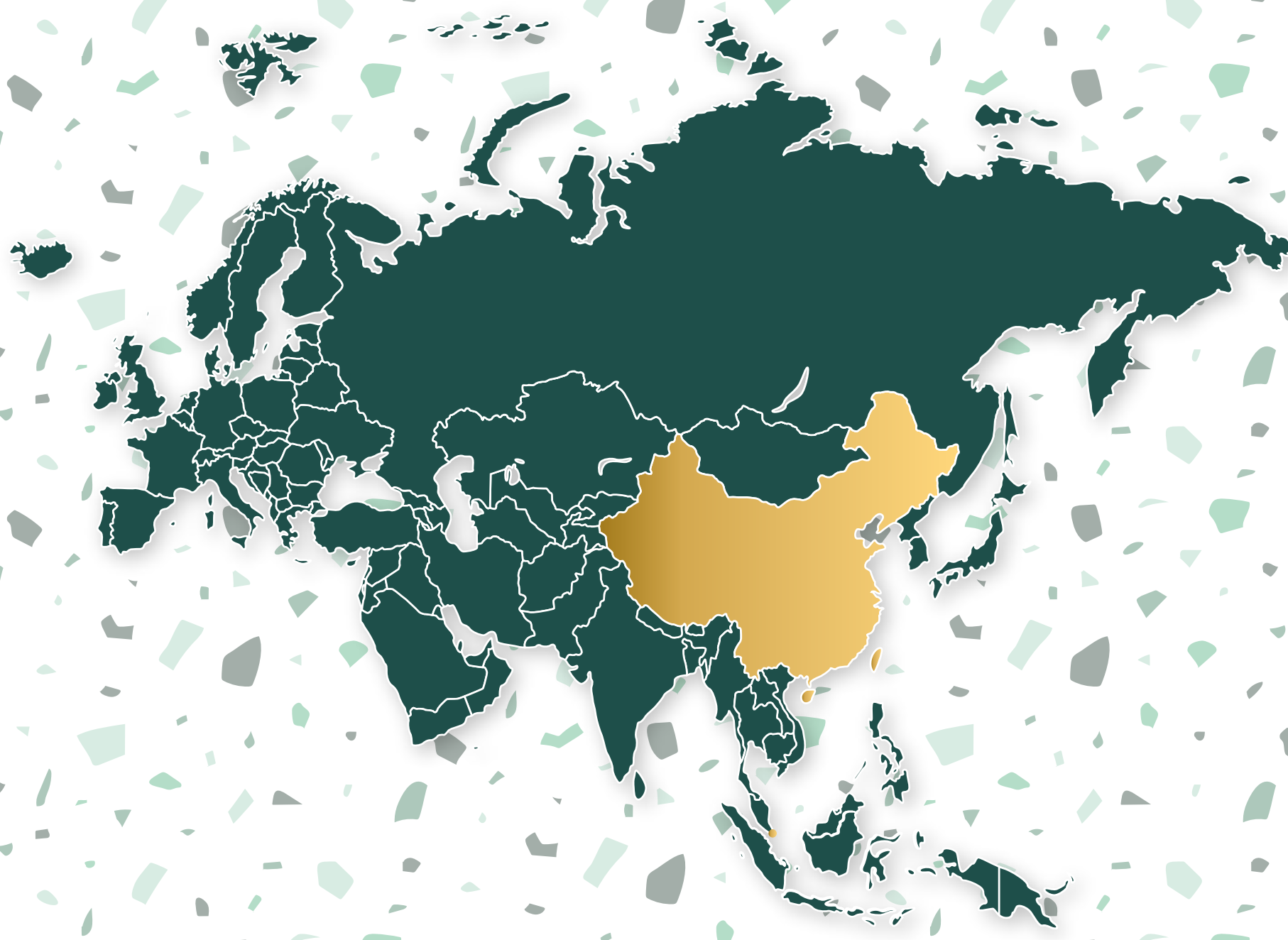
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II
EAST ASIA
COLUMN



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The Impacts of the US–China
Trade Friction on China’s Edible
Oilseed Imports



THE IMPACTS OF THE US–CHINA TRADE FRICTION ON CHINA’S EDIBLE OILSEED IMPORTS

JUAN ZHANG¹ – YUHAO LAI² – ZUANSI LIU³

Abstract

As China increased tariffs on edible oilseeds imported from the United States as countermeasures in the US–China trade friction from 2018, this paper analyses the trade-diversion and trade-creation effects caused by China’s retaliatory tariffs on US edible oilseeds using monthly import data from July 2017 to December 2019 with a difference-in-differences (DID) model. The empirical results show that China’s increased tariffs on edible oilseeds imported from the USA led to a decrease in China’s total import quantity of edible oilseeds, and the price of imported soybeans went up by 1.275%, although China turned to increasing the quantity of soybeans imported from Brazil, Argentina and Uruguay by 1.55%, and increased the quantity of non-soybean edible oilseeds imported from Canada and other countries by 2.525%. In the multi-stage analysis, the trade-diversion effects of China’s soybean imports was particularly significant from August 2018 to April 2019, with the quantity of soybeans imported from Brazil, Argentina and Uruguay increasing by 2.022%.

Keywords: US–China trade friction, tariffs, trade effects

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1. Introduction

It is well known that any change in tariffs will result in trade effects. After a country imposes additional tariffs on the imports from an exporting country, the price of goods imported from the exporting country increases and the competitiveness of price decreases. Therefore, to make up the import gap caused by additional tariffs, the importing country turns to other countries with competitive prices as alternative sources of the import of the same or similar products. After a country imposes tariffs on imported goods from a certain country, it will lead to the adjustment of the structure of market supply and demand, even stimulating some non-traditional producers to begin mass production in order to gain a market share.

China is a big net importer of several agricultural goods, while the United States is a major exporter, for example, of soybeans. Since it became a member of the World Trade Organization (WTO) in 2001, China lowered its tariffs on edible oilseeds and it no longer imposes import quotas, which has opened the Chinese import market of edible oilseeds. However, with the development of the US–China trade friction from 2018, China took countermeasures against increased tariffs imposed by the USA. As an agricultural product with export advantage in the USA, edible oilseeds featured on China’s list of retaliatory measures. The trade tensions between the USA and China have latterly eased somewhat, and both sides have also explored tariff exclusion. In mid-January 2020, the two sides signed the Economic and Trade Agreement between the Government of the People’s Republic of China and the Government of the United States of America (hereinafter referred to as the “Phase One Deal”), and they agreed that China should increase imports of edible oilseeds from the USA in the following two years according to Annex 6.1 of the agreement. In actual fact, additional tariffs and tariff exclusion at different stages of the US–China trade friction caused both trade-creation and trade-diversion effects on China’s import of edible oilseeds. In light of this, it is worth discussing the influence of tariff measures on China’s imported edible oilseeds.

2. Literature Review

New tariff barriers between two countries will lead to imports shifting from the original trading partner to other trading partners because of the changes in price competitiveness. In a similar way, measures such as tariff reduction will expand the scale of trade with the partners.

Some studies have examined the impacts of the US–China trade friction on China’s import of soybeans. Zheng et al. (2018) estimated the impacts of China’s tariff countermeasures on US agricultural exports, finding that American soybean producers would lose USD 1.8 billion due to lower exports and prices. Bandyopadhyay and Rajib (2023) evaluated the effect of the US–China trade war on the leading role of US soybean futures in price discovery, concluding that the trade war may have given the USA some temporary economic and strategic benefits, but that this was no less than the proverbial double-edged sword, as it nearly killed the USA’s soybean market. Wen et

al. (2023) used the EGARCH model and event study methods to explore the impact of the major risk event of the US–China trade friction on the soybean futures markets in China and the USA, showing that the trade friction weakened the return spillover effect between the soybean futures markets in the two countries and significantly increased market volatilities. Taheripour and Tyler (2018) simulated the impacts of China’s additional 10% and 30% tariffs on US soybeans, finding that China would reduce soybean imports from the USA by 33% and 71.2% respectively, while US soybean production would decrease by 7.7% and 16.9% respectively; they projected that US soybean exports would decrease by 18.4% and 40.3% respectively and US domestic soybean prices would decrease by 2.6% and 5.2% respectively. They also found that China’s increased tariffs on US soybeans would lead China to increase soybean imports from Brazil by 18%. Obviously, after imposing additional tariffs on US soybeans, China made up the import gap by importing from other trading partners. With various Brazilian soybean-area growth scenarios, the ex-post analysis of the impacts of Chinese tariffs during the US–China trade war indicates that China significantly diverted its imports from the USA to Brazil (Dhouhadel et al., 2023). Cowley (2020) examined the initial market responses and potential long-term implications of Chinese tariffs amid other supply and demand disruptions, ascertaining that although some US soybean exports reshuffled to other trading partners following the implementation of tariffs, in 2018 and 2019, relative to the previous five-year average, total soybean exports declined by 21% and 14% respectively. Despite the signing of the Phase One Deal in January 2020, in the longer term tariffs could lead to expanded production and export in other countries, resulting in a further reshuffling of global soybean exports and reduced competitiveness for US soybeans in world markets.

Some research not only studies the impacts of China’s retaliatory tariffs on the US soybean trade, but also on welfare changes. Sabala and Devadoss (2019) developed a theoretical and empirical spatial equilibrium trade model to analyse the effects of China’s 25% soybean tariff on the USA, China, and nine other major soybean trading regions, and found that both America and China would incur welfare losses as a result of the tariff but that Brazil would experience a large net gain. The USA mitigated some of its losses by reallocating trade to other importers, but at a cost to smaller exporters such as Canada. Based on the average of the last five years of the historical shares of US exports to China (before the initiation of the conflict, i.e. 2013–17), Elobeid et al. (2021) examined retaliatory tariffs imposed by China on US pork, soybeans, corn and wheat. Using the agricultural trade model developed by the Center for Agricultural and Rural Development (CARD) at Iowa State University to determine the impacts on agricultural commodity markets, they combined the results with the IMPLAN (IMpact Analysis for PLANning) input-output model to measure economic effects in the USA. The consequences of retaliatory tariffs were both trade destruction (lower overall trade) and trade diversion (trade diverted away from the USA to other exporting countries). By the end of the projection period, total US soybean exports decreased by 31.2%, and domestic US soybean prices decreased by 15.8%. The decline in foreign demand reduced the USA’s production and welfare alike.

Some literature has simulated the impacts on US soybean-related trade of China’s removal of tariffs or of Washington’s “trade aid” package. Baryshpolets et al. (2022) developed a theoretical and

empirical spatial equilibrium model to determine the effects of removing Chinese soybean tariffs and US Market Facilitation Program (MFP) payments on world soybean-complex markets. The study found that removing these policies could generate overall gains for the USA and the world, but that China would incur welfare losses due primarily to reduced tariff revenues. These impacts of the elimination of tariffs and MFP payments reverberated to all countries participating in soybean, soy oil or soy meal trade. With observations from January 2013 to December 2020, Adjemian et al. (2021) used the relative price of a substitute (RPS) method to estimate that the trade disruption effectively drove a wedge into the world soybean market, lowering the US price in Gulf export locations by USD 0.74/bu on average for about five months, and increasing the Brazilian price by about USD 0.97/bu, compared to what would have been observed without China’s 25% retaliatory tariff on US soybean exports. By the end of the given period, world markets adjusted and soybean prices in China and the USA returned to the ex-ante state of near parity, even if the USA’s export quantity did not recover until the end of the following marketing year. The price impact estimate was substantially lower than subsequent US government “trade aid” payments to American soybean producers. The difference could be attributed to the broader interpretation of “economic injury” by the United States Department of Agriculture (USDA), beyond the short-term price impacts estimated.

3. China’s Import Tariffs on US Edible Oilseeds

From January 2018 to December 2019, the USA and China repeatedly imposed additional import tariffs on each other to limit the scale of bilateral trade. This paper focuses on China’s import of edible oilseeds before and after the explosion of the US–China trade friction, and on the relationship between China’s import structure and the tariff effects. In order to better analyse the impacts of the US–China trade friction on China’s edible oilseed imports, the paper delineates the timeline of China’s additional import tariff policy towards US edible oilseeds (see Table 1). It can be seen that at different stages of the US–China trade friction, China took additional tariff countermeasures against all edible oilseeds imported from the USA.

The USA announced that it would begin to impose additional 25% tariffs on nearly USD 34 billion of Chinese exports to the USA from 6 July 2018. On 15 June, China announced countermeasures against the first batch of tariffs to be issued by the USA.

On 3 August 2018, China announced countermeasures to impose import tariffs of 10% or 5% on nearly USD 60 billion of American goods from 24 September to retaliate against the second batch of tariffs issued by the USA. On 13 May 2019, China announced that from 1 June, it would impose additional import tariffs of 25%, 20% and 10% respectively on the second batch of USD 60 billion of American goods, while those US goods previously imposed with an additional 5% import tariff would be kept at the additional 5% import tariff level.

On 15 August 2019, China announced that it would take countermeasures against the third batch of tariffs issued by the US by imposing additional tariffs of 5% or 10% on 1 September and 15 December.

On 15 January 2020, China and the USA signed the Phase One Deal, which was a substantial advance in their trade negotiations. The two sides agreed that China would increase imports of edible oilseeds from the USA in the following two years according to Annex 6.1.

On 14 February 2020, China announced that it would reduce the additional import tariff of 10% to 5% and reduce the additional import tariff of 5% to 2.5%. On 17 February, China announced the inception of the application of the exclusion of additional tariffs, i.e. no additional import tariffs would be imposed on US goods in the scope of the approved import amount within one year of the tariff exclusion.

Table 1: China's retaliatory import tariffs on US edible oilseeds

Category	HS code	MFN tariff	First tariff batch	Second tariff batch	Second tariff batch adjustment	Third tariff batch	Tariff since 14/02/2020	Tariff since 02/03/2020
Yellow soybeans	12019010	3%	28%			33%	30.5%	3%
Black soybeans	12019020	3%	28%					3%
Green soybeans	12019030	3%				13%	8%	3%
Other soybeans	12019090	3%				13%	8%	3%
Other groundnuts, in shell	12024100	15%		25%	25%			
Groundnuts, shelled	12024200	15%		20%	35%	25%	20%	
Other low erucic acid rape or colza seeds	12051090	9%				19%	14%	
Other rape or colza seeds	12059090	0%				10%	5%	
Other sunflower seeds	12060090	15%		25%	40%			

Note: Blank cells indicate no change in the tariff from one period to the next.

Source: People's Republic of China, Ministry of Finance (2018a; 2018b; 2018c; 2019a; 2019b; 2020a)

4. The Status of China's Edible Oilseed Imports

4.1. Changes in Import Quantity

We have divided the period from July 2017 to June 2021 into three stages according to the timeline of tariff measures between China and the USA and analysed the dynamic changes in China's edible oilseed imports at each stage. The first stage is from July 2017 to May 2018, which is the brewing period of the US–China trade friction, when there was only trade tension between the two countries without the substantial implementation of additional tariff policies. The second stage is from June 2018 to December 2019, which saw the outbreak and development of the US–China trade friction, when China imposed several batches of additional tariffs to counter the USA's tariff-increase policies. The third stage is from January 2020 to June 2021, when, following the signing of the Phase One Deal, the two countries began to adjust and exclude tariffs on imported edible oilseeds in February and March 2020, which marked the easing of the US–China trade friction.

The US–China trade friction had a negative impact on China's import of edible oilseeds. Table 2 shows that compared with 2017, the import quantity of China's edible oilseeds from the USA in 2018 and 2019 decreased by 16.228 million tons and 15.8744 million tons respectively. The share of US edible oilseeds in China's imports fell from 33% in 2017 to about 18%. Comparing China's decreased imports from the USA with its imports from the world, we found that the latter figure was smaller, reflecting the fact that China increased imports from other trading partners to in some measure make up the oilseed import gap caused by the US–China trade friction. In order to meet domestic demand, China looked for suitable trading partners globally.

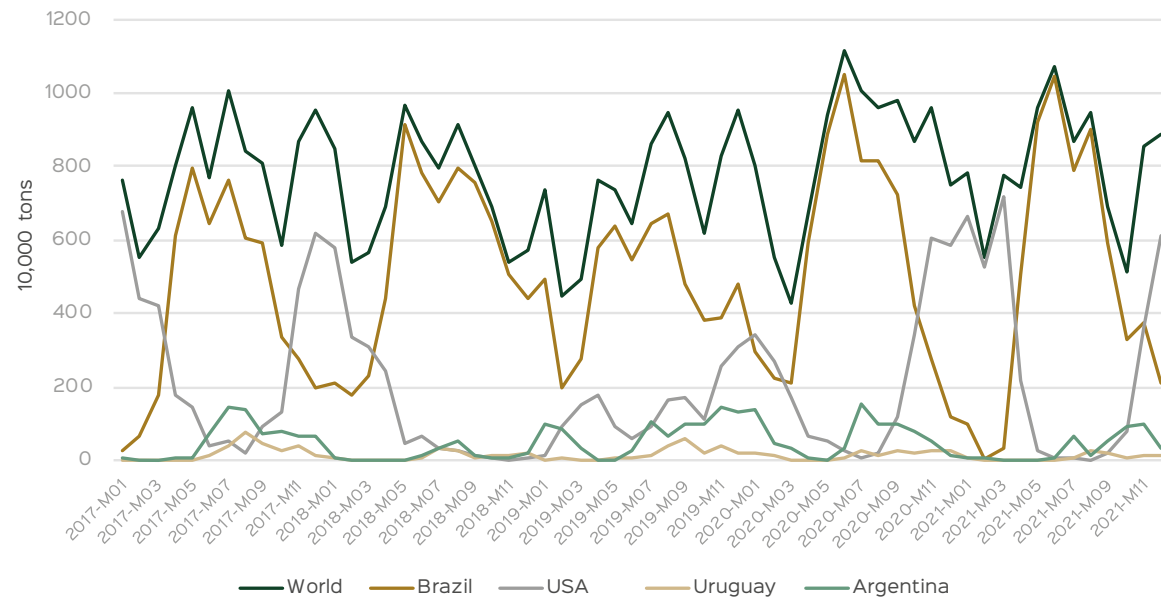
Table 2: China's import quantities of edible oilseeds from trading partners (Unit: 10,000 tons)

	2017	2018	2019	2020	2021
China's import quantity from the USA	3,296.20	1,673.40	1,708.76	2,622.11	3,269.40
China's import quantity from other trading partners	6,769.57	7,637.65	7,501.71	7,847.22	6,758.30
China's import quantity from the world	10,065.77	9,311.05	9,210.47	10,469.33	10,027.70
Share of China's import quantity from the USA to China's total import quantity	33%	18%	19%	25%	32.6%

Source: Trade Map⁴ (2022)

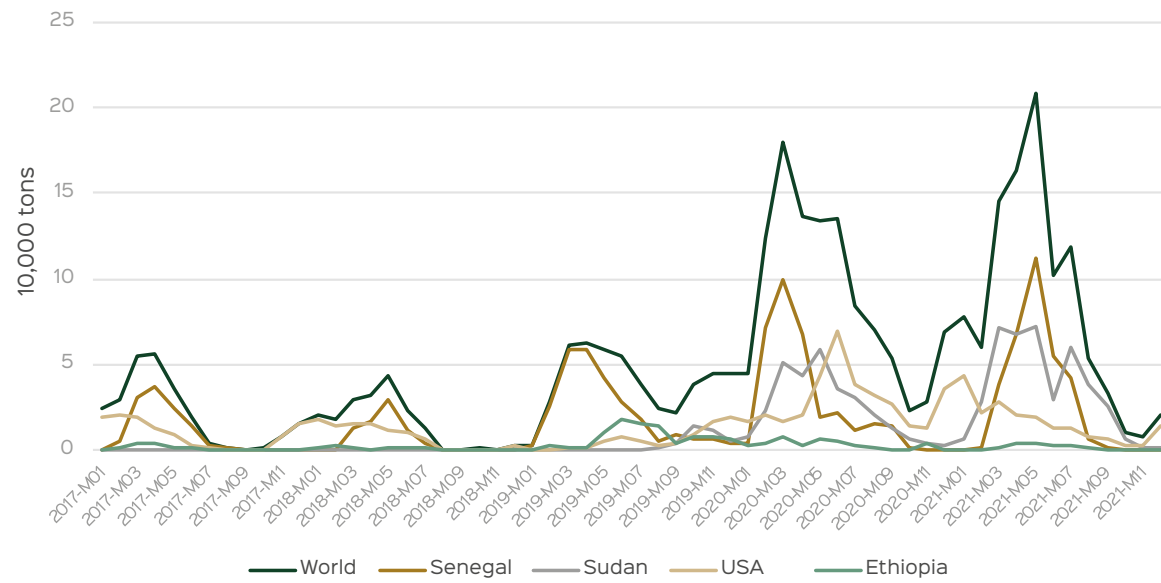
⁴ <https://www.trademap.org/>

Figure 1a: China's soybean import quantity (2017M01–2021M12)



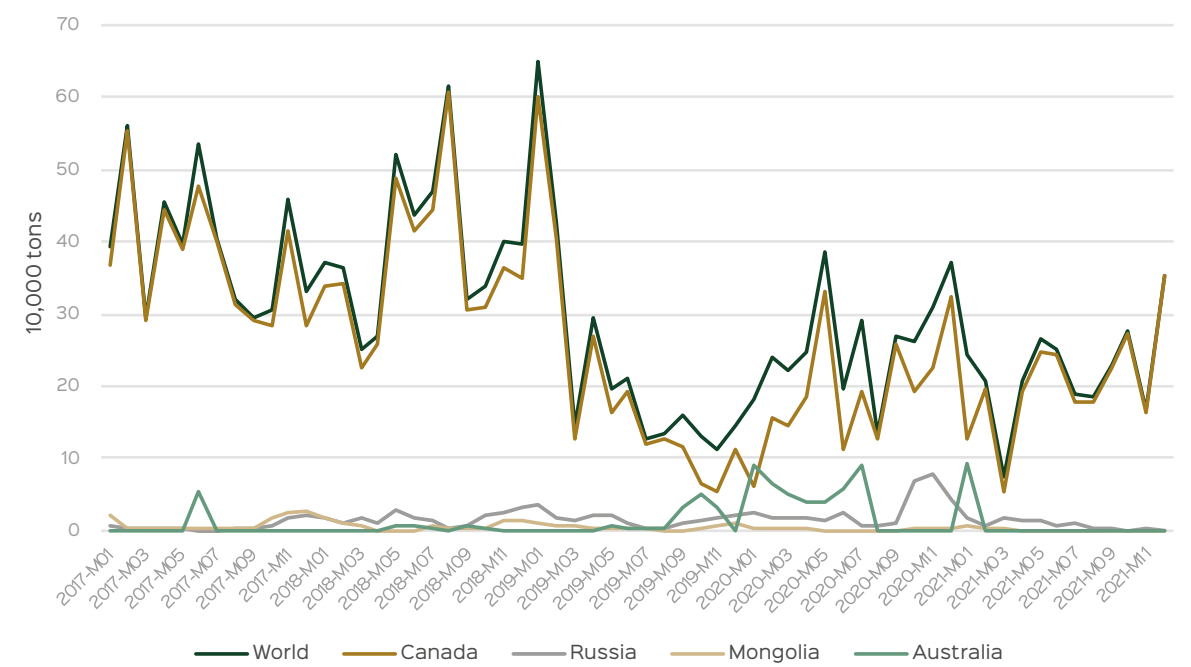
Source: Trade Map (2022)

Figure 1b: China's peanut import quantity (2017M01–2021M12)



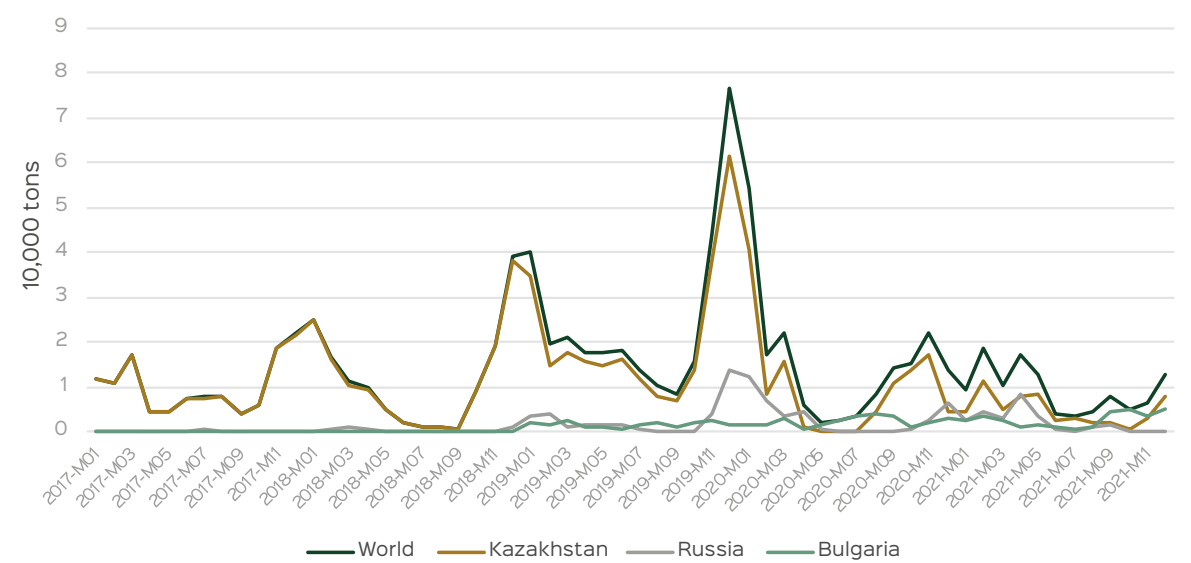
Source: Trade Map (2022)

Figure 1c: China's rapeseed import quantity (2017M01–2021M12)



Source: Trade Map (2022)

Figure 1d: China's sunflower seed import quantity (2017M01–2021M12)



Source: Trade Map (2022)

On monthly average, in the brewing period of the US–China trade friction (July 2017 to May 2018), China imported 8.2814 million tons of edible oilseeds from the world, while in the outbreak period of the US–China trade friction (June 2018 to December 2019), China imported 7.7398 million tons of edible oilseeds from the world, and its import volume decreased by about 6.53%. In 2020, China's imports of edible oilseeds from the USA experienced recovery after the two countries signed the Phase One Deal, but the import quantity was still 6.7409 million tons less than that in 2017. It showed that China kept up cooperation with diversified trading partners to meet its domestic demand for edible oilseeds even after the easing of the US–China trade friction and the tariff exclusion policy measures.

Figures 1a to 1d show that the category of edible oilseed most affected by the US–China trade friction was soybeans. Although China's import of rapeseeds in 2019 was lower than that in 2018, the detection of harmful microorganisms in Canadian rapeseeds limited and reduced China's import of rapeseeds from Canada, a factor which was not directly related to the US–China trade friction. China's imports of both peanuts and sunflower seeds increased in 2019, indicating that China was actively importing non-soybean edible oilseeds, reducing the impact of the US–China trade friction on domestic production and life.

Given the fact that the edible oilseed most affected by the US–China trade friction was soybeans, from 2017 to 2019 China mainly imported soybeans from the USA, Brazil and Argentina, and these three import origins made up about 96% of China's annual soybean imports, with the USA accounting for about 26%, Brazil 64%, and Argentina 6%. In terms of monthly soybean imports in 2018 and 2019, China only imported 1.387 million tons and 1.412 million tons respectively from the USA, a decrease of 49.3% and 48.4% from 2017, while for the same period China's average monthly soybean import from Brazil was 5.507 million tons and 4.806 million tons respectively, an increase of 29.8% and 13.2% from 2017. Although an outbreak of African swine fever caused China to lower domestic demand for soybeans in the second half of 2019, and the concurrent negotiations between China and the USA constantly sent positive signals, there was an obvious trade diversion in China's soybean imports from the USA to Brazil because of the increased tariff on US soybeans.

4.2. Changes in Import Prices

The import prices (CIF price) of various types of edible oilseeds in China were affected by China's countervailing tariffs. From July 2017 to May 2018, China's import costs of soybeans from the USA and Brazil were basically the same, being around USD 417 per ton. According to the USDA monthly report, the export price (FOB price) of US soybeans was USD 345 per ton, compared to USD 381 in Brazil, giving the American farmers a greater profit margin. After China imposed a 25% tariff on US soybeans in its first batch of additional tariffs, China's import cost of US soybeans increased. From June 2018 to December 2019, China's import cost of soybeans from the USA was USD 412 per ton, and that of soybeans from Brazil was USD 417 per ton. According to the USDA

monthly report, the export price of US soybeans was USD 315 per ton and that of Brazilian soybeans was USD 368 per ton. Due to the impact of additional tariffs, the difference between the export price of US soybeans and China's import price widened, and the profit margins of American farmers were reduced, while Chinese importers were also affected by the tariffs on prices.

The import prices of peanuts were also affected by the US–China trade friction. In China's second batch of additional tariffs in August 2018, the additional tariff on peanuts was 10%. In May 2019, China adjusted the additional tariff level on US peanuts. From the perspective of import price changes, at the early stage of the US–China trade friction, China's import price of peanuts from the USA rose sharply. The main reason was that China had not yet found a suitable trading partner with which to realise trade diversion. However, with the deepening of trade friction, China expanded its imports of shelled peanuts from Ethiopia and Senegal, and found Sudan as a new trading partner. As peanut export from the USA was blocked, its export price gradually decreased.

From 2017 to 2021, there was almost no rapeseed or sunflower seed trade between China and the USA. China's main rapeseed imports were from Australia, Canada, Russia and Mongolia, while it chiefly imported sunflower seeds from Kazakhstan, Bulgaria and Russia. Although rapeseed and sunflower seed import prices fluctuated due to the US–China trade friction, the changes were relatively smaller compared with those of imported soybeans and peanuts.

5. Empirical Research

After China imposed additional tariffs on US edible oilseeds, the cost of importing such oilseeds increased and the prices from third countries were relatively low, which led China to reduce its imports from the USA and to instead import multiple categories of edible oilseeds from third countries – either producers of similar edible oilseeds or non-traditional edible oilseed producers. The third countries which gained a price advantage because of China's additional tariffs on US edible oilseeds began to make large-scale production and gained a greater market share. When China imposed tariff exclusions on US edible oilseeds, China's import price of US edible oilseeds decreased, and it turned from imports from the third countries during the trade friction back to the USA.

Of the edible oilseeds imported by China, soybeans are the most important. From July 2017 to June 2021, soybeans accounted for 95.62% of China's total edible oilseed imports, while rapeseed, peanut and sunflower seed imports only accounted for 3.55%, 0.64% and 0.19% respectively. The USA and Brazil are major competitors and together supply over 80% of global soybean exports, while China accounts for about 60% of total soybean imports. Over the last five years, 73% of Brazil's exported soybeans have headed to China, versus a 51% average for the USA (Colussi et al., 2024). Therefore, this paper focuses on China's soybean, peanut, rapeseed and sunflower seed imports and analyses the impacts of the US–China trade friction on China's import of edible oilseeds.

5.1. Model

Following Jacobson et al. (1993), this paper uses a difference-in-differences (DID) model to evaluate the impacts of China’s import tariff policy on its edible oilseed imports during the US–China trade friction. The DID model is set as Formula (1):

$$Y_{it} = \beta_0 + \beta_1 treatment_i + \beta_2 post_t + \beta_3 treatment_i \times post_t + \beta_4 \sum X_{it} + \varepsilon_{it} \quad (1)$$

Wherein,

Dependent variable: Y_{it} is China’s monthly import quantity (import qty) or the monthly average import price (price) of edible oilseeds from country i in month t .

Explanatory variables: $treatment$, $post$ and $treatment \times post$.

$treatment_i$ is a dummy variable that distinguishes the experimental group and the control group. It takes 1 for the USA and 0 for the control group.

$post_t$ is a dummy variable that distinguishes the period before and after China imposed additional import tariffs on US edible oilseeds. It takes 0 from July 2017 to May 2018, and 1 from June 2018 to December 2019.

$treatment_i \times post_t$ is the intersection of the national dummy variable and time dummy variable, whose coefficient reflects the net effects of the policy implementation.

Control variables: China’s import quantity of edible oilseeds is affected by many factors. This paper uses $\sum X_{it}$ as control variables due to data availability, including China’s edible oilseed production, domestic edible oilseed consumption demand, the USD/RMB exchange rate and China’s GDP.

ε_{it} is the error term.

The coefficient β_1 measures the difference between China’s edible oilseed imports from the US and the control countries.

The coefficient β_2 measures the difference between China’s edible oilseed imports before and after China imposed additional tariffs on US edible oilseeds.

The coefficient β_3 measures the net impact of China’s tariff policy on the dependent variable. If β_3 is significantly negative, it means that China’s tariff policy has a negative impact on China’s import of US edible oilseeds, causing trade diversion to a third country. If β_3 is significantly positive, it means that China’s tariff policy has a positive effect on China’s import of US edible oilseeds, causing trade creation between China and the USA. If β_3 is not significant, it means that the tariff policy has no significant effects on China’s import of US edible oilseeds.

5.2. Data

This paper uses China’s monthly import data of various edible oilseeds from major trading partners and the control variables from July 2017 to December 2019. As soybeans constitute China’s main edible oilseed import, in the empirical analysis this paper classifies edible oilseeds into the categories of soybeans (Group A) and non-soybean edible oilseeds (Group B).

Although there are many source countries of peanuts, rapeseeds and sunflower seeds, only Canada is a major exporter of rapeseeds in large quantities. To manage the lack of data and many control countries, this paper aggregates China’s imports from countries other than the USA and Canada as “other countries”.

As various edible oilseeds are to some extent substitutes for each other, the structure of edible oilseed imports was adjusted to mitigate the negative effects of additional tariffs on domestic demand. During the US–China trade friction, China not only increased imports of soybeans from countries other than the USA, but also increased imports of non-soybean edible oilseeds from Canada and “other countries”. The import quantity was expanded to reduce the impact of trade friction on China’s total import of edible oilseeds, domestic production and national life.

In the baseline regression and multi-stage regression, the data sources are as follows. China’s monthly import quantity of edible oilseeds from various countries comes from Trade Map. The average monthly production of edible oilseeds in China (unit: 10,000 tons) and the average monthly consumption demand for edible oilseeds in China (unit: 10,000 tons) are compiled from the USDA monthly reports and BRIC Agricultural Data.⁵ Monthly data on the USD/RMB exchange rate and GDP are derived from the International Financial Statistics (IFS) database of the International Monetary Fund (IMF).⁶ The exchange rate of the USD/RMB uses the exchange rate at the end of the month. GDP is used after converting quarterly data into monthly data through Eviews 7.0.

As most economic data are skewed distribution, and taking logarithm can form normally distributed data and help solve heteroscedasticity, this paper treats the explanatory variables and control variables with natural logarithm. The variables and notations are shown in Table 3.

⁵ <http://www.agdata.cn>

⁶ <https://data.imf.org/>

Table 3: Variables and notations		
Variable	Notation	
	Group A (soybeans)	Group B (non-soybean edible oilseeds)
Import qty	Ln (China's soybean import quantity from country i)	Ln (China's non-soybean import quantity from country i)
Price	Ln (China's soybean import price from country i)	-
Production	Ln (China's soybean production)	Ln (China's non-soybean production)
Demand	Ln (China's soybean consumption demand)	Ln (China's non-soybean consumption demand)
Exchange	Ln (exchange rate of USD/RMB)	Ln (exchange rate of USD/RMB)
CN GDP	Ln (China's GDP)	Ln (China's GDP)
Post	0 from July 2017 to May 2018; 1 from June 2018 to December 2019	0 from July 2017 to May 2018; 1 from June 2018 to December 2019
Treatment	1 for the USA; 0 for the control group	1 for the USA; 0 for the control group
Treatment×Post	0; 1	0; 1

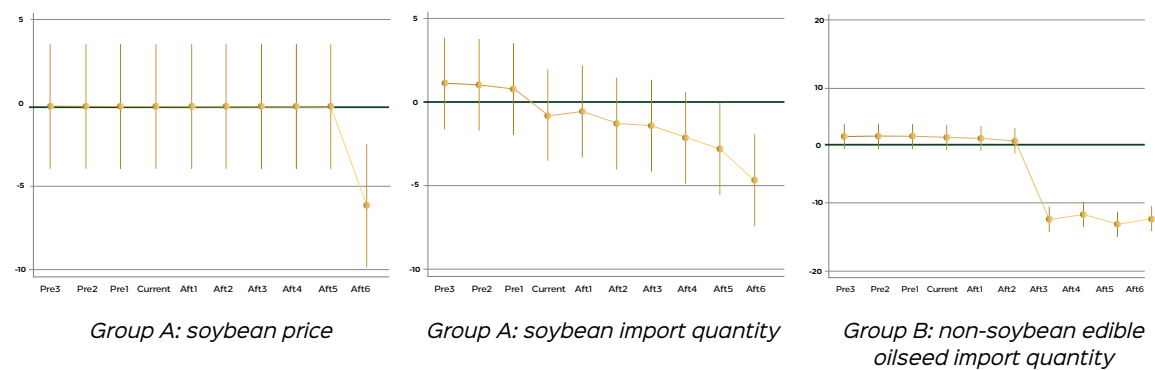
Table 4 shows that the variable values of groups A and B are within the acceptable range, and the data are stable.

Table 4: Descriptive statistics				
Group A: Variable	Mean	Standard deviation	Min	Max
Import qty	3.957	2.014	0	6.817
Price	5.327	1.945	0	6.157
Production	7.417	0.0704	7.332	7.501
Demand	9.271	0.0234	9.248	9.312
Exchange	1.906	0.0344	1.840	1.957
CN GDP	12.36	0.0953	12.18	12.57
Post	0.633	0.484	0	1
Treatment	0.250	0.435	0	1
Treatment×Post	0.158	0.367	0	1
Group B: Variable	Mean	Standard deviation	Min	Max
Import qty	16.85	3.565	2.398	20.22
Production	7.022	0.0156	7.006	7.040
Demand	8.125	0.0241	8.102	8.154
Exchange	1.906	0.0344	1.840	1.957
CN GDP	12.36	0.0955	12.18	12.57
Post	0.633	0.485	0	1
Treatment	0.333	0.474	0	1
Treatment×Post	0.211	0.410	0	1

5.3. Parallel Trend Test

This paper follows the method of Jacobson et al. (1993) to test the parallel trend of China’s edible oilseed imports from the USA and the control group before China imposed additional tariffs on US imports. In June 2018 (Current), China announced the imposition of additional tariffs on US edible oilseeds. Figure 2 shows that the trend in the experimental group and control group was basically the same for both soybeans and non-soybean edible oilseeds from March 2018 to May 2018 (Pre1 – Pre3). However, six months after China imposed its retaliatory tariff policy (Aft1 – Aft6), the coefficient decreased significantly and the negative correlation remained for a long time, indicating that China changed the trend of importing edible oilseeds from the experimental group and control group. Wherein, the import quantity and price of soybeans were significantly negatively correlated in December 2018 (Aft 6), and the import quantity of non-soybean edible oilseeds was significantly negatively correlated in September 2018 (Aft 2). As soybeans are the most important imported edible oilseeds in China, more time was needed to look for alternative trading partners. In addition, the impact of China’s retaliatory tariffs on US edible oil seeds was not rapidly revealed at the initial stage, and some time was needed for the policy to produce significant impacts.

Figure 2: Parallel trend test



Source: Generated with Stata

5.4. Baseline Regression Results

With Stata 15, we get the regression results shown in Table 5. The coefficient of intersection term in column (1) is -1.550, and it is significant, which is in line with expectations, indicating that China’s soybean imports from Brazil, Argentina and Uruguay increased by 1.550% due to the implementation of China’s retaliatory tariffs against the USA. There was a trade diversion from the USA to Brazil, Argentina and Uruguay because of China’s additional tariff on US soybeans. The coefficient of intersection term in column (2) is -1.275, and it is significant, indicating that China’s retaliatory tariffs against the USA also increased the price of soybeans from Brazil, Argentina and Uruguay by 1.275%.

The coefficient of intersection term in column (3) is -2.525, and it is significant, which is in line with expectations, indicating that China’s total import quantity of peanuts, rapeseeds and sunflower seeds from Canada and other countries increased by 2.525% after China imposed retaliatory tariffs on US non-soybean edible oilseeds (mainly peanuts). As edible oilseeds can to some extent substitute each other, the increased import of peanuts, rapeseeds and sunflower seeds can enrich the variety of China’s imported edible oilseeds, make up the import gap due to China’s retaliatory tariffs and help China avoid over-dependence on soybean imports.

Table 5: Baseline regression result

Variable	Group A (soybeans)		Group B (non-soybean edible oilseeds)
	(1) Import qty	(2) Price	(3) Import qty
Post	0.0614 (1.011)	1.402 (0.936)	-0.455 (1.082)
Treatment	1.523** (0.611)	1.474*** (0.529)	-3.436*** (0.614)
Treatment×Post	-1.550** (0.740)	-1.275* (0.679)	-2.525** (1.214)
Production	-0.337 (3.646)	-9.598*** (2.939)	15.06 (54.19)
Crush	17.93 (11.23)	18.80* (11.17)	44.07 (33.78)
Exchange	11.07 (11.93)	17.79* (9.474)	-30.98* (16.57)
CN GDP	0.798 (2.637)	-0.450 (2.137)	4.379 (3.598)
Constant	-190.9** (96.12)	-127.2 (93.15)	-440.1** (211.8)
Observations	120	120	90
R-squared	0.130	0.235	0.566

Note: t statistics are in parentheses. ***, ** and * indicate significance at the 1%, 5% and 10% level respectively.

5.5. Multi-stage Regression Model

From June 2018 to December 2019, China enacted three batches of retaliatory tariffs on US edible oilseeds. As soybeans accounted for about 99% of China’s edible oilseed imports from the USA and accounted for more than 95% of China’s total edible oilseed imports, we further measure the trade effects of these retaliatory tariffs on China’s soybean imports during the US–China trade friction.

Based on the development of the US–China trade friction and the date of the announcement of the retaliatory tariff policies, this paper divides the period of trade friction into five stages, and builds a multi-stage regression model correspondingly. Considering that the trade effect of retaliatory tariffs needs time to be apprehended, this paper follows Amity (2019) to measure the time of retaliation from the actual month the tariff measures were announced if the announcement was on or before the fifteenth day of the month, or from the next month if the tariff measures were announced after the fifteenth day of the month. Therefore, the first stage is defined as being from January 2018 to May 2018, which was the early stage of US–China trade friction, when the trade relationship between the USA and China was tense, but China had not yet implemented retaliatory tariffs. The second stage is from June 2018 to July 2018, when China adopted the first batch of tariff countermeasures. The third stage is from August 2018 to April 2019. The fourth stage is from May 2019 to July 2019, for the second batch of tariff countermeasures. The fifth stage is from August 2019 to December 2019, for the third batch of tariff countermeasures.

Formula (2) is the multi-stage regression model:

$$Y_{it} = \beta_0 + \sum_{j=1}^5 (\beta_j S_{jt} + \beta_j treatment_i \times S_{jt}) + \beta_6 treatment_i + \beta_7 \sum X_{it} + \epsilon_{it} \quad (2)$$

Wherein,

Y_{it} is the dependent variable, which is the quantity of soybeans imported from country i to China at the corresponding stage.

$treatment_i$ is a dummy variable that distinguishes the experimental group and the control group. It takes 1 for the USA and 0 for the control group.

$\sum X_{it}$ are control variables, including China’s soybean production, domestic soybean consumption demand, the USD/RMB exchange rate and China’s GDP.

ϵ_{it} is the error term.

S_{jt} indicates whether the date t belongs to the j th stage, which takes 1 if it does, and 0 otherwise.

The multi-stage regression model still focuses on the coefficients of the intersection term $treatment_i \times S_{jt}$ measuring the trade effect at the j th stage of the US–China trade friction.

The data sources and notations are the same as in Formula (1). Following the construction of the panel data of China’s soybean imports from July 2017 to December 2019, the results of multi-stage regression are shown in Table 6.

Table 6: Multi-stage regression results of soybean imports

Variable	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
S_{jt}	0.978 (1.108)	1.067 (0.887)	-0.294 (0.584)	-0.336 (0.854)	1.008 (0.885)
Treatment	-0.0436 (0.431)	0.608 (0.390)	1.089*** (0.375)	0.533 (0.399)	0.538 (0.468)
$treatment_i \times S_{jt}$	1.484** (0.723)	-0.877 (0.961)	-2.022** (0.813)	0.165 (0.881)	0.0445 (0.621)
Production	1.927 (3.632)	-0.334 (3.513)	-2.485 (3.633)	-0.266 (3.747)	-4.603 (4.836)
Crush	11.02 (10.97)	23.56*** (8.022)	13.09 (8.408)	21.55*** (7.450)	17.72** (7.925)
Exchange	23.29 (15.63)	9.050 (11.22)	18.73 (11.89)	8.027 (11.22)	8.844 (11.05)
CN GDP	-0.287 (3.240)	0.363 (3.244)	-1.901 (3.339)	0.612 (3.222)	-1.541 (3.633)
Constant	-153.9 (97.42)	-234.0** (92.44)	-111.3 (99.88)	-216.9** (88.17)	-124.4 (113.9)
Observations	120	120	120	120	120
R-squared	0.138	0.114	0.156	0.104	0.118

Note: t statistics are in parentheses. ***, ** and * indicate significance at the 1%, 5% and 10% level respectively.

The coefficients of $treatment_i \times S_{jt}$ from the second stage to the fifth stage show that the trade-diversion effects caused by China’s additional tariffs at different stages vary from each other.

At the second stage, China announced the first batch of retaliatory tariffs against the USA. The coefficient of $treatment_i \times S_{jt}$ is insignificant, but it is -0.877. Considering the regression results and development of the US–China trade friction, although the first and the second batches of China’s additional tariff were announced with a very short interval, they resulted in trade effects in the short term. Contrary to the significant positive impacts on China’s soybean imports from the USA in the

first stage, the impacts turned to negative from the second stage and became significantly negative in the third stage. In fact, China turned to increased soybean imports from Brazil, Argentina and Uruguay in the second and third stages. There was trade diversion from the USA to the third countries.

China announced the second batch of retaliatory tariffs against the USA at the start of the third stage, and the third stage lasted longer than the second stage. The coefficient of $treatment_i \times S_{jt}$ is -2.022 and it is significant. Considering the regression results and the development of the US–China trade friction, we can understand the significantly negative impacts from two aspects: (a) the trade effects of the first batch of retaliatory tariffs became effective as time passed; (b) the successive implementation of two batches of retaliatory tariffs in a short period raised the uncertainty of the trade relationship between the USA and China, which led to further trade diversion. Therefore, in the third stage, China’s soybean imports from Brazil, Argentina and Uruguay increased by 2.022%, which was significantly enhanced compared with the second stage.

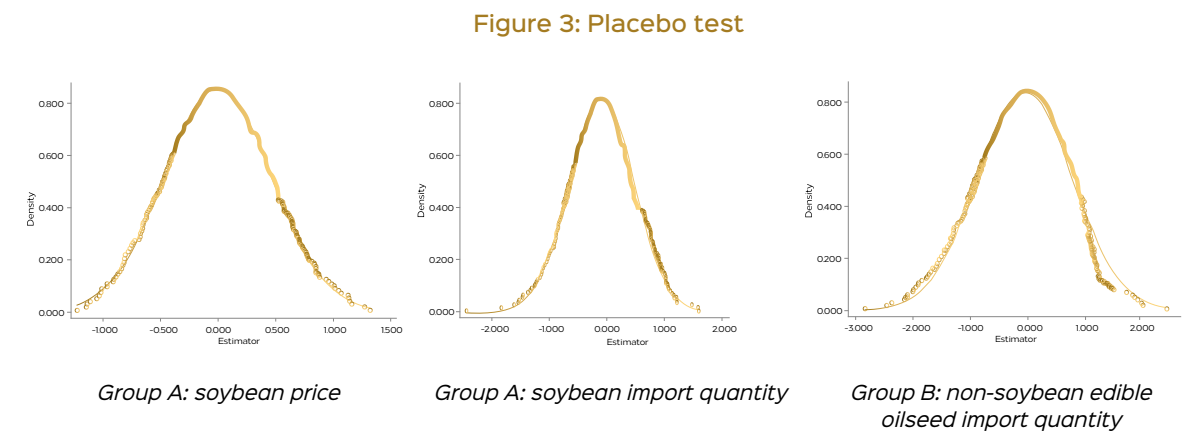
China further raised the tariff rate of some goods of the second batch at the start of the fourth stage. The coefficient of $treatment_i \times S_{jt}$ is 0.165 in the fourth stage, but it is insignificant. China announced the third batch of tariffs at the start of the fifth stage. The coefficient of $treatment_i \times S_{jt}$ is 0.0445, and it is still insignificant. In these two batches of tariff adjustment, the edible oilseeds involved were mainly of the non-soybean type. Considering the regression results and the development of the US–China trade friction, it showed that in the later period of the trade friction, the impacts on China’s soybean imports from Brazil, Argentina and Uruguay were not very different from those before the outbreak of the US–China trade friction. At the same time, as several rounds of negotiations between China and the USA resulted in substantial progress, the trade-diversion effect caused by additional tariffs was gradually weakened. By the end of December 2019, the volume of China’s soybean imports from the USA was improved compared with that at the first stage of trade friction, but it was still smaller.

6. Robustness Testing

6.1. Placebo Test

When estimating the trade-diversion and trade-creation effects caused by additional tariffs, it is inevitable that other exogenous events or policies might lead to similar results, which will interfere with the regression results. Therefore, this paper adopts the method of the random selection of experimental groups to conduct a placebo test. A total of 123 samples were randomly selected from groups A and B as “pseudo-experimental groups”, and the random sampling process was repeated 500 times, its intersection term with the time dummy variable being repeated as the core explanatory variable.

Figure 3 shows the distribution of the coefficients. The distribution of both the import quantity and price of soybeans and the import quantity of non-soybean edible oilseeds is mainly around 0, which belongs to the normal distribution. Therefore, the regression result of the trade-diversion effect caused by China’s additional tariffs in the baseline regression is robust.



Source: Generated with Stata

6.2. Change the Policy Time Test

To further verify the aforementioned robustness, this paper applies a counterfactual test to see whether the core explanatory variables are still significant when China does not announce additional tariffs. If the results remain significant, it means that unobserved factors may also lead to trade-diversion effects; if not, the baseline regression results are robust and reliable. Therefore, this paper advances the time of China’s additional tariffs by six months, i.e. assuming the time of additional tariff imposition to be from December 2017. The regression results are shown in Table 7.

The coefficient of $treatment_i \times post_t$ soybeans in Group A is insignificant, indicating that the baseline regression result is robust, that is, the regression model established in this paper can better explain the impacts of the tariff policy on import trade diversion and China’s average soybean import price. The coefficient of $treatment_i \times post_t$ non-soybean edible oilseeds in group B is insignificant, indicating that the baseline regression result is robust, that is, the regression model established in this paper, can better explain the impact of China’s tariff policy on its import of non-soybean edible oilseeds.

Table 7: Change the policy time test

Variable	Group A (soybeans)		Group B (non-soybean edible oilseeds)
	Import qty	Price	Import qty
Post	-0.341 (0.713)	0.278 (0.286)	0.630 (1.062)
Treatment	-0.357 (0.581)	0.00328 (0.205)	-4.961*** (0.994)
Treatment×Post	1.088 (0.717)	0.473 (0.439)	-0.0887 (1.298)
Production	-0.661 (3.964)	-4.348 (3.419)	101.3 (67.22)
Crush	20.37* (10.64)	12.13* (6.848)	-18.74 (41.53)
Exchange	8.125 (11.46)	22.27* (11.48)	-49.33*** (17.61)
CN GDP	0.624 (3.346)	-3.797 (2.641)	7.631* (4.356)
Constant	-203.0** (99.95)	-70.55 (71.76)	-541.3** (231.9)
Observations	120	120	90
R-squared	0.110	0.121	0.545

Note: *t* statistics are in parentheses. ***, ** and * indicate significance at the 1%, 5% and 10% level respectively.

7. Conclusions

Taking the US–China trade friction that started in 2018 as the background, this paper empirically tests the trade-creation and trade-diversion effects of China's retaliatory tariffs on US edible oilseeds. The main conclusions are as follows.

First, China's retaliatory tariffs had significant trade-diversion effects. The empirical results show that China's additional tariffs on US soybeans led China to increase its total import quantity of soybeans from Brazil, Argentina and Uruguay by 1.55%, with the import price of soybeans from these three countries increasing by 1.275%.

Second, China actively expanded the imports of peanuts, rapeseeds and sunflower seeds after imposing additional import tariffs on US edible oilseeds in order to mitigate the impacts of the additional tariffs on the Chinese domestic market. The empirical results show that China increased its imports of non-soybean edible oilseeds from Canada and other trading partners by 2.525%, and China diversified import categories of edible oilseeds.

Third, the trade diversion in soybeans due to China's retaliatory tariffs against the USA was mainly observed from August 2018 to April 2019. During this period, China's total imports of soybeans from Brazil, Argentina and Uruguay increased by 2.022%. The trade diversion during this period was due to the time lag of the trade effects of the tariff policies and the superposition of the effects of the previous two batches of tariff measures.

Fourth, during the US–China trade friction, as the two countries actively carried out negotiations and constantly adjusted the proportion of additional tariffs, the countervailing effects of tariffs gradually weakened. In the later stage of trade friction, the trade environment between the two countries improved, which also contributed to the signing of the Phase One Deal and the implementation of China's tariff exclusion measures.

China's demand for edible oilseeds is mainly met by imports, and about 25% of China's total edible oilseed import volume comes from the USA. The stable demand and supply relationship of edible oilseeds between the two countries will not only benefit Chinese consumers and American producers, but also stabilise prices on the global edible oilseeds market.

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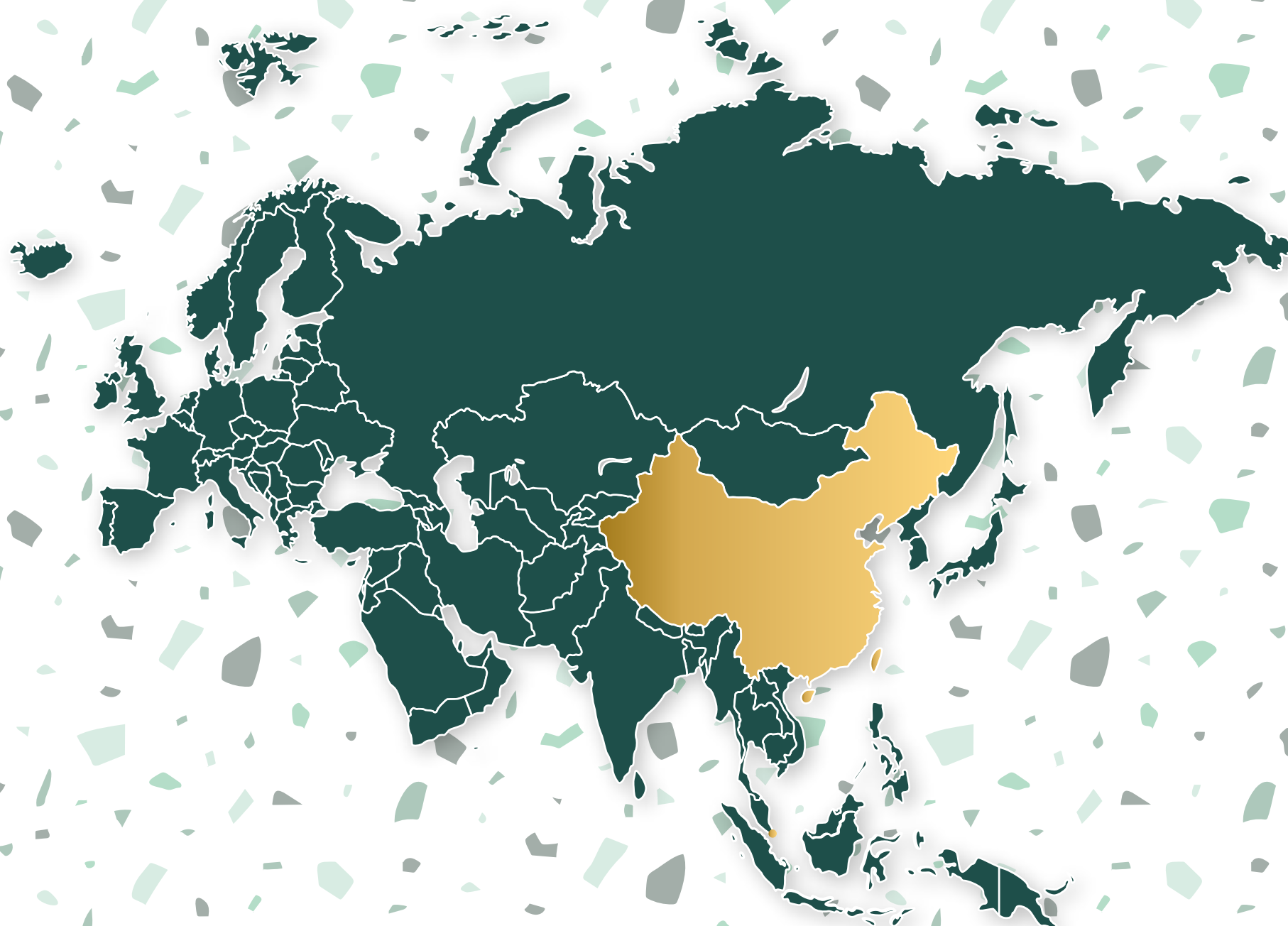
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JING CAI -
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From Resource Dependence
to Innovation Drive: Economic
Transformation and Human
Resources Development in Four
Chinese Provinces



FROM RESOURCE DEPENDENCE TO INNOVATION DRIVE: ECONOMIC TRANSFORMATION AND HUMAN RESOURCES DEVELOPMENT IN FOUR CHINESE PROVINCES

JING CAI¹ – MENGSI LI² – GYÖRGY IVÁN NESZMÉLYI³

Abstract

This study investigates economic changes and human resources development in the provinces of Shanxi, Henan, Hebei and Shandong in the People's Republic of China. These four provinces have evolved from relying on agriculture and heavy industry to embracing services and high-tech sectors. Using a mixed-methods approach, the research evaluates how advances in workforce skills and education have supported these shifts. The study examines strategic improvements in education and training across these regions and explores demographic shifts like aging populations and labour market changes. Quantitative and qualitative analyses provide insights into these dynamics. The research offers lessons for regions in any country that are facing similar economic challenges, documenting how these Chinese provinces manage their transition. The findings are significant for policy-making and strategic economic planning worldwide.

Keywords: Chinese economic analysis, economic transformation, human resources development, demographic challenges, labour market

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1. Introduction

Shanxi, Henan, Hebei and Shandong are four of the provinces that make up Northern China. Each has a substantial population and a rich cultural past. Prior to its economic development and transition, China's main economic sectors were traditional agriculture and heavy industry. Today, however, more diverse businesses like the high-tech and service sectors are increasingly taking their place.

Shanxi Province is renowned for its rich cultural inheritance and long history. Its coal reserves are substantial. In recent years, as it has actively pushed for the revision, transformation and modernisation of its industrial structure, it has gradually increased the emphasis on the service, high-tech and tourism sectors (Zhang & Yang, 2021).

Located in the centre of the country, Henan Province is one of the most well-known historical and cultural regions in the nation. The Luoyang Longmen Grottoes and Zhengzhou's Shaolin Temple are two examples of its rich cultural past. The province's main economic pillars used to be heavy industry and agriculture, however in recent years, to improve the calibre and efficacy of economic development, Henan is also modernising and swiftly changing.

Hebei Province surrounds the nation's capital, Beijing. It was once a major manufacturing centre (Zhaohui, 2011). Nonetheless, as pressure to protect the environment and implement economic reform increases, Hebei is witnessing an acceleration in the growth of developing sectors, including the production of high-end equipment, new energy and new materials (Zhao et al., 2018).

Shandong, located in Northeastern China, is one of the most important provinces in terms of economy. Sites like the Qufu Confucius Temple and Qingdao Badaguan are part of its rich cultural heritage. In the past, the region's main industries were agriculture and heavy industry. Recent years have seen an acceleration in the transition and upgrading of its economic structure in tandem with the growth of the service sector, high-tech industry and modern agriculture.

From the standpoint of China's economic development in recent decades, these four resource-based provinces have all made significant contributions to the country's modernisation construction. Be that as it may, during the growth process they have faced numerous issues that have significantly hampered their economic development due to changes in national industrial policies and the very nature of their resources, which is influenced by utilisation and life cycle. The provinces' economic downturn can be attributed to various factors, including the lopsided nature of the economic structure and the excessive reliance on one industrial development path. All of these things are the cause of the provinces' inability to grow. As a result, both the industrial structure and the economic structure in these provinces are about to undergo fundamental change. The strategic development of human resources will play a major role in transforming the economic structure (Rothwell et al., 2008).

This paper examines the ways in which human resources development policies are used by Shanxi, Henan, Hebei and Shandong to enhance and advance their economic transformation. A high population density and average initial economic conditions are common across the four provinces,

this being the rationale behind the decision to study them together. The first topic to be researched is how human resources development in Shanxi, Henan, Hebei and Shandong supports the economic shift towards high-tech and service industries. As each of these four provinces has a vibrant culture, studying their growth path from traditional agriculture and heavy industry to more diverse industries is also a study of their heritage and human resources. The economic development of other regions may find inspiration and a point of comparison in this. The second research question explores the nature of the human resources initiatives these provinces have established to enhance education, training and skills for the workforce. Together, the four provinces deal with the issues of a dense population and inadequate educational resources. In this instance, improving population quality through the employment of human resources strategies and vocational training is a problem that must be addressed as part of their economic transformation. Our final research topic asks the following question: What approaches have these provinces used to address comparable demographic issues including labour market restructuring and aging populations? When investigating these problems and examining potential solutions, it can be ascertained that their paths of development and their attraction will have real-world implications for other areas requiring economic restructuring.

Shanxi, Henan, Hebei and Shandong are geographically close to one another. By researching the regional coordinated development models and the mechanisms that underpin them, it is possible to foster interregional economic cooperation and exchanges, as well as common development. The provinces are increasingly supporting the growth of high-tech and other developing sectors because of the economic revolution. In order to support innovation-driven growth, it is crucial that the experiences and models of the various forms of industrial development in these provinces be examined.

2. Literature Review

2.1. An Overview of Human Resources Development

In general, the term “human resources” refers to a population’s total labour force within a given range, or the ability of its workers to support social and economic progress (Kucharčíková, 2011). This covers things like their knowledge, technology, physical prowess and intelligence, which illustrates the value of human resources in various production processes and social growth as well. There are numerous important aspects of human resources, and biological nature comes first. To manage human resources in a way that is in line with human nature, we must first comprehend the inherent qualities of individuals and growth. The second aspect is the reproducibility of human resources. It is possible to multiply the labour force and population. Since the labour force and population are products of production and consumption, human resources include things like the working environment, hours worked, location of employment, etc., which are all factors that must be taken into consideration when developing resources. The third aspect is that human resources are dynamic. The labour force is a process in and of itself; this is especially true for the four provinces in our study,

where work flows more frequently amongst themselves when the labour force is sufficient. Initiative is the fourth aspect. Human resources combine mental acuity and physical prowess with a spirit of self-motivation and purpose. The fifth aspect is time. Individually speaking, human resources have time restrictions, and their capacities tend to evolve over time. Time also erodes and perhaps erases. We additionally need to think about how to increase the quality and capacity of human resources in a constrained amount of time. The sixth and final aspect is sociality (Bratton et al., 2021). Because China is home to a diverse population of ethnic groups, each ethnic group has its own unique cultural traits and value systems that contribute to individual variances. To fully develop and manage human resources, it is necessary to coordinate and integrate the relationships and interests that exist between individuals, as well as between individuals and society.

The term “human resources development” describes a set of organised procedures and actions aimed at identifying, nurturing, developing and making use of human resources (Rao, 2000). Investment in employee management, training, education and the identification of talent is a prerequisite for human resources development, instruction and management. Ensuring employee education is a crucial component of the human resources development strategy and an important pillar of the recent economic revolution of the four provinces of Shandong, Henan, Hebei and Shanxi. This helps them to both attract and retain talent. China’s rapid social and economic development, particularly its string of economic policies in the early twenty-first century, is the foundation of the country’s research on the development of human resources. According to studies, this has been greatly aided by abilities in a variety of sectors. As a result, it has been determined that the cost of investing in the development of human resources is significantly exceeded by the contribution of human resources to economic development. One could argue that the optimisation of the industrial structure is the fundamental component of social and economic progress. Other developing sectors are growing as traditional businesses that cannot keep up with economic expansion continue to decline. The percentage of the industrial sector grows as the economy does, supporting both social and economic progress (Garavan, 2007). The transition of the four provinces from traditional heavy industries and agriculture to emerging technology industries necessitates significant labour investment. Additionally, human resources strategies cannot be developed, managed and implemented in isolation from these industries.

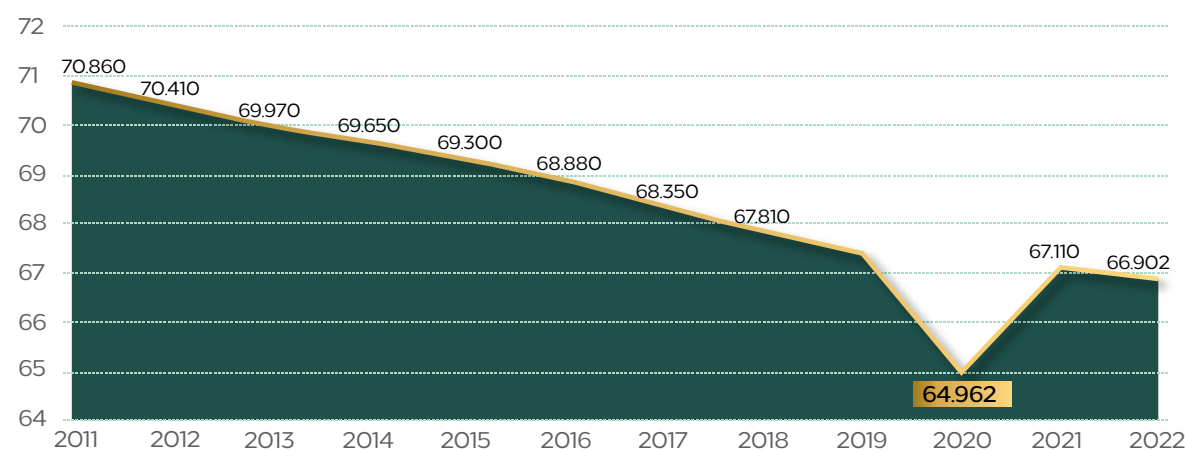
2.2. Demographic Challenges and Their Impact on Human Resources

In the 1980s and 1990s, China battled overpopulation, particularly an oversupply of low-quality workers. At that time, the quality of the labour force required for economic development lagged well behind the necessary levels of professionalism and education. As a result, in the aforementioned decades China increased its investments in educational resources and instituted its one-child policy. China’s job market now has a far higher educational standard than it did at the beginning of the twenty-first century. Wang et al. (2018) stated that the percentage of 15 to 17 year olds attending high school in China had risen from around 50% in 2005 to 87% in 2015. The importance of

education is especially pertinent in the case of Shanxi, Henan, Hebei and Shandong because they are significant population areas, even though their education ratio is still far lower than the average in wealthy countries. Traditionally, these four provinces have a dense population and poor levels of education, thus – starting in 2013 – they have been making significant investments in education. This is particularly true of Shandong Province. With 97.46 million permanent residents in 2013, local general budget expenditures were RMB 668.88 billion, of which RMB 139.967 billion was allocated to education. In addition to taking manifest actions, the four provinces have also faced the challenge of a shortage of talented individuals. Due to the multi-level and multi-type demand for human resources in regional economic development, several regions have formed distinct conditions for introducing talent that meets the needs of modernising the regional industrial structure and promoting sustainable economic development, a prerequisite of which is to first use the material foundation to attract a variety of talent types. From there, talents of various categories in accordance with the growth of various regional industries can be nurtured.

Following population control, the aging of its population has presented China with a new human resources dilemma. The issue of skill gaps has been brought about by the aging of the population in addition to the unequal distribution of social resources. Because human resources are mobile and move from one location to another, a more equitable distribution of material resources has been made possible by the increase to some extent, but the long-term development of human resources has also been impacted. After China's population aging rate surpassed 7% in 2000, the country was declared to be an aging society. In 2021, the population aging rate was expected to reach 14.2% (Zhan et al., 2021). Along with the country's accelerating population aging rate, China's labour force participation rate is dropping. Figure 1 shows that from a level of at least 70.8% in 2011, by 2020 the labour force participation rate had fallen to 64.9% (although in subsequent years it rose slightly). Population shifts of this nature impact social issues like the demand and supply for labour, education, healthcare and senior care.

Figure 1: China's labour force participation rate from 2011 to 2022 (%)



Source: CEICdata.com (2023)

In 2022, there were about 768.6 million workers in China. Figure 1 also illustrates the general declining trend in China's labour force participation rate. Because of population aging and a decrease in the percentage of the population engaged in the labour market, this negative trend is probably here to stay.

2.3. Human Resources Strategy

The meanings of various human resources strategic policy types vary, and the usage of policy tools has a great impact on how a particular policy works. The Canadian public policy experts Howlett and Ramesh state that policy tools are categorised into three groups based on the level of compulsion they fall under: mandatory, hybrid and voluntary (Zhang et al., 2019). The Chinese government has selected the talent strategy policy tool as one of its methods and tools to recognise the worth of talent and increase its competitiveness. First and foremost, this possesses the qualities of a voluntary instrument. It offers varying levels of voluntary investment in learning materials based on the demands of various kinds of talent. However, China's human resources policy also possesses the features of a mandatory instrument. There are explicit laws and rules, whether it is for obligatory schooling or for the classification requirements of human resources (Warner, 2020). Human resources policies frequently contain distinct classification standards based on regional divides, acting as a sort of hybrid tool. For example, due to the high population density of Shandong, Shanxi, Henan and Hebei, their standards of talent selection are much higher than those of other provinces in China, for example, the tertiary education admission standards (You & Hu, 2013).

2.4. The Impact of Human Resources Strategy on Economic Development

2.4.1. The Quality of Human Resources Determines the Level of Economic Development

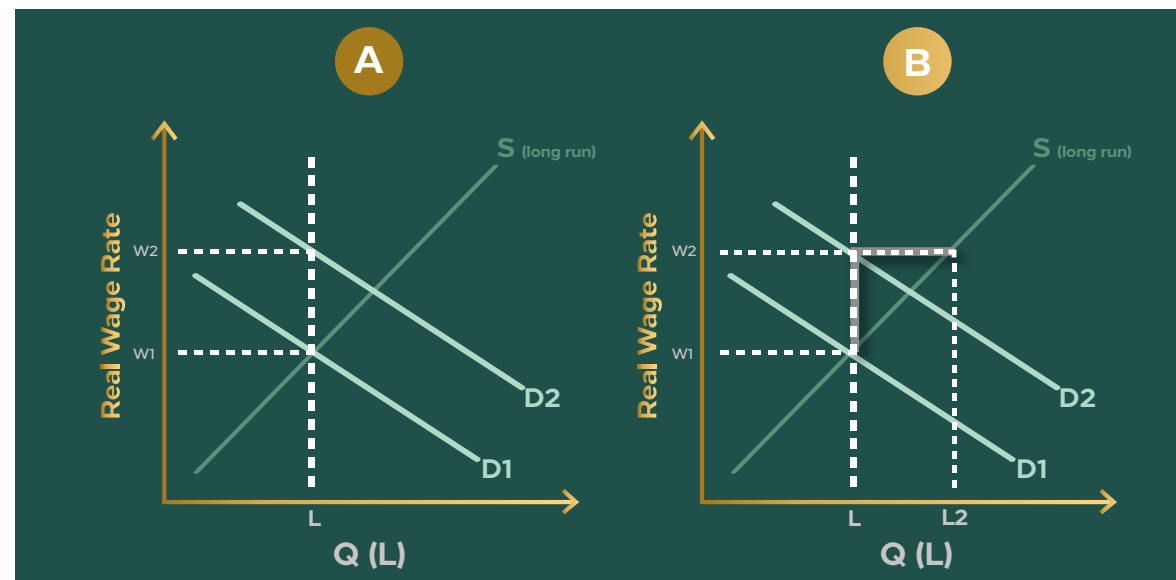
The ability of a nation or a region to compete is greatly influenced by the quality of its labour force (Hanushek & Kimko, 2000), which also serves as an efficient means of fostering economic expansion and total factor productivity. This means transitioning from depending on the increase in the number of workers to depending on the enhancement of the quality of workers. The primary drivers of industrial economic growth in the labour market are the knowledge and skill reserves of human resources. Industries with higher standards for education and the calibre of their human resources frequently hold more important positions in the economy. Simultaneously, one significant aspect that sets industrialised countries apart from underdeveloped countries is the disparity in human resources development (Rao, 2000).

In Japan, for example, under the influence of Schultz's human capital theory, Tokyo has adopted a strategy of improving the education level of its citizens to promote economic development (Miyazawa, 2011). Beginning in the 1960s, a number of policies were developed, including easing

the requirements for establishing private schools and encouraging enrolment in higher education. Japan has a substantial reserve of superior human resources because the aforementioned policies form a sort of human resources strategy.

Owing to China’s unique circumstances, its human resources strategy took a while to develop, which led to a somewhat lower-than-average population education level in several parts of the country. In this context, the population education level in the four provinces of Shanxi, Henan, Hebei and Shandong has started to steadily increase. Economic productivity rises when human resources methods are promoted and put into practice, since trained labour is frequently more productive than unskilled labour (Hussain et al., 2020). Additionally, increased productivity leads to quicker economic expansion and higher labour force pay, both of which positively impact the advancement of the economy. Figure 2 below uses the Cobweb model (Diebolt & El Murr, 2004), which explains the impact of labour force education, illustrating how supply in the labour market changes over time, in addition to how earnings change as education levels rise.

Figure 2: Short-term shifts in demand and wage rate



Source: Radcliffe (2019)

In the short run, wages rise above the equilibrium level due to the increasing demand for highly educated labour (Graph A). The intersection of D2, the change in demand, and W2, the rise in wages, is visible. However, since the wage rate cannot rise continuously, it falls along the lack of elastic short-run labour supply curve (L) rather than the long-run labour supply curve (S). As more and more people receive training, the labour supply gradually grows (Graph B), which causes an oversupply and lower wages (Radcliffe, 2019). This is a typical occurrence when developing human resources plans. Demand increases are frequently correlated with increases on the supply side (Zhao et al., 2017). A reduction in supply and a rise in demand will occur after a drop. This will start a

cycle and result in human resources strategies with varying short- and long-term effects. The quality of human resources will have a significant impact on changes in the labour market’s demand and supply, which will impact economic development.

3. Research Methodology

3.1. Evaluation Indicator System

This paper establishes human resources systems and high-quality economic development system evaluation indicator frameworks based on the principles of applicability and comparability, and the quantifiability and operability of data. In terms of the human resources system, it is built from the quantity, quality and structure of human resources, offering valuable insights for the framework constructed within this paper. The study meticulously incorporates indicators that reflect the essence and characteristics of “talent” and “labour”, such as talent development, human capital and talent

Table 1: Human resources system			
Primary indicator	Secondary indicator	Code	Indicator explanation
Population scale	Permanent resident population	X1	Permanent resident population
	Net migration rate	X2	Net migration rate
	Natural population growth rate	X3	Natural population growth rate
Talent structure	Employment population ratio	X4	Urban-rural population/permanent resident population
	Male-to-female ratio	X5	Gender ratio (female=100)
	Proportion of second industry employment	X6	Secondary industry employment/total employment
Talent quality	Proportion of tertiary industry employment	X7	Tertiary industry employment/total employment
	Labour productivity	X8	GDP/employed population
	Deviation degree of employment structure in the second industry	X9	(Secondary industry value added/GDP) / (secondary industry employment/total employment) - 1
Factor inputs	Deviation degree of employment structure in the third industry	X10	(Tertiary industry value added/GDP) / (tertiary industry employment/total employment) - 1
	College-educated talent reserve	X11	Efficiency of talent and capital investment
	Proportion of fiscal expenditure on education	X12	Proportion of fiscal expenditure on education
	Number of hospital beds per 10,000 people	X13	Number of hospital beds per 10,000 people
	Number of healthcare professionals per 10,000 people	X14	Number of healthcare professionals per 10,000 people

Source: Compiled by the authors on the basis of primary data collected from official statistical yearbooks

structure, to create a comprehensive evaluation indicator system for the human resources system that covers four aspects: population scale, talent structure, talent quality and factor inputs (see Table 1).

Regarding the high-quality economic development system, this paper constructs an evaluation framework that includes five dimensions – innovative development, coordinated development, green development, open development and inclusive development – with 16 secondary indicators. This is based on a comprehensive understanding of the connotations of the five major development concepts and references the research of some Chinese scholars on high-quality economic development evaluation indicator systems (see Table 2).

Table 2: Economic development system			
Primary indicator	Secondary indicator	Code	Indicator explanation
Innovative development	R&D investment intensity	X1	R&D expenditure/GDP
	Patents granted per 10,000 people	X2	Patents granted per 10,000 people
	Proportion of R&D practitioners	X3	Number of R&D personnel/total employment
Coordinated development	Rationalisation of industrial structure	X4	(Value added of secondary industry + value added of tertiary industry)/GDP
	Advancement of industrial structure	X5	Value added of secondary industry
	Urban-rural disposable income ratio	X6	Urban residents' per capita disposable income/rural residents' per capita disposable income
Green development	Energy consumption intensity	X7	Energy consumption/GDP
	Green content in economic development	X8	Electricity consumption/GDP
	Solid waste generated per unit GDP	X9	Solid waste emissions/GDP
	Rate of good air quality	X10	Rate of good air quality
Open development	Foreign trade dependency	X11	Total import and export value/GDP
	Foreign capital dependency	X12	Actual foreign capital utilisation/investment ratio to GDP
	International tourism development	X13	Number of international tourists received
Inclusive development	Internet penetration rate	X14	Internet penetration rate
	Urban registered unemployment rate	X15	Urban registered unemployment rate
	Per capita disposable income	X16	Per capita disposable income

Source: Compiled by the authors on the basis of primary data collected from official statistical yearbooks

Considering the reliability of data, the statistics used in this paper's research are sourced from the relevant statistical yearbooks for the years 2013 to 2022,⁴ as well as from the World Bank (World Development Indicators),⁵ regional statistical bulletins, and data published on official city websites, with interpolation methods used to complete some missing data.

3.2. Coupling Analysis Method

We utilise the Coupling Analysis Method, a concept derived from physics, to measure the degree of information dependency or interaction between systems. This paper applies the coupling degree to determine the degree of association between human resources development and regional economic development across the provinces of Shanxi, Shandong, Henan and Hebei. The degree of coupling coordination represents the state of coordination between two interacting systems, indicating whether the systems mutually enhance each other at a high level or inhibit each other at a low level. The expression for this is the following:

$$T = \alpha M(u) + \beta M(v) \quad (1)$$

$$C = \sqrt{\frac{M(u) \times M(v)}{\left(\frac{M(u) + M(v)}{2}\right)^2}} \quad (2)$$

$$G = \sqrt{C \times T} \quad (3)$$

Wherein, G denotes the degree of coupling coordination, which ranges from 0 to 1. In the model, T represents the composite development evaluation index for human resources development and regional economic growth. The coefficients α and β are to be determined, signifying the importance of the two subsystems to the overall system. In this paper, $\alpha + \beta = 1$, with $\alpha = \beta = 0.5$ as per related research, implying that the human resources system and the high-quality economic development system have equal significance in the coordinated development process. C signifies the degree of coupling between the two systems. The criteria for the classification of coupling coordination degrees in this paper are presented in Table 3 below.

⁴ Henan Province: <https://tjj.henan.gov.cn/tjfw/tjcbw/tjnj/>; Hebei Province: <http://tjj.hebei.gov.cn/hbstjj/sj/sjcx/tjnj/>; Shandong Province: <http://tjj.shandong.gov.cn/col/col6279/index.html>; Shanxi Province: <https://tjj.shanxi.gov.cn/sxsj-show/yearData>.

⁵ World Bank (World Development Indicators): <https://databank.worldbank.org/source/world-development-indicators>.

Table 3: Classification of coupling coordination degrees

(D) Range	Level	Degree
[0.0~0.1)	1	Extremely uncoordinated
[0.1~0.2)	2	Severely uncoordinated
[0.2~0.3)	3	Moderately uncoordinated
[0.3~0.4)	4	Mildly uncoordinated
[0.4~0.5)	5	Marginally uncoordinated
[0.5~0.6)	6	Barely coordinated
[0.6~0.7)	7	Basic coordination
[0.7~0.8)	8	Intermediate coordination
[0.8~0.9)	9	Well-coordinated
[0.9~1.0]	10	High-quality coordination

Source: Designed by the authors

3.3. Entropy Method

The Entropy Method is utilised in this paper to determine the weights of various indicators. It is one of the common methods for calculating weights. The entropy method generally quantifies the degree of variability of an indicator; the smaller the entropy value, the greater the degree of variation in the indicator value, which translates to a larger influence and weight in composite evaluations. This method can overcome the problems of information overlap between multiple indicators and the subjectivity inherent in manually determining weights. The primary process of the model is shown below.

Building the original matrix. First, the data on the development of the digital economy in Chongqing is collated. Let a total of n years, and m indicators be selected for each year to build the original matrix:

$$X = (x_{ij})_{nm} (i = 1, 2, 3, \dots, n; j = 1, 2, 3, \dots, m) \quad (1)$$

1. The selected indicators are normalised to initially eliminate differences caused by the dimensions of the variables. As all the data and information selected in this study are positively oriented indicators, there is no need for either positive or reverse transformation. Therefore, this study adopts the “normalisation by mean” method for data processing:

$$Y_{ij} = X / \text{Mean} \quad (2)$$

2. Determine the weights for the values of the j_{tb} indicator of the i_{tb} object:

$$P_{ij} = \frac{x_{ij}}{\sum_{i=1}^n x_{ij}} \quad (3)$$

3. Determine the entropy value of the j_{tb} indicator:

$$e_j = -\frac{1}{\ln(n)} * \sum_{i=1}^n P_{ij} \ln(P_{ij}), (i = 1, \dots, n; j = 1, \dots, m) \quad (4)$$

4. Then calculate the information utility value d :

$$d_j = 1 - e_j \quad (5)$$

5. Determine the entropy weight of the j_{tb} indicator:

$$w_j = \frac{(1 - e_j)}{\sum_{j=1}^m (1 - e_j)}, 0 \leq w_j \leq 1, \sum_{i=1}^m w_j = 1 \quad (6)$$

6. Compute scores for individual indicators and overall performance level:

$$S_{ij} = w_i \times x_{ij}, S_i = \sum_j^n S_{ij} \quad (7)$$

4. Analysis

4.1. Calculating the Weights of Indicators Based on the Entropy Method

Based on constructing the evaluation indicator system and measurement model for the development level of the economy in the selected region, the weight of each evaluation index in each province is derived according to the above formula, as shown in Table 4 below.

Table 4: Weight of each evaluation index in economic development system

Primary indicator	Secondary indicator	Code	Shanxi		Shandong		Henan		Hebei	
			wj	Sum wj	wj	Sum wj	wj	Sum wj	wj	Sum wj
Innovative development	R&D investment intensity	X1	7.07%	8.29%	8.29%	6.27%	5.94%	5.94%	5.94%	
	Patents granted per 10,000 people	X2	4.95%	21.06%	5.50%	22.83%	7.43%	22.19%	22.19%	
	Proportion of R&D practitioners	X3	9.04%	9.04%	9.04%	8.66%	8.82%	8.82%	8.82%	
Coordinated development	Rationalisation of industrial structure	X4	2.67%	6.43%	6.43%	4.89%	5.82%	5.82%	5.82%	
	Advancement of Industrial Structure	X5	4.15%	11.45%	3.87%	14.51%	5.46%	18.64%	18.64%	
	Urban-rural disposable income ratio	X6	4.63%	4.21%	4.21%	5.63%	7.36%	7.36%	7.36%	
Green development	Energy consumption intensity	X7	9.44%	3.39%	3.39%	3.72%	4.09%	4.09%	4.09%	
	Green content in economic development	X8	10.20%	2.23%	2.23%	20.72%	5.44%	23.22%	23.22%	
	Solid waste generated per unit GDP	X9	6.52%	5.83%	5.83%	1.92%	2.29%	2.29%	2.29%	
Open development	Rate of good air quality	X10	9.69%	9.27%	9.27%	13.28%	11.40%	11.40%	11.40%	
	Foreign trade dependency	X11	5.98%	7.24%	7.24%	14.84%	6.19%	6.19%	6.19%	
	Foreign capital dependency	X12	4.02%	18.40%	18.40%	30.52%	5.22%	17.30%	17.30%	
Inclusive development	International tourism development	X13	4.81%	4.88%	4.88%	6.10%	5.89%	5.89%	5.89%	
	Internet penetration rate	X14	3.83%	2.47%	2.47%	3.82%	4.17%	4.17%	4.17%	
	Urban registered unemployment rate	X15	8.52%	16.81%	4.58%	11.43%	8.44%	18.66%	18.66%	
	Per capita disposable income	X16	4.46%	4.38%	4.38%	4.78%	6.05%	6.05%	6.05%	

Source: Compiled by the authors on the basis of primary data collected from official statistical yearbooks

In comparing the economic development indicators of Shanxi, Shandong, Henan and Hebei provinces, we focus on the distribution of weights in various aspects such as innovative development, coordinated development, green development, open development and inclusive development to reveal their economic development characteristics and differences.

In terms of innovative development, all four provinces emphasise the importance of R&D investment intensity (X1), with Shandong having the highest weight, at 8.29%, reflecting its priority in R&D investment. Hebei province has the lowest weight for R&D investment intensity but the highest weight for the proportion of R&D personnel (X3), at 8.82%, indicating Hebei's focus on the role of talent in innovative development.

In coordinated development, Hebei has the highest weight for industrial structure rationalisation (X4), at 5.82%, which may indicate progress in industrial restructuring. In contrast, Shanxi has the lowest weight for the same indicator, at 2.67%, suggesting that industrial restructuring may not be the main focus of the province's current economic development.

Regarding green development, Shanxi has the highest combined weights for energy consumption intensity (X7) and green content in economic development (X8), at 9.44% and 10.20% respectively, revealing its active efforts in the green economic transition. Shandong has the lowest weight for energy consumption intensity, at 3.39%, indicating significant achievements in energy efficiency improvement.

In the open development indicators, Henan has a high weight for foreign trade dependence (X11), at 14.84%, highlighting its economic openness and export-oriented characteristics. Conversely, Shanxi has a weight of 5.98% for the same indicator, indicating a relatively inward-looking economic development model.

For inclusive development, Hebei has the highest weights for internet penetration rate (X14) and per capita disposable income (X16), at 4.17% and 6.05% respectively, which may reflect the province's focus on promoting social inclusiveness and improving residents' living standards. Shanxi has the lowest weight in inclusive development, suggesting that there may be greater room for effort in promoting internet penetration and increasing residents' incomes.

Overall, Shandong invests most in innovative and coordinated development, Henan leads in an open economy, Shanxi shows significant investment in green development, while Hebei has a notable weight distribution in inclusive development. These characteristics reflect the different economic development strategies and focus areas of the provinces.

Table 5: Weight of each evaluation index in human resources development system

Primary indicator	Secondary indicator	Code	Shanxi		Shandong		Henan		Hebei	
			wj	Sum wj	wj	Sum wj	wj	Sum wj	wj	Sum wj
Population scale	Permanent resident population	X1	5.35%	4.56%	4.56%	3.40%	4.13%	4.13%	4.13%	15.71%
	Net migration rate	X2	4.24%	6.18%	6.18%	5.49%	4.77%	4.77%	4.77%	15.71%
	Natural population growth rate	X3	4.58%	4.80%	4.80%	4.54%	6.81%	6.81%	6.81%	27.33%
Talent structure	Employment population ratio	X4	6.39%	7.64%	7.64%	5.87%	6.21%	6.21%	6.21%	27.33%
	Male-to-female ratio	X5	21.78%	5.63%	5.63%	4.53%	9.75%	9.75%	9.75%	27.33%
	Proportion of second industry employment	X6	7.68%	2.65%	2.65%	24.36%	4.55%	4.55%	4.55%	27.33%
Talent quality	Proportion of third industry employment	X7	11.71%	5.49%	5.49%	3.01%	6.82%	6.82%	6.82%	27.33%
	Labour productivity	X8	6.71%	6.90%	6.90%	4.99%	7.76%	7.76%	7.76%	30.65%
	Deviation degree of employment structure in the second industry	X9	2.70%	3.93%	3.93%	5.04%	6.00%	6.00%	6.00%	30.65%
Factor inputs	Deviation degree of employment structure in the third industry	X10	6.11%	11.94%	11.94%	2.20%	5.68%	5.68%	5.68%	30.65%
	College-educated talent reserve	X11	4.50%	5.29%	5.29%	6.35%	11.21%	11.21%	11.21%	30.65%
	Proportion of fiscal expenditure on education	X12	4.21%	19.02%	19.02%	21.80%	14.60%	14.60%	14.60%	26.31%
Factor inputs	Number of hospital beds per 10,000 people	X13	6.38%	18.25%	18.25%	4.92%	5.64%	5.64%	5.64%	26.31%
	Number of healthcare professionals per 10,000 people	X14	7.66%	9.50%	9.50%	3.49%	6.07%	6.07%	6.07%	26.31%

Source: Compiled by the authors on the basis of primary data collected from official statistical yearbooks

Table 5 delineates the human resources development system of the four provinces. In terms of population size and structure, Shanxi and Hebei have similar weights for “permanent population” (X1), at 5.35% and 4.13% respectively, while Henan has the lowest weight, at only 3.40%. Shanxi’s weights for “net migration rate” (X2) and “natural population growth rate” (X3) are lower compared to Hebei, indicating that Shanxi places less emphasis on dynamic population changes than Hebei does. Hebei has the highest weight for natural population growth rate, at 6.81%, which may reflect its potential for population growth.

Regarding “talent structure”, Shanxi’s weight for “gender ratio” (X5) is significantly higher than that of the other provinces, while Henan’s weight for “proportion of employment in the secondary industry” (X6) is significantly higher than that of the others. Shandong province has the highest weight for “deviation in employment structure of the tertiary industry” (X10), indicating a more significant optimisation of its talent structure in the tertiary industry compared to other provinces.

Hebei has the highest weight for “labour productivity” (X8), at 7.76%, with this indicator having the lowest weight in Shanxi, at 6.71%. This contrast points directly to Hebei’s greater emphasis on improving labour productivity compared to other provinces.

The “proportion of fiscal expenditure on education” (X12) has a weight of 21.80% in Henan and is also significant in Shandong, at 19.02%. The weight is also high in Hebei, at 14.60%, but this indicator has a relatively low weight in Shanxi, at 4.21%. This comparison shows that Henan and Shandong place a higher emphasis on educational investment for human resources development than Hebei and Shanxi.

For the indicators “number of hospital beds” (X13) and “number of healthcare professionals per 10,000 people” (X14), the weights are relatively close among the four provinces, indicating that healthcare resources universally support human resources development across the provinces.

In summary, Shanxi shows significant attention to gender structure, Shandong invests more in optimising the talent structure of the tertiary industry, Henan has higher weights in the proportion of employment in the secondary industry and educational investment, while Hebei shows its focus in labour productivity and educational investment.

4.2. Coupling Calculation Results

When comparing the coupling coordination degrees of Shanxi, Shandong, Henan and Hebei provinces, in Table 6 we contrast the changes over different time periods in the coupling degree (C value) and the coordination index (T value). In Table 7 we contrast the changes over different time periods in the coupling coordination degree (D value) of each province.

Table 6: Calculation results of coupling degree (C value) and coordination index (T value) for selected provinces

Region	Value	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Average	Rank
Shanxi	T	0.093	0.155	0.075	0.209	0.38	0.381	0.455	0.583	0.73	0.99	0.4051	1
	C	0.45	0.916	0.497	0.879	0.996	0.985	0.965	0.989	0.996	1	0.8673	1
Shandong	T	0.107	0.159	0.136	0.266	0.261	0.377	0.352	0.477	0.721	0.99	0.3846	3
	C	0.499	0.469	0.582	0.976	0.792	0.936	0.388	0.891	0.983	1	0.7516	4
Henan	T	0.5	0.252	0.302	0.198	0.117	0.202	0.261	0.327	0.57	0.667	0.3396	4
	C	0.199	1	0.791	0.313	0.587	0.985	0.992	0.989	0.867	0.874	0.7597	3
Hebei	T	0.093	0.155	0.075	0.209	0.38	0.381	0.455	0.583	0.72	0.99	0.4041	2
	C	0.45	0.916	0.497	0.879	0.996	0.985	0.965	0.989	0.995	1	0.8672	2

Source: Compiled by the authors on the basis of primary data collected from official statistical yearbooks

Table 7: Calculation results of C-coupling coordination degree (D value) for selected provinces

Region	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Average	Rank										
Shanxi	0.205	3	0.377	4	0.194	2	0.428	5	0.615	7	0.613	7	0.662	7	0.759	8	0.846	9	0.996	10	0.5695	1
Shandong	0.231	3	0.273	3	0.281	3	0.509	6	0.455	5	0.594	6	0.369	4	0.652	7	0.842	9	0.995	10	0.5201	3
Henan	0.315	4	0.502	6	0.489	5	0.249	3	0.262	3	0.447	5	0.509	6	0.568	6	0.703	8	0.763	8	0.4807	4
Hebei	0.205	3	0.377	4	0.194	2	0.428	5	0.615	7	0.613	7	0.662	7	0.759	8	0.846	9	0.995	10	0.5694	2

Source: Compiled by the authors on the basis of primary data collected from official statistical yearbooks

2013–15: Exploration and Adjustment Period

During this period, Shanxi Province showed a downward trend from “moderate disequilibrium” to “severe disequilibrium”, particularly in 2015 when the coupling coordination degree dropped to its lowest, indicating problems in the coordination between human resources and economic development. Shandong Province was “barely coordinated” in 2014, but fell back to “close to disequilibrium” in 2015, showing fluctuations in the coupling coordination degree. Henan Province started this stage with “mild disequilibrium”, then reached a peak in coupling degree in 2014, indicating a brief period of high coupling, but subsequently fell back to “close to disequilibrium” in 2015. Hebei Province showed a trend of rising after oscillation, from “mild disequilibrium” to “barely coordinated” in 2014, and then to “close to disequilibrium” in 2015.

2016–18: Fluctuation and Adaptation Period

Shanxi Province showed improvement in 2016, reaching the state of “close to disequilibrium”, and further improved to “primary coordination” in 2017 and 2018. Shandong Province experienced significant fluctuations during this period, displaying “barely coordinated” in 2016, but dropping to “close to disequilibrium” in 2017, and then rising back to “barely coordinated” in 2018. Henan Province continuously experienced “moderate disequilibrium” in 2016 and 2017, with a slight improvement in 2018, although still in a state of “close to disequilibrium”. After being “barely coordinated” in 2016, Hebei Province fell to “close to disequilibrium” in 2017 and then returned to “barely coordinated” in 2018.

2019–22: Steady Improvement Period

Shanxi Province continued to maintain “primary coordination” in 2019, advanced to “intermediate coordination” in 2020, and achieved “good coordination” and “excellent coordination” in 2021 and 2022 respectively. Shandong Province remained “barely coordinated” in 2019, maintained this status in 2020, and made significant progress in 2021 and 2022, reaching “good coordination” and then “excellent coordination”. After being “barely coordinated” in 2019, Henan Province improved to “primary coordination” in 2020 and maintained “intermediate coordination” in 2021 and 2022. Hebei Province advanced from “primary coordination” in 2019 to “intermediate coordination” in 2020 and then achieved “good coordination” and “excellent coordination” in 2021 and 2022 respectively.

Over time, the coupling coordination degrees of all four provinces generally show an upward trend, especially in the later period (2019–22), where all provinces saw significant improvements. This reflects the gradual optimisation and implementation of policies, which we will discuss in detail in the next section.

5. Discussion

The four provinces of Shandong, Henan, Shanxi and Hebei are all facing problems of economic transformation and human resources development.

Shandong Province has taken steps to promote the brand value of its human resources services and has developed several outstanding institutions that both internally improve service quality and externally strengthen the province's image, thereby enhancing the Shandong brand's reputation. Its human resources strategy starts with this. Concurrently, Shandong has instituted the "Internet + Human Resources Service Industry" initiative to promote the amalgamation and advancement of diverse sectors utilising cutting-edge technologies like big data and cloud computing (Haoran et al., 2023), establishing an electronic basis for the superior advancement of human resources services. As a result, the industrial transformation process is accelerating quickly and efficiently. In the area of human resources, Shandong has developed an action plan named "Shandong People's Salary Safety" with the goals of strengthening the capacity of businesses to pay salaries and of safeguarding employees' rights and interests. Furthermore, Shandong has instituted the "Talent-promoting Shandong" initiative (Zhang, 2013), employing a variety of incentives and advantages to attract a diverse range of talent, enhancing talent acquisition and training, and realising the entire potential of the human resources plan.

In the human resources strategy of Henan Province, strong emphasis is placed on talent development, human resources development and employment promotion planning. Henan began by enhancing the Central Plains' core competitiveness, creating new advantages in human resources, fostering shared prosperity and satisfying people's rising aspirations for a better quality of life (Chen & Li, 2013). It subsequently put into practice its plan to stimulate innovation, promote the advancement of STEM education, attract talent and fortify the building industry. Additionally, it has devoted greater investments to the training of skilled talent by means of the "Skills Henan" action plan and using its employment priority policy to encourage the establishment and growth of talent centres (Wu et al., 2022). In addition to raising workers' skill levels, the foregoing can speed up the labour market's ability to adjust to the demands of the economy. Furthermore, several favourable employment and entrepreneurial rules have been put in place for important populations, such as fresh higher education graduates.

Shanxi Province has suggested a human resources development strategy focused on supporting its transformation and development in its objectives for education reform and development, as well as human resources development. The fundamental approach to human resources development is education and training. This will encourage talent development and the reformation of education. Additionally, by putting the "Promotion Talent Training Plan" into practice (Luo et al., 2024), the introduction and cultivation of talent as well as its quality will be enhanced, which will hasten the province's economic transformation and development.

The human resources development strategy of Hebei Province has undergone an overhaul. The first step was the encouragement of the full online processing of service matters in the human resources development process and the full implementation of the HR service notice and commitment system (Huo et al., 2020). In order to promote business development and strengthen brand influence, Hebei also encourages human resources service providers to take part in the directories of high-tech and important service industry businesses. The "Hebei Talent Support Plan" has also been put into action to support the region's economic development and transformation (Jingjinga et al., 2021). This plan includes actions such as bringing in high-level talent, developing talent innovation capabilities, and adjusting the talent structure.

The four provinces also share several common issues and strategies that affect the development of their economies.

1. Population outflow: Shandong, Henan, Shanxi and Hebei experience higher employment demand than other provinces because of their substantial population base. They thus have to deal with the issue of population outflows (Wu et al., 2020). To obtain better job possibilities, many talented people relocate to more developed economies. This can retard local economic growth and cause the increase of social burdens to rise.
2. Low birth rate: The birth rates of the four provinces are steadily declining and the problem of an aging population is becoming more severe. This implies that population growth will slow down in the future, which could result in a labour shortage and sluggish economic expansion.
3. Modification of the industrial structure: To address the population crisis, the provinces are making great efforts to change the industrial structure from traditional manufacturing to more intelligent, eco-friendly and high-value industries (Wang et al., 2023). In addition to significant financial and technological support, this calls for human resources initiatives aimed at raising labour quality.
4. Support for innovation and entrepreneurship: The provinces are making great efforts to create an environment that fosters innovation and entrepreneurship to attract and keep talent (Shi et al., 2022). To promote innovation and entrepreneurial endeavours, the Chinese government offers a range of assistance programmes, including financing, tax breaks and educational opportunities.
5. Raising the quality of the labour force: The provinces are making great efforts to improve the quality of the labour force to address demographic concerns. The government offers a range of education and training initiatives aimed at enhancing the workforce's proficiency and preparing it for emerging job demands.
6. Attracting talent: The provinces are making great efforts to attract talent from both other parts of China and even abroad to make up for the dearth of local expertise. The government has taken a number of steps to attract talent, such as improving living conditions, salaries and perks, as well as job prospects.

All things considered, the four provinces are putting a considerable amount of effort into changing their economies and addressing demographic issues. To foster social and economic development, the government has implemented a number of policies, such as changing the industrial structure, encouraging entrepreneurship and innovation, raising the standard of the labour force, and attracting both Chinese and foreign talent.

6. Conclusions

This study has systematically employed the entropy weight method to assign weights to various indicators within human resources and economic systems, providing an objective framework with which to assess the interrelation between these two critical areas of development. Coupling analysis has further revealed the degree of interaction and harmony between the systems over a decade-long period.

The findings indicate that all four of the provinces of Shanxi, Henan, Hebei and Shandong have undergone a significant evolution in the coupling and coordination of human resources development and economic growth. Initially marked by varying degrees of discoordination, with some provinces exhibiting severe discoordination, the trend over the years has been one of progressive improvement.

By 2022, each province had achieved a commendable level of coordination, with Shanxi and Shandong reaching an “excellent coordination” level, showcasing a highly synergistic relationship between human resources development and economic growth. Henan and Hebei also made notable progress, advancing to “good coordination” levels, reflecting substantial improvements in policy implementation and the structural adjustments within their respective regions.

This upward trajectory is a testament to both the effectiveness of regional policies and the commitment to structural reform, talent cultivation and innovation. The convergence of human resources development with economic growth strategies has proved to be crucial in driving sustainable development.

The provinces’ progress underscores the decisive role of a skilled and well-developed workforce in bolstering economic performance. It is clear that sustained investment in human capital, alongside economic reform, is imperative for continued regional development.

Nevertheless, it is also evident that coordination does not occur spontaneously; it requires concerted efforts in policy synchronisation and strategic planning, and should be continuously monitored. Therefore, policymakers must remain vigilant, ensuring that human resources development aligns seamlessly with economic growth to foster an environment conducive to long-term prosperity.

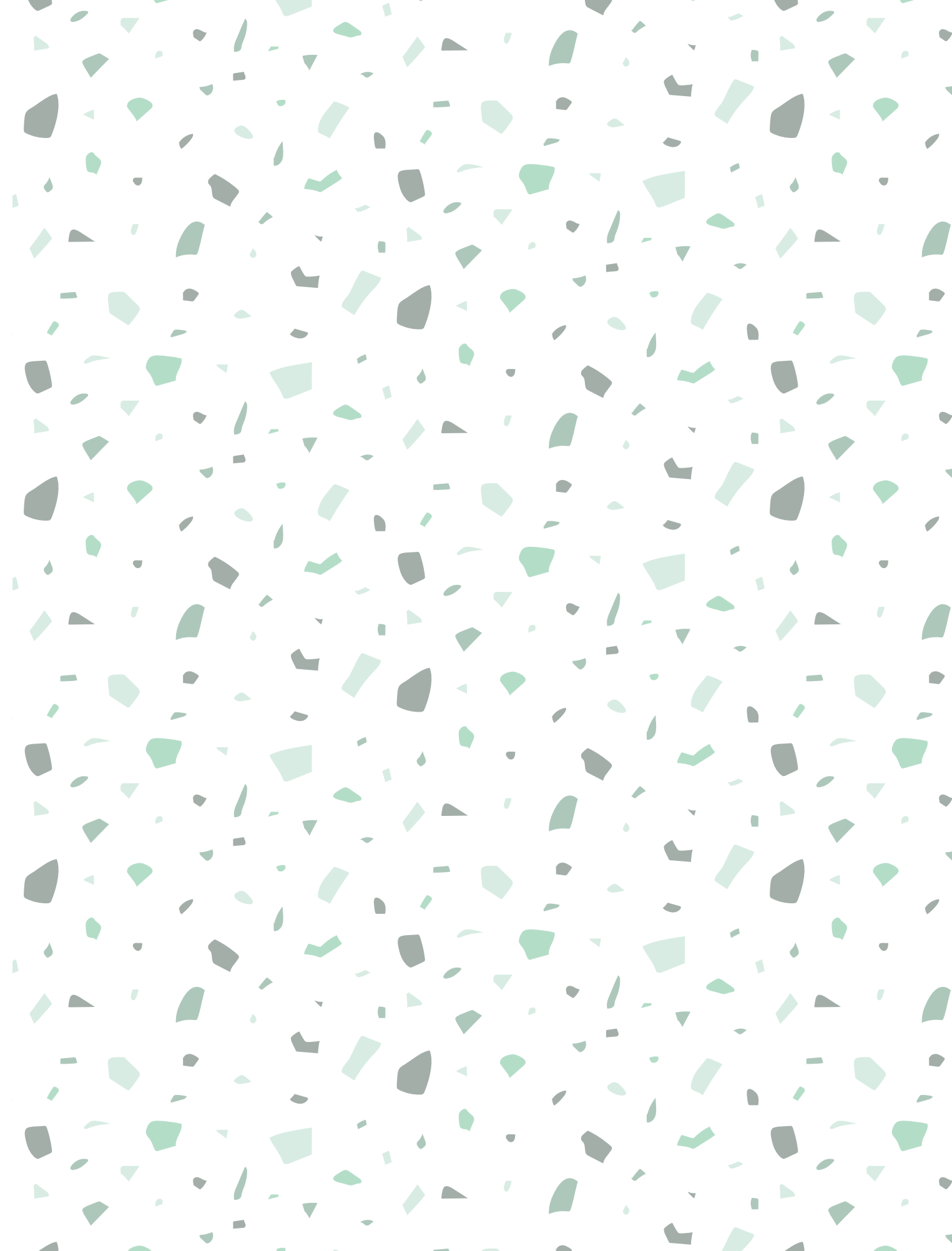
In conclusion, the journey of the four provinces of Shanxi, Henan, Hebei and Shandong from discoordination to high-quality coordination illustrates the dynamic nature of regional development. The lessons learned from this analysis of a decade-long period underline the importance of adaptive strategies that cater for the evolving landscape of human resources needs and economic transformation.

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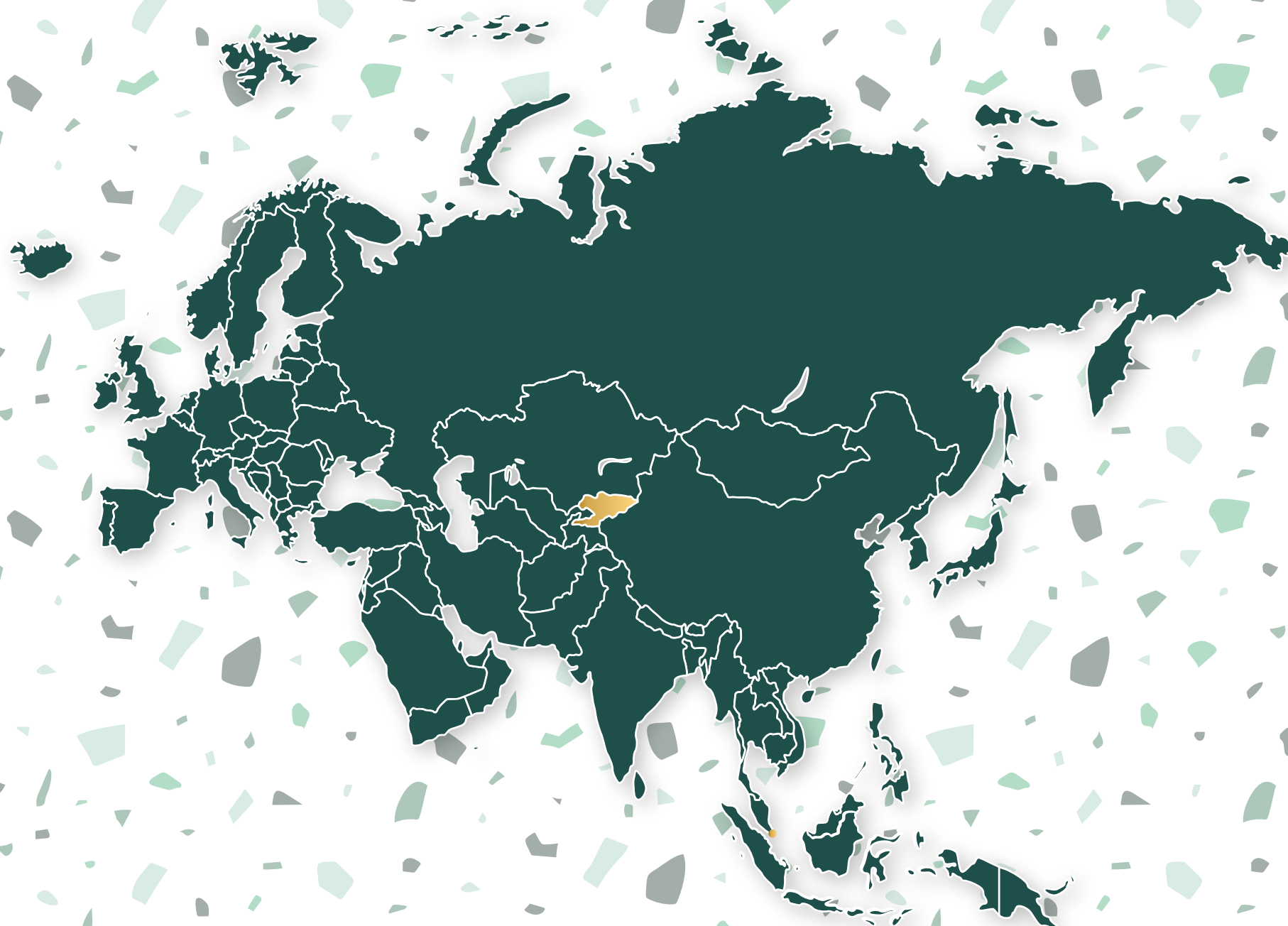
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III
CENTRAL ASIA
COLUMN



JILDIZ NICHARAPOVA

An Analysis of the Participation
of the Kyrgyz Republic in the
Eurasian Economic Union Since 2015



AN ANALYSIS OF THE PARTICIPATION OF THE KYRGYZ REPUBLIC IN THE EURASIAN ECONOMIC UNION SINCE 2015

JILDIZ NICHARAPOVA¹

Abstract

Following extensive negotiations and protests from certain quarters against the initiative, the Kyrgyz Republic acceded to the Eurasian Economic Union (EAEU) in 2015. Since accession, contradictory opinions have been voiced among the population, government officials and various organisations in Kyrgyzstan about the benefits and drawbacks in economic and other fields for the nation. This article aims to analyse the economic results of the participation of the Kyrgyz Republic in the EAEU. It studies the main economic indicators and additionally highlights a selection of challenges in the economic sphere.

Keywords: Eurasian Economic Union, Kyrgyz Republic, trade, economic cooperation, remittances, migrant workers, FDI, imports and exports

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1. Introduction

Created in 2015, the Eurasian Economic Union is an integration organisation in the post-Soviet area that consists of five countries: Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. Opinions concerning its goals are diverse. Some state that the EAEU aims to strengthen Moscow's regional and global sway, and allows Russia to keep its neighbouring states under its influence. Others assert that it is an attempt by the Kremlin to create a competitor to the European Union and its Eastern Partnership project (Dreyer & Popescu, 2014). There are also those who say that Moscow's primary interest in Eurasian integration is to reinforce its global influence (Dragneva & Wolczuk, 2017) and to create a regional alliance oriented towards Russia (Yeliseyev, 2019). EAEU member states frequently contend that the alliance is not simply an "empire-building" project for Russia, but rather a legitimate, demand-driven exercise in regional economic governance (Dragneva & Wolczuk, 2017). The idea of Eurasian integration was originally proposed in 1994 by the first president of the Republic of Kazakhstan, Nursultan Nazarbayev (Government of Kazakhstan, 2019), proving that the creation of the EAEU was not only in the interests of Russia, but those of its other members as well.

A different point of view concerning the goals of the EAEU is given by Vinokurov, who states that the global goal of the EAEU is 'to create a favorable environment for realizing the potential of economic relations within the region, modernizing national economies, and increasing global competitiveness. The core of the Eurasian integration process is a single market for goods, services, capital, and labor' (Vinokurov, 2017, p. 200). Furthermore, Eurasian integration is not seen as a product of Russian hegemonism but as a trend to establish regional alliances for the mutual economic advantage of the participating countries (Nicharapova, 2020). The chairman of the Cabinet of Ministers of the Kyrgyz Republic, Akyzbek Zhaparov, professed that the EAEU 'should become a model of economic community flowing into a political union. Developing its market by increasing the competitiveness of country producers is a minimum task. The maximum task is to strengthen positions in the foreign market' (Karimov, 2023). However, some conjecture that the EAEU is actually a political affair that is primarily driven by the geopolitical interests of the larger partners (Ziyadullaev, 2014).

The EAEU provides free movement of goods, services, capital and labour, and pursues coordinated, harmonised and single policies in the economic sectors as determined by the Treaty on the Eurasian Economic Union and individual international treaties within the EAEU. Initially, the Customs Union was established; this was followed by the creation of the Common Economic Space, and on 1 January 2015 Belarus, Kazakhstan and Russia founded the Eurasian Economic Union. Shortly afterwards, the Republic of Armenia and the Kyrgyz Republic also became full members of the EAEU (Government of Kazakhstan, 2019). Chatham House states that the Eurasian Economic Union is an ambitious project for economic integration in the former Soviet region and that it intends to create a common market like that of the European Union (Wolczuk et al., 2022).

In terms of theory, according to Vinokurov (2017), having been mainly developed with a focus on Europe and the European Union, classical theories of regional integration do not apply to the

EAEU. He thus proposes a new theoretical approach: “bonding integration” (or “holding-together integration”), which defines regional integration projects initiated by a group of countries that, until recently, were part of a single political or economic entity (a unitary state or colonial empire) and maintain high levels of economic, political and cultural relations. According to this theory, a higher level of regional integration is a question not only of the future of the region, but also of its past.

Cooperation within the EAEU includes such spheres as the following: customs tariff and non-tariff regulation; customs regulation; technical regulation; sanitary, veterinary-sanitary and quarantine-phytosanitary measures; the assignment and distribution of import customs duties; the establishment of trade regimes for third parties; statistics of foreign and mutual trade; macroeconomic policy; competition policy; industrial and agricultural subsidies; energy policy; state and/or municipal procurements; services trade and investments; transport; currency policy; intellectual property; labour migration; and financial markets (banking, insurance, the currency market, the securities market) (Government of Kazakhstan, 2019).

Among international organisations, the Eurasian Economic Union is one of the most discussed and studied topics of the post-Soviet area. However, few papers analyse the participation of small EAEU member states like Kyrgyzstan. This paper is an attempt to remedy this deficiency.

The paper’s main research questions are: How does the EAEU impact the Kyrgyz Republic’s economic development? Is EAEU membership beneficial for Kyrgyzstan?

To answer the above, both qualitative and quantitative research methods are used. Concerning qualitative methods, a literature review is undertaken and existing scholarly resources are analysed. As a quantitative method, the study uses statistical data from the National Statistical Committee and the Ministry of Economics and Commerce of the Kyrgyz Republic, as well as data from other organisations.

This article is composed of three sections. First of all, it refers to the historical background of Kyrgyzstan’s participation in the Eurasian Economic Union since 2015 and analyses some benefits of joining the organisation. The next part is dedicated to the economic analysis of the membership of the Kyrgyz Republic in the EAEU. The article culminates with some conclusory remarks.

2. The Background and Benefits of Kyrgyzstan’s Participation in the EAEU

Since the early 1990s, the Kyrgyz Republic has been actively involved in the integration processes in Eurasia. Kyrgyzstan was one of the initiators of the Commonwealth of Independent States (CIS) and also of a free trade area within the CIS. It was additionally interested in deeper economic integration in the region. In 2000, Kyrgyzstan became a member of the Eurasian Economic Community (EurAsEC). In 2006, at the meeting of the Heads of the EurAsEC member states in Sochi, a decision on the transition of three of the member states – Belarus, Kazakhstan and Russia – to the

Customs Union was made. Kyrgyzstan officially announced its desire to join the Customs Union of Belarus, Kazakhstan and Russia in 2011 (Eurasian Economic Commission, 2018). The Treaty on the EAEU was signed by the leaders of Belarus, Kazakhstan and Russia in Astana on 29 May 2014, and it entered into force on 1 January 2015. Armenia became a member state of the EAEU on 2 January 2015, and Kyrgyzstan acceded on 12 August 2015 (Eurasian Economic Commission, 2019).

A widespread opinion exists that the Kyrgyz Republic was pushed into EAEU membership by Russia. Kyrgyzstan did not have much choice as the country is highly dependent on Russian and Kazakh goods and their labour, financial and energy markets. Not everyone in Kyrgyzstan was happy about accession to the EAEU, fearing adverse economic effects and adjustment problems. Many business associations complained that the president and the government did not consult companies, which were the ones to suffer most from accession. The former prime minister, Temir Sariyev, stated that Kyrgyzstan did not have a choice. In his opinion, states with small economies and small internal markets are obliged to participate in integration processes. The EAEU allows the country to accelerate development and modernise its infrastructure and economy. There is no need for large expenditures on the development of national technical regulations and other regulations in the fields of sanitary, veterinary and phytosanitary legislation (24.kg, 2017). However, public opinion in Kyrgyzstan concerning joining the EAEU was positive. According to annual surveys conducted by the International Republican Institute (IRI), in 2014 around 49% of respondents were ‘very positive’ or ‘somewhat positive’, while 35% were ‘very negative’ or ‘somewhat negative’. In 2015, 76% were ‘very positive’ or ‘somewhat positive’, while only 14% were ‘very negative’ or ‘somewhat negative’. In 2019, 69% were ‘very positive’ or ‘somewhat positive’, while only 17% were ‘very negative’ or ‘somewhat negative’ (Beyond Investment Group, 2020, p. 4). According to the speech of Kyrgyzstan’s minister of economics and commerce at the August 2019 meeting of the EAEU heads of government, when the decision was made about Kyrgyzstan’s accession to the EAEU, over 75% of the population supported it (Nucharapova, 2023).

According to Mogilevskiy et al. (2018), there have been four main impacts on Kyrgyzstan following its accession to the EAEU. Firstly, EAEU membership has led to higher prices for imported goods originating outside the Union. Secondly, it has protected migrants against any additional restrictions. Thirdly, large trade flows from China to Russia now pass through Kyrgyzstan; with much of this re-export trade remaining unregistered in order to avoid paying relatively high Common Customs Tariff duties, joining the EAEU could impact profits from transit trade. Lastly, the Russian–Kyrgyz Development Fund (RKDF) is intended to compensate for the costs associated with Kyrgyzstan’s adaptation to the conditions of the EAEU.

The economic potential of Eurasian integration is very great. The aggregate economic indicator of the EAEU member states constitutes more than USD 2.2 trillion, and their population amounts to more than 180 million people (Government of Kazakhstan, 2019). The economy of Kyrgyzstan is the smallest among all the members of the EAEU, and the country accounts for only 3.3% of the Union’s population and 0.3% of its combined gross domestic product (World Bank, 2015).

2.1. Migrants and Remittances

For Kyrgyzstan, the main motive for EAEU membership is the huge number of its citizens working in Russia and the importance of these migrant workers' remittances to the country's economy. The remittances from migrant workers in Russia and Russian financial assistance of USD 1.2 billion were the determining factors in Kyrgyzstan's decision to join the EAEU (Dragneva & Wolczuk, 2017). As a member of the Union, Kyrgyzstan became part of the common labour market and Kyrgyz migrants received equal employment rights with domestic citizens, since no quota agreement or permits were necessary. In Russia, they can work not only under labour agreements, but also under civil law agreements; they pay the same income tax as Russian citizens and they are entitled to social insurance and health care (Enikeeva, 2016).

A study conducted by Russia's Ministry of Economy, the Analytical Center for the Government of the Russian Federation and the All-Russian Academy of Foreign Trade stated that from 2015 to 2022, the number of Kyrgyz migrant workers in Russia increased from 400,000 to over a million (Petrov, 2023). In 2016, remittances contributed to approximately 30% of Kyrgyzstan's GDP. All this means that accession to the EAEU has had a positive impact on Kyrgyzstan. Russian State Duma Speaker Vyacheslav Volodin announced that in 2023, the volume of remittances from Russia to Kyrgyzstan had reached USD 2.7 billion, which is 26.5% of Kyrgyzstan's annual GDP (24.kg, 2023). Kyrgyzstan is heavily reliant on remittances from migrant workers. According to Russian government agencies, in 2022 more than half of the migrant workers entering Russia from other EAEU member states were Kyrgyz citizens, and remittances sent home by them were equal to almost a quarter of the country's GDP (Aidarkhanova, 2023).

The most important expectation of EAEU accession for the authorities and the population alike was the facilitation of legal status for Kyrgyz workers abroad, as well as greater respect for the social and economic rights of such migrants – particularly in Russia and Kazakhstan, which respectively attract around 80% and 10% of all Kyrgyz temporary migrant workers (Yeliseyev, 2019). After accession to the EAEU, Kyrgyz citizens have no need for a so-called “patent” or a work permit, but can rather work on the basis of an agreement or a contract with their employer (Petrov, 2023).

In spite of this, the situation of migrants in Russia and the EAEU remains a serious concern. If they wish to prolong their stay, migrants in Russia are forced to leave the country and then return, and the social protection of migrants from the EAEU promised by the Ministry of Labour, Social Security and Migration remains another showy statement. According to human rights activist Valentina Chupik, Kyrgyz migrants in Russia face several obstacles that prevent them from being legally employed, which eventually leads to a significant reduction in salaries (Aidarkhanova, 2023). Another reason for Kyrgyzstan joining the Eurasian Economic Union was its extensive trade with Kazakhstan and Russia: trade within the EAEU accounted for about 42% of Kyrgyzstan's total trade in 2015, including 16% with Kazakhstan and 26% with Russia (Dragneva & Wolczuk, 2017).

Regarding its risks and opportunities, Kyrgyzstan's accession to the Union has been a hot topic for academics, Kyrgyz officials and interested members of the public alike. The main positive arguments concern labour migration, the agricultural sector and Russian financial support. Negative aspects

highlighted include restrictions on the re-export of Chinese products, inflation, and trade barriers expected to cause inflation and rising prices, especially for food products (Zhanaltay, 2020).

Kyrgyzstan's experience as a member of the Eurasian Economic Union from mid-2015 to late 2016 was largely unsatisfying. While favourable employment conditions were created for Kyrgyz migrant workers, the anticipated increased access to the markets of the other EAEU member states and large-scale capital investments were not realised (Esenaliev & Asylbek, 2017).

2.2. The Russian–Kyrgyz Development Fund

The Russian–Kyrgyz Development Fund is the most important instrument in the process of the integration of the Kyrgyz Republic into the Eurasian Economic Union. The goal of the Fund is to promote economic cooperation between Kyrgyzstan and Russia, the modernisation and development of the Kyrgyz economy, and the effective use of opportunities arising from the participation of the parties in Eurasian economic integration (Official website of the RKDF). Russia has provided the RKDF with USD 500 million in share capital and USD 500 million in borrowed capital to provide financing services for small and medium-sized enterprises in Kyrgyzstan. The lending rates under RKDF programmes are lower than general interest rates in the Kyrgyz market (Yeliseyev, 2019).

Between 2015 and 2022, the RKDF provided credit resources for 3,281 projects to the amount of USD 480 million – for direct financing: 101 large projects to the amount of USD 259 million (including guarantees for USD 9.7 million); for the programme of “lending to small and medium-sized businesses” through commercial banks and microfinance organisations of the Kyrgyz Republic: 3,180 projects worth USD 221 million. Of the total volume of loans issued, financing was provided in national currency to the amount of KGS 7,697 million (equivalent to USD 106 million) and in dollars to the amount of USD 374 million (RKDF, 2022).

In the 2021–23 period, the RKDF invested more than USD 265 million in the Kyrgyz economy. In 2023, with the support of the Fund, more than 20 large projects were launched. Altogether, 45 such projects and 82 new applications were approved. In comparison, from 2015 to 2021, 75 such projects were approved. In 2022, the RKDF began implementing megaprojects, namely the construction of the Terek Tash LLC cement plant (amount of financing: USD 45 million, investment volume: USD 160 million), the Kulanak hydroelectric power station (financing: USD 44 million, investment: USD 130 million) and the Asyltash LLC ceramic tile plant (financing: USD 25 million, investment: USD 35 million). The Fund finances eight projects for the construction of hydroelectric power stations with a total capacity of 161 megawatts. Projects in the field of food security are also being implemented. Manufacturers aided by the RKDF are already meeting 20–80% of the population's needs for essential goods. The RKDF is financing social projects as well. In 2023, five educational institutions were launched, providing places for 1,750 students. Modern medical diagnostic centres were opened in Kyzyl-Kiya and Talas, and a children's cardiac surgery clinic was opened in Bishkek (Official website of the RKDF). The RKDF plays a huge role in developing small and medium-sized enterprises, encouraging the local production of goods, and implementing a considerable number of social projects in education, health and other spheres.

3. The Economics of the Kyrgyz Republic after Accession to the EAEU

This section examines the development of the Kyrgyz Republic's economic cooperation since 2015 and some of its results, discussing economic cooperation both within the EAEU and with other countries. How has the accession of the Kyrgyz Republic to the EAEU affected the country's economic development? To answer this question, some economic indicators are analysed.

The president of the Kyrgyz Republic and the chairman of the Cabinet of Ministers point out the benefits in all spheres that the country has received from EAEU membership. Yelisseyev (2019) considers that thanks to the Union, Kyrgyzstan has improved its investment and reformed its technical regulation system. Regarding future measures, he notes that the country particularly needs to improve veterinary control, which is currently underdeveloped, and needs to establish laboratories that are capable of performing a wide variety of tests. In addition, some scholars state that accession to the EAEU has increased the country's GDP 2.3 times (Karimov, 2023).

3.1. Trade

Before 2015, Kyrgyzstan's main trade partners in exports were Germany (37% of all exported goods), Kazakhstan (17%), Russia (16%), and Uzbekistan (8%). In 1998, most imported goods were from the fuel, textile, medical, machinery and food industries. The main sources were Russia (24% of all imported goods), Uzbekistan (15%), Kazakhstan (9%), Germany (6%), China (5%), the USA (5%), Turkey (4%), South Korea (3%), and Italy (3%) (Enikeeva, 2018). Since joining the EAEU, the main trade partners have become the other countries of this integration union. During the meeting of the Supreme Eurasian Economic Council in Bishkek, President Sadyr Japarov declared that in 2022 the growth of mutual trade between Kyrgyzstan and the Eurasian Economic Union countries had increased by 30% (Kabar.kg, 2022). In the first half of 2023, the country exported goods worth more than USD 1.3 billion. At the same time, according to the National Statistical Committee of Kyrgyzstan, 48.9% of all exports were to EAEU countries. The majority (29.8%) went to Russia, where Kyrgyz producers earned about USD 390 million (Karimov, 2023).

According to the chairman of the Cabinet of Ministers of the Kyrgyz Republic, Akylbek Zhaparov, from January to November 2022, regarding mutual trade between Kyrgyzstan and the other member states of the Union, export supplies increased 1.9 times, and import receipts increased 1.2 times (Government of the Kyrgyz Republic, 2023b). The volume of mutual trade between the Kyrgyz Republic and other EAEU member states from January to December 2022 amounted to USD 4,774.1 million, an increase of 39.3% compared to 2021 (NSC KR, 2022). Almost 95% of petroleum products in the Kyrgyz market are imported from Russia (Tazabek, 2022).

Table 1: Indicators of mutual trade between the Kyrgyz Republic and other EAEU member states

	Volume of mutual trade turnover (million USD)						
	2020	2021	2021 vs. 2020 (%)	2021 share of total Kyrgyz-EAEU trade (%)	2022	2022 vs. 2021 (%)	2022 share of total Kyrgyz-EAEU trade (%)
Armenia	5.3	3.46	65.4	0.1	5.9	172.0	0.1
Belarus	47.8	74.01	154.9	2.2	111.3	150.5	2.3
Kazakhstan	809.5	1,044.03	129.0	30.5	1,181.1	113.1	24.7
Russia	1,577.2	2,304.9	146.1	67.3	3,475.7	150.8	72.8
Total	2,439.9	3,426.3	140.4	100.0	4,774.1	139.3	100.0

Source: National Statistical Committee of the Kyrgyz Republic² (2022)

The total volume of exports from the Kyrgyz Republic to other EAEU member states in 2022 amounted to USD 1,505,809.2 thousand compared to 2020's export figure of USD 554,501.3 thousand – an increase of USD 951,307.9 thousand. In the export supplies of the period under review, the largest share fell on Russia where there was an increase from 49.7% to 71.0%, while, in contrast, there was a decrease in the share of Kazakhstan (from 48.3% to 27.3%). The total volume of imports of the Kyrgyz Republic from other EAEU member states in 2022 amounted to USD 3,268,323.3 thousand compared to 2020's figure of USD 1,885,344.8 thousand – an increase of USD 1,382,978.5 thousand. Russia accounted for 73.6% of import receipts, Kazakhstan for 23.6%, Belarus for 2.7%, and Armenia for 0.1%. In the import receipts of the period under review, the largest share, as in exports, came from Russia (73.6%), where there was an increase of 1%, while there was a 1.6% decrease in the share of Kazakhstan (NSC KR, 2022).

The above analysis shows that the mutual trade between Kyrgyzstan and the other countries of the EAEU tended to a more dynamic growth of imports than exports, just like in general and throughout the Republic's foreign trade. This situation arose in connection with the import into Kyrgyzstan of significant volumes of fuel and raw materials, consumer goods and, to a slightly lesser extent, investment goods (equipment, means of production). The low competitiveness of Kyrgyzstan's manufacturing industry predetermined the nature of the Republic's participation in the modern international division of labour, where it is primarily represented as a supplier of raw materials and an importer of finished products (NSC KR, 2022). However, no significant rise in exports to EAEU

² <https://www.stat.kg/ru/>

markets in fields such as textiles or agriproducts took place, and in general, exporting remains problematic (Yeliseyeu, 2019).

The problem of mutual trade between the EAEU countries is exacerbated by the differences in the sectoral structure of the economies. Kyrgyzstan is among the agricultural countries, while Belarus, Kazakhstan and Russia are industrial. The predominant sectors in the economy of Kyrgyzstan are agriculture, hydroelectric power, mining and metallurgy (NSC KR, 2022). According to the Ministry of Economics and Commerce of the Kyrgyz Republic, in 2022 exports accounted for 19.7%, and imports for 80.3% of trade. However, some economists and specialists have stated that the trade balance of the Kyrgyz Republic since its independence has usually been negative. The volume of imported goods is traditionally higher than the volume of exported goods, and from 1994 the negative balance between imports and exports increased significantly – from USD -64.2 million to USD -334.3 million (in 1998). For much of the time since independence, the country's imports have significantly outweighed its exports. In 2015, Kyrgyzstan imported commodities totalling USD 3,937.7 million, while the value of exports was only USD 1,646.4 million (Enikeeva, 2016). This means that such a balance of trade is not due to the EAEU, but that it existed before EAEU

	2015	2016	2017	2018	2019	2020	2021	2022	2023*
Total Exports (FOB price)	1,482.9	1,573.2	1,764.3	1,836.8	1,986.1	1,973.2	2,752.2	2,254.7	3,308.9
Consumption	380.7	320.2	398.0	429.3	455.3	400.4	492.8	904.4	732.2
Raw materials	67.1	177.4	166.8	143.3	182.9	156.0	200.9	161.7	260.8
Interim goods	812.9	870.3	956.4	1,043.0	1,170.9	1,279.1	1,908.0	850.2	1,823.4
Investment goods	138.6	156.3	155.9	82.0	57.0	54.5	50.5	139.4	292.2
Energy products	83.7	49.0	87.1	139.3	120.0	83.2	100.0	199.0	200.2
Total Imports (CIF price)	4,153.9	4,000.4	4,494.7	5,291.9	4,989.0	3,718.9	5,580.2	9,803.2	12,352.0
Consumption	1,318.5	1,527.4	1,811.6	2,115.4	1,941.8	1,403.3	2,167.6	3,335.0	3,999.8
Raw materials	160.1	142.6	113.2	100.8	107.5	101.7	144.8	198.4	202.6
Interim goods	1,086.1	1,197.6	1,367.8	1,512.9	1,527.5	1,127.7	1,647.8	3,807.9	4,271.3
Investment goods	662.3	609.2	566.0	661.6	711.5	550.5	720.7	1,385.6	2,913.2
Energy products	926.9	523.6	636.2	901.2	700.7	535.6	899.3	1,076.2	965.1

Source: National Bank of the Kyrgyz Republic (n.d.)³

*Preliminary data

³ <https://www.nbkr.kg/index1.jsp?item=2007&clang=ENG>

membership. In 2016, the main trade partners of the Kyrgyz Republic were Russia, Kazakhstan, China, Switzerland, Uzbekistan and Turkey (Enikeeva, 2016). In January–August 2023, the volume of foreign trade with third countries (outside the EAEU) amounted to USD 6.7 billion and increased by 52.6% compared to the same period in 2022 (Ministry of Economics of the Kyrgyz Republic, 2023). In Table 2 opposite, it can be seen that exports and imports have been increasing since the accession of the Kyrgyz Republic to the EAEU; however, imports are much greater than exports, export volumes increasing 2.2 times, and imports 2.9 times (Azattyk, 2024). During the meeting of the Supreme Eurasian Economic Council in Moscow on 8 May 2024, President Japarov stated, 'Since joining the EAEU, Kyrgyzstan's foreign trade turnover has increased from USD 5.6 billion to USD 15.7 billion, an increase of 2.8 times' (Tazabek, 2024).

At the aforementioned meeting of the Supreme Eurasian Economic Council, President Japarov noted that the volume of exports from the Kyrgyz Republic to other EAEU countries remains high. Excluding gold exports, 80% of Kyrgyzstan's exports go to the EAEU. The export of goods such as textiles, clothing, footwear, and plastic and stone products is also increasing. In 2023, mutual trade in goods between the Kyrgyz Republic and the other EAEU members grew by 34.8% in the space of nine months (Akipress, 2024).

3.2. Customs

For 2022, Kyrgyzstan transferred import customs duties to other EAEU member states totalling KGS 20,116.9 million (equivalent to USD 245,328), while the country's budget received KGS 16,248.2 million (equivalent to USD 198,148) from the other member states. If we compare these statistics with 2015 figures, we see a four to five times increase in customs duties. The increase in the volume of customs duties collected by the Kyrgyz Republic was primarily influenced by the improved administration of customs duties by the customs service and an increase in the volume of trade turnover with partner countries (Government of the Kyrgyz Republic, 2023a).

	Transferred to other EAEU member states	Received from other EAEU member states
2015	2,962.8 (USD 50,217*)	3,522.0 (USD 59,695*)
2022	20,116.9 (USD 245,328**)	16,248.2 (USD 198,148**)

Note: *2015 currency exchange rate = 59 KGS to 1 USD. **2022 currency exchange rate = 82 KGS to 1 USD.

Source: Government of the Kyrgyz Republic (2023a)

Akylbek Zhaparov declared that thanks to new approaches to tax and customs administration, including the use of digital technologies, the Kyrgyz government managed to increase tax receipts by 51% and customs payments by 58.2%. The total tax revenues of the state budget increased by more than 50% (Gov.kg, 2023). In the first half of 2023, compared to the corresponding period of the

previous year, the Eurasian Economic Commission (EEC) reported that tax revenues in Armenia, Kazakhstan and Kyrgyzstan increased by 19.1%, 25.5% and 26.4% respectively (Kabar.kg, 2023). Such positive results in the customs and tax spheres were achieved thanks to the participation of Kyrgyzstan in the EAEU and its reforms in these spheres.

3.3. FDI

The majority of foreign direct investment in Kyrgyzstan comes from the other EAEU countries. According to estimates by the National Statistical Committee of the Kyrgyz Republic (NSC KR), in 2023 the Union accounted for over 34% of the total volume of such capital investments (Karimov, 2023).

According to the NSC KR, the influx of foreign direct investment in 2019 amounted to USD 1,076.92 million, a 26.4% increase compared to 2018. According to the Ministry of Economics of the Kyrgyz Republic, in that year FDI inflow exceeded outflow by USD 403.87 million (in 2018 this difference was USD 144 million) (Ministry of Economics of the Kyrgyz Republic, 2023).

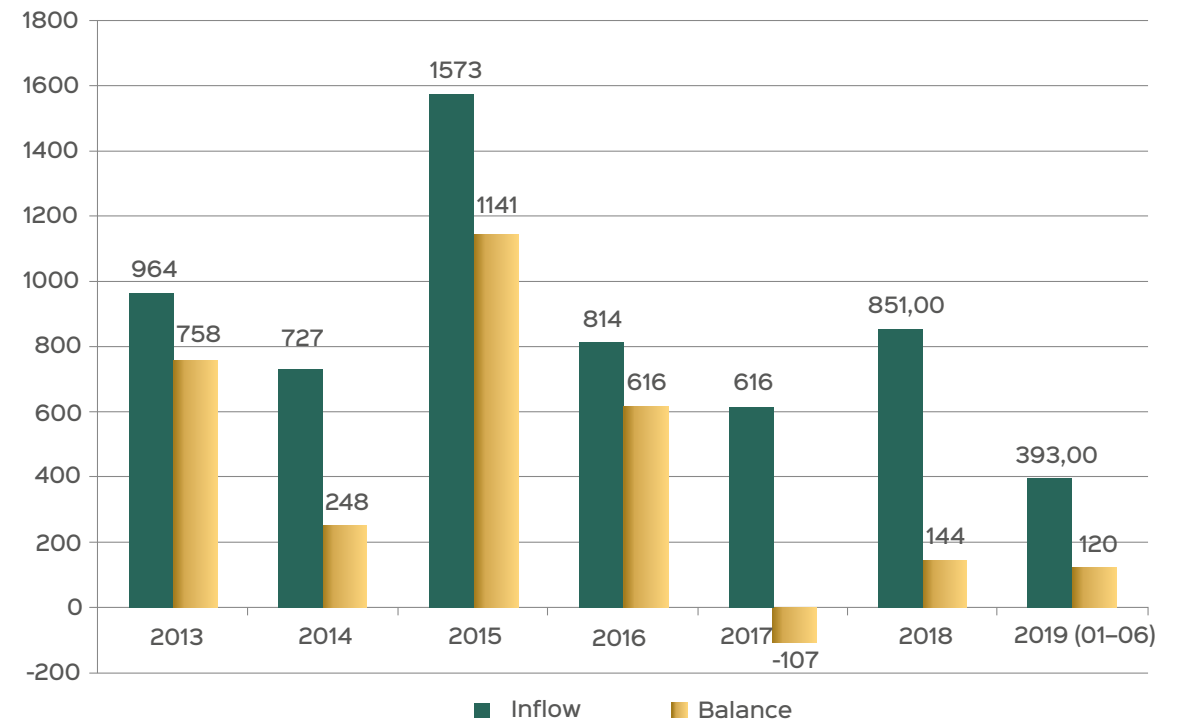
	2014	2015	2016	2017	2018	2019
Inflow FDI	727	1,573	814	616	851	1,076.92
Outflow FDI	479	432	198	723	707	673.05
Balance	+248	+1,141	+616	-107	+144	+403.87

Source: Ministry of Economics of the Kyrgyz Republic (2023)

In Figure 1, we see a significant increase in FDI in 2015, following the accession of Kyrgyzstan to the EAEU. The influx of foreign direct investment into Kyrgyzstan increased by 2.2 times in 2015 – to USD 1.57 billion (NSC KR, 2016). The updated FDI indicators turned out to be almost two times higher than the preliminary data of the NSC. The largest volume of FDI in 2015 came from Russia (USD 515.5 million, an 8.5-times increase), China (USD 474.4 million, a 2.1-times increase), UK (USD 189.5 million, a 3.6-times increase), Canada (USD 130.25 million, a 29% decline), and Turkey (USD 111.1 million, a 3.6-times increase) (Akchabar, 2016).

In 2019, of all 50 of the entities from which FDI originated, the largest volume of investments were from the following countries: China (USD 338.05 million, share of total FDI: 31.4%, FDI receipts unchanged compared to 2018); Canada (USD 259.24 million, share of total FDI: 24.1%, FDI receipts up by 163.4% compared to 2018); Switzerland (USD 103.26 million, share of total FDI: 9.6%, FDI receipts up by 433.6% compared to 2018); Turkey (USD 94.57 million, share of total FDI: 8.8%, FDI receipts down by 1.2% compared to 2018); UK (USD 73.2 million, share of total FDI: 6.8%, FDI receipts up by 166.8% compared to 2018); Netherlands (USD 61.43 million, share

Figure 1: FDI, 2014–19 (thousand USD)



Source: Ministry of Economics of the Kyrgyz Republic (2023)

of total FDI: 5.7%, FDI receipts up by 7.2% compared to 2018); Russia (USD 38.22 million, share of total FDI: 3.9%, FDI receipts down by 69.3% compared to 2018); Kazakhstan (USD 38.14 million, share of total FDI: 3.5%, FDI receipts up by 29.5% compared to 2018) (Ministry of Economics of the Kyrgyz Republic, 2023).

In 2023, we see two EAEU members among the main investors, but previously Russia was not among the main investors. The deputy director of the Kyrgyz National Investment Agency, Zhibek Abdullayeva, announced that the influx of foreign direct investment into Kyrgyzstan for the first nine months of 2023 amounted to USD 654.6 million. She added that while the previous year's investments mainly came from Turkey, China and Russia, in 2023 the top three were China (USD 157.8 million), Russia (USD 131.7 million), and Kazakhstan (USD 54.9 million). The influx of foreign direct investment chiefly went to mining, light industry, trade, agriculture and communications (Kudryavceva, 2023).

Positive trends are observed in different spheres. Regarding 2022, Akylbek Zhaparov stated that positive trends were observable in construction, where the increase in volumes was 8%, and in agriculture (7.3%), as well as in wholesale and the retail trade (7.5%). At the end of 2022, economic growth amounted to 7%, and the volume of industrial production increased by 11.4%. He stated that in 2022, for the first time, the Kyrgyz Republic transferred KGS 4 billion more to the general budget of the Eurasian Economic Union than it received (Government of the Kyrgyz Republic, 2023b).

In January–October 2023, Kyrgyz industrial production increased by 1.2%, agricultural production by 0.1%, the volume of construction work performed by 26.6%, cargo turnover by 8.0%, passenger turnover by 7.7%, and retail trade turnover by 7.2% (Statistics EAEU, 2023). In 2015, Kyrgyzstan's GDP was USD 6.6 billion; by the end of 2021, it had reached USD 8.5 billion (Tazabek, 2022); 2023 GDP was USD 12.78 billion and in 2024 it was USD 13.6 billion (Statista, 2024). An increase in GDP is also considered as a positive effect of Kyrgyzstan's participation in the EAEU.

According to the Eurasian Economic Commission, in January–September 2023 the highest growth rates of wages in EAEU countries were recorded in Armenia (113.4%), Kyrgyzstan (110.7%), and Belarus (110.1%). Kyrgyzstan remained in last place in terms of wages among all five EAEU countries. The January–September 2023 ranking of EAEU states by salary level was as follows: Russia (USD 857), Kazakhstan (USD 774), Armenia (USD 676), Belarus (USD 628), Kyrgyzstan (USD 367) (24.kg, 2023b). The poverty rate in Kyrgyzstan fell from 32% in 2015 to 25% in 2021 (Tazabek, 2022).

Despite all the positive impacts, participation in the EAEU also features negative sides for the Kyrgyz Republic. The EAEU remains to this day an ineffective instrument in terms of economic cooperation and integration, and even after eight years, the hopes for it have still not been fulfilled. For instance, the problem of freight transportation under the EAEU remains a severe issue for the Kyrgyz Republic. Kyrgyz trade encounters regular difficulties on its border with Kazakhstan. Kyrgyzstan has repeatedly accused its northern neighbour of creating an artificial obstacle to the export of Kyrgyz products, of violating EAEU rules regarding the inspection of goods at the border, and even of the unfairness of the Kazakh Border Service and State Revenue Committee (Aidarkhanova, 2023).

The deputy chairman of the Association of International Freight Carriers of Kyrgyzstan, Igor Golubev, indicated one of the main problems in the EAEU, noting that on the Kyrgyz–Kazakh border, the inspection of shipments can last for up to three weeks. Such inspections by Kazakhstan were recognised by the Eurasian Economic Commission as being a barrier, but it advised that the issue be solved bilaterally (Kaktus Media, 2024). Golubev added that Russia was also conducting customs control on the Kazakh–Russian border and that road freight vehicles were detained in the Russian Federation. These are internal borders of the EAEU and they should only be manned by border guards. However, also present is the Federal Customs Service of the Russian Federation, which carries out the inspection of trucks from Kyrgyzstan. A problem also occurred on the Belarusian–Russian border when carriers who were neither Russian nor Belarusian were prohibited from crossing, and a special checkpoint was designated for vehicles from Kyrgyzstan. Concerning this issue, during the meeting of the Supreme Eurasian Economic Council in Moscow, President Japarov asked the heads of the other EAEU member states to work harder to remove infrastructure restrictions and legislative barriers, and to synchronise the operations of their regulatory authorities to ensure faster transportation (Azattyk, 2024).

4. Conclusions

The first years of the participation of the Kyrgyz Republic in the Eurasian Economic Union were difficult for the country and had mixed results in economic fields. At that time, Kyrgyzstan was not ready to be part of the EAEU; however it was forced into membership. Most of the representatives of Kyrgyz business and agriculture, who export goods and products to other EAEU members, have accused the Union of serving only the large states like Russia and Kazakhstan. They have faced many problems involving exports, such as unfair border inspections, long transport queues at the Kyrgyz–Kazakh border crossing points, and bans on the export of certain goods to Russia due to veterinary and other controls. However, goods from Russia and other EAEU countries have been imported to Kyrgyzstan without any problems. Small states have suffered from being part of the EAEU, and nowadays, some of the problems still remain.

Despite the foregoing, positive developments are occurring through significant changes in the legislative framework, mutual trade, technical regulation and the modernisation of the customs sector. Positive changes can be witnessed in FDI, in the improvement of the rights of migrant workers in other EAEU countries, as shown by the increase in remittances to Kyrgyzstan, and in the development of local production and small and medium-sized enterprises with the support of the Russian–Kyrgyz Development Fund. The growth of GDP, migrants' remittances (which make up around 25% of GDP), and exports, as well as a decrease in poverty are the positive sides of Kyrgyzstan's accession to the EAEU.

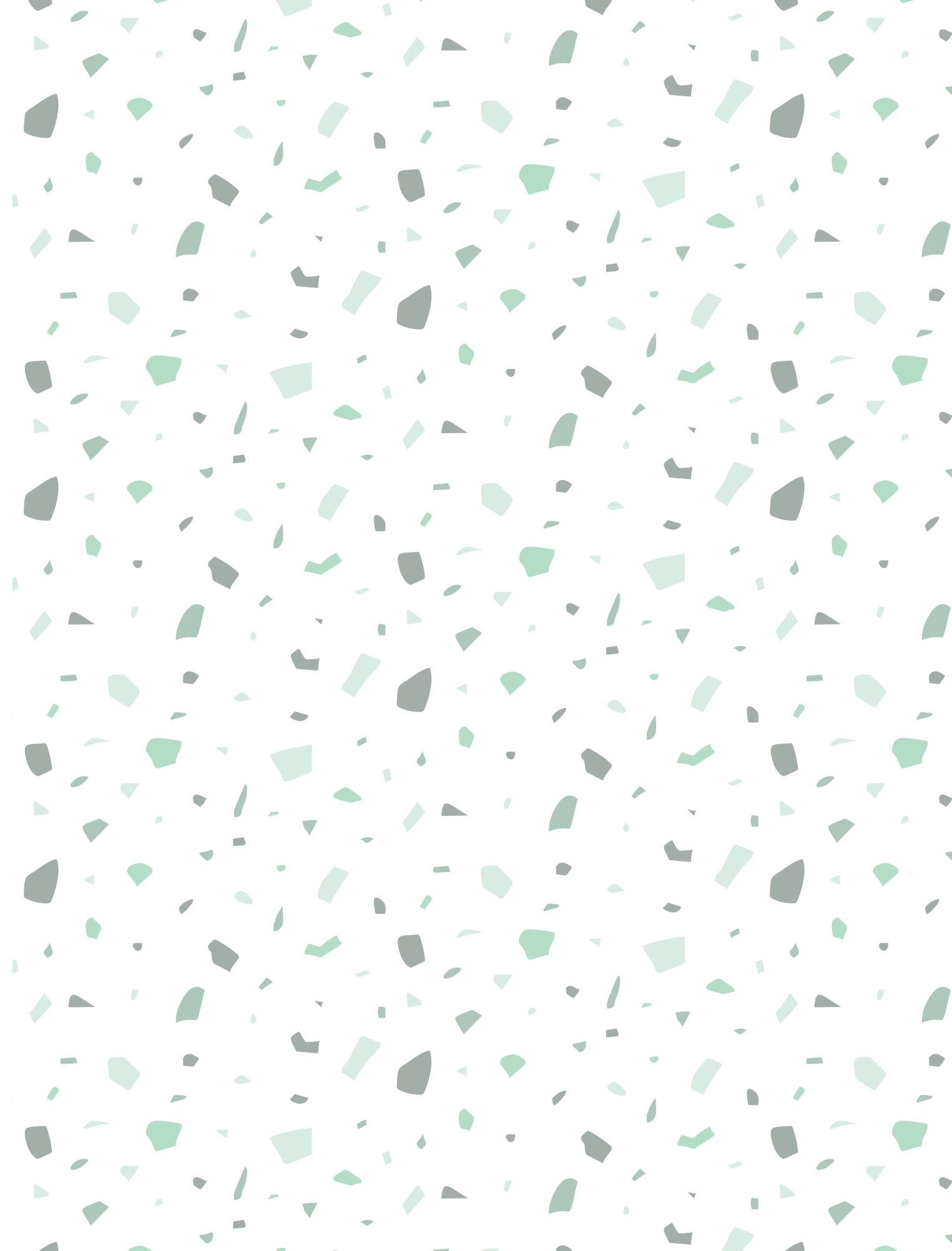
Regarding negative effects, we can mention an increase in imports, the fact that there is a disparity between the official stance and the reality concerning Kyrgyz migrants' rights in Russia, and Kyrgyzstan's difficulties in exporting its products to other EAEU countries; what's more, it must not be forgotten that Kyrgyzstan did not have the choice to join or not join the Union. Furthermore, Kyrgyzstan depends greatly on Russian energy resources and trade, and in addition to this, millions of Kyrgyz citizens work in Russia, and the Republic's economy is heavily dependent on their remittances.

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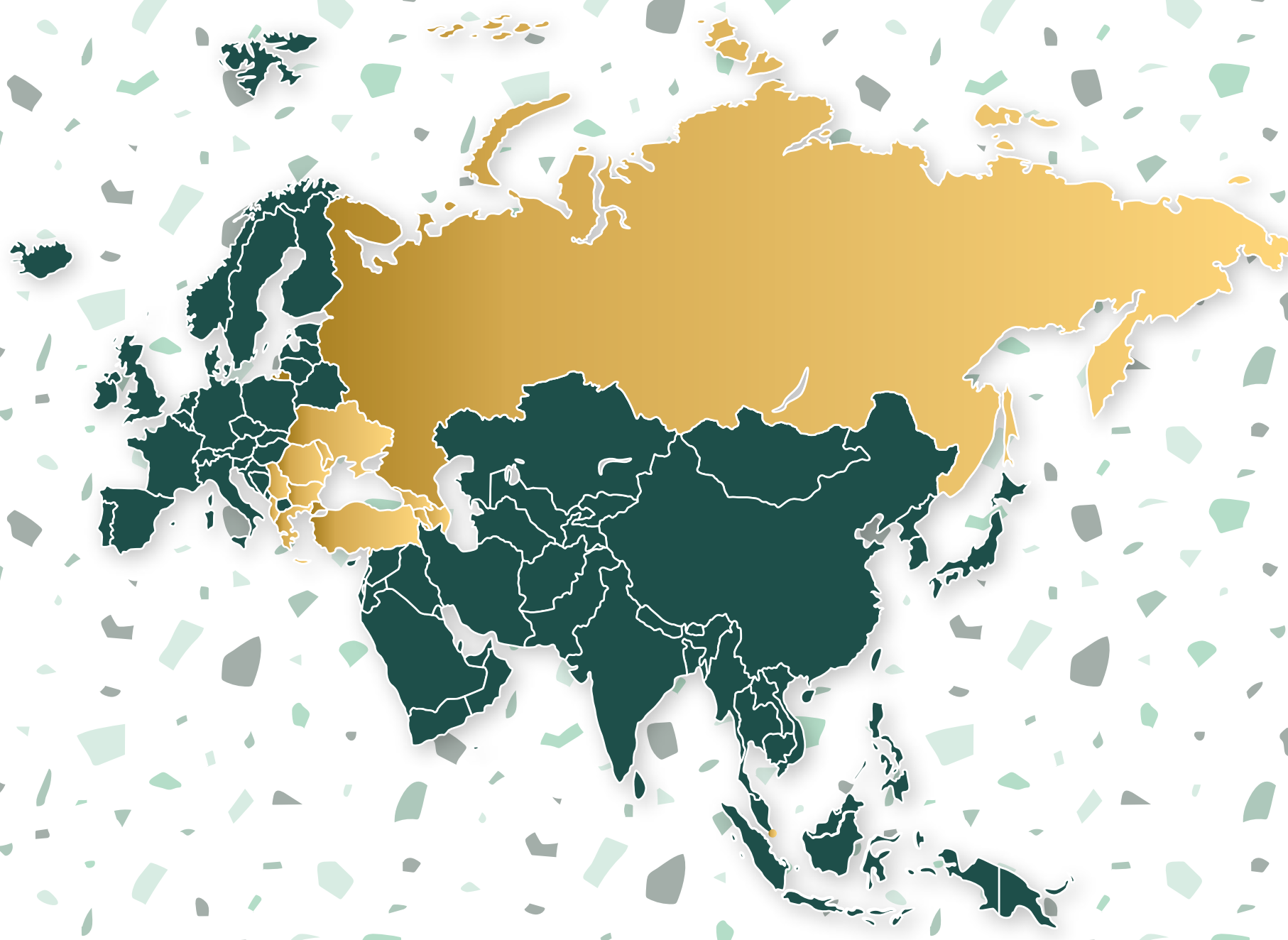
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IV
MIDDLE EAST AND
ISLAMIC WORLD
COLUMN



TURGET
KEREM TUNCEL

Türkiye's Multilateral Initiatives
and Bilateral Relations
in the Black Sea Region:
Good Intentions, Limited Results



TÜRKİYE'S MULTILATERAL INITIATIVES AND BILATERAL RELATIONS IN THE BLACK SEA REGION: GOOD INTENTIONS, LIMITED RESULTS

TURGET KEREM TUNCEL¹

Abstract

Since its foundation, threat perceptions and security concerns have been the main factors to shape Türkiye's outlook on the Black Sea. Following the collapse of the Soviet Union, Ankara endeavoured to preserve stability by instituting regional cooperation through multilateral mechanisms. Ankara also sought to enhance bilateral relations with countries in the region. It hoped for the emergence of a sense of regional ownership among the regional countries. Arguably, it also aspired to achieve regional leadership status. The developments of the last 15 years, however, have negated Ankara's objectives. This is largely a result of the wider geopolitical dynamics, which Türkiye has no control over. Yet Türkiye's own regional ventures have not proved fully potent either. The multilateral regional mechanisms have been effective to only a certain extent. Türkiye's bilateral economic and trade relations with the Black Sea countries have remained uneven. Türkiye's risky energy dependency on the Russian Federation is arguably its biggest strategic fault in the region.

Keywords: Black Sea, Türkiye, multilateral mechanisms, bilateral relations, trade, stability

1. Introduction

The Black Sea Region was a margin between the Western and Eastern blocs throughout the Cold War. Only with the collapse of the Soviet Union did the region cease to be a frontier. Yet first with the Russo–Georgian War of August 2008 and then with the occupation and illegal annexation of Crimea by the Russian Federation (RF) in February–March 2014, the Black Sea once again began to transform into a frontier, this time, between the RF and the West. The ongoing Russo–Ukrainian War has accelerated this process. In this context, as a regional power, a NATO member country, and the gatekeeper of the Black Sea by virtue of the 1936 Montreux Convention,² Türkiye's attitude, behaviour and policies regarding the war and the Black Sea Region in general are put under the spotlight. Ankara's relations with Kyiv and Moscow, its insistence on keeping up political and economic relations with the latter, and its resolve to uncompromisingly implement the 1936 Montreux Convention have often become the target of critical remarks from Western politicians and analysts.

Though intensely debated, Türkiye's post-February 2022 regional policies were not unanticipated. Quite the reverse is true, in fact: Türkiye's recent policies are the corollaries of its traditional Black Sea policy. Since the times of the Cold War, concerned about being dragged into a conflict between the West and the Soviet Union/RF, Ankara has striven to secure stability and keep the Black Sea a military conflict-free zone. In line with this policy, it has fastened onto the 1936 Montreux Convention that regulates the peacetime and wartime passage of civilian ships and vessels of war into and out of the Black Sea through the Turkish Straits. Disagreements and distrust that from time to time arise between Türkiye and its Western allies, in particular the USA, have also reinforced Ankara's resolve to keep non-littoral powers out of the Black Sea and, as a way to do that, to stick to the Convention. This stance has helped the development of a shared Turkish and Russian vision of a regional order that excludes non-regional actors. Pursuing the same objective of avoiding instability following the collapse of the Soviet Union, Türkiye immediately initiated the Organization of the Black Sea Economic Cooperation (BSEC) in 1992 to procure regional stability by instituting economic cooperation among the countries of the region. Ankara pursued the same goal of regional cooperation in later years as well. When the USA's plans to have a stronger presence in the Black Sea became manifest by the 2000s, in order to forestall American arguments about security in the Black Sea, Türkiye began to put more effort into developing regional cooperation mechanisms. Consequently, Ankara initiated the Black Sea Naval Cooperation Task Group (BLACKSEAFOR) in 2001 (Ministry of Foreign Affairs of the Republic of Türkiye, 2022b) and the Black Sea Harmony operation in 2004 (Türkiye Cumhuriyeti Millî Savunma Bakanlığı Deniz Kuvvetleri Komutanlığı, 2024). Türkiye also joined the Black Sea Synergy initiative that was created by the EU in 2007 (European Union External Action, 2021).

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² For the full text of the Montreux Convention, see Ministry of Foreign Affairs of the Republic of Türkiye (2022a).

Türkiye's Black Sea policy was not only limited to instituting regional multilateral mechanisms. It also strove to develop bilateral political and economic relations with the other Black Sea countries. In brief, by initiating multilateral regional mechanisms and developing bilateral relations, Türkiye sought to cultivate economic and trade relations in the Black Sea Region, anticipating that such relations would translate into political cooperation and regional stability. Ankara also expected the multilateral and bilateral relations in the region to assist the emergence of a sense of regional ownership among the countries of the region. From Türkiye's point of view, regional cooperation, stability and ownership would erect a barrier against destabilising interventions from outside forces. Arguably, Ankara also hoped to achieve regional leadership status through initiating regional mechanisms and developing bilateral relations. However, developments in the region since the late 2000s – which are largely the consequences of wider geopolitical dynamics that are out of Türkiye's control – have been challenging Ankara's objectives in the Black Sea. With the 2008 Russo–Georgian War, Russia's occupation and illegal annexation of Crimea in 2014, the eruption of the Donbas conflict in Ukraine in April of the same year, and finally the outbreak of the Russo-Ukrainian War in 2022, regional stability was dramatically unsettled. These developments resulted in political polarisation, which impeded the prospect of all-encompassing regional cooperation. In addition to this, the debates on US/NATO presence in the Black Sea further reveal the erosion of the understanding of regional ownership.

Against this background, this study aims to take a closer look at Türkiye's ventures in the Black Sea Region. First, it summarises the outcomes of Türkiye's regional initiatives, more specifically, the results of the multilateral regional platforms that Türkiye instigated, namely the BSEC, BLACKSEAFOR and Black Sea Harmony. Following that, the paper examines Türkiye's bilateral relations with the other Black Sea countries. In this part, the focus is exclusively on trade relations, as these have been one of Türkiye's main foreign policy tools and objectives in the region. The analysis shows that Türkiye's multilateral initiatives in the Black Sea Region have brought the desired results to only a limited extent. At the bilateral level, Türkiye's trade relations with the other Black Sea countries are uneven and, except for with the RF, they remain relatively limited. The macroeconomic data indicates that economic conditions in the region do not promise a breakthrough in this sphere either. Besides that, the data shows that Türkiye has established a very risky energy relationship with the RF.

2. The Black Sea Economic Cooperation: A Timely Initiative with Good Intentions, but Poor Results

At Türkiye's initiative, the Black Sea Economic Cooperation was created in 1992 as a multilateral mechanism involving Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, North Macedonia, Romania, the RF, Serbia, Türkiye and Ukraine.³ By this initiative, Türkiye sought to foster economic and trade relations in the Wider Black Sea Region in order to secure political cooperation and regional stability.⁴ As can be seen, while initiating the BSEC, Türkiye held on to liberal logic which anticipated that economic and trade relations would translate into peace and stability⁵ – in other words, the expansion of economic and trade relations underpinned Ankara's strategic outlook on the BSEC. Therefore, to assess Türkiye's success in achieving its objectives, it should be examined whether or not the BSEC provided the expected results in economic and trade relations.

As Figure 1 shows, although the total trade of the Black Sea Trade and Development Bank (BSTDB)⁶ member countries – 11 out of the 13 BSEC countries, excluding North Macedonia and Serbia – significantly increased between 2001 and 2019, neither trade among these countries nor its share in total trade scored a significant rise, even if there was no decline.⁷ As shown in Figure 2, the BSTDB's 2021 Annual Report reveals that between 2012 and 2016 the share of BSTDB intraregional trade in BSTDB global trade fell dramatically and subsequently remained fairly low.⁸ These figures indicate that despite the increasing trade volumes of the member countries, the BSEC mechanism has not enhanced trade relations among the member countries, as hoped.

3 For the BSEC's official website, visit <https://www.bsec-organization.org/>. In 1993, the Parliamentary Assembly of the Black Sea Economic Cooperation (PABSEC) was established by Albania, Armenia, Azerbaijan, Georgia, Moldova, Romania, the RF, Türkiye and Ukraine. Later, Bulgaria, Greece, North Macedonia and Serbia joined the Assembly. For PABSEC's official website, visit <https://www.pabsec.org/>. To promote economic integration, BSEC instituted the BSEC Project Development Fund (<http://www.bsec-organization.org/development-fund>) and the Black Sea Trade and Development Bank (BSTDB). The BSEC countries – except for North Macedonia and Serbia – are members of the BSTDB. For the BSTDB's official website, visit <https://www.bstdb.org/>.

4 For an "official" assessment of the BSEC penned by a senior Turkish diplomat, see Apakan (2022).

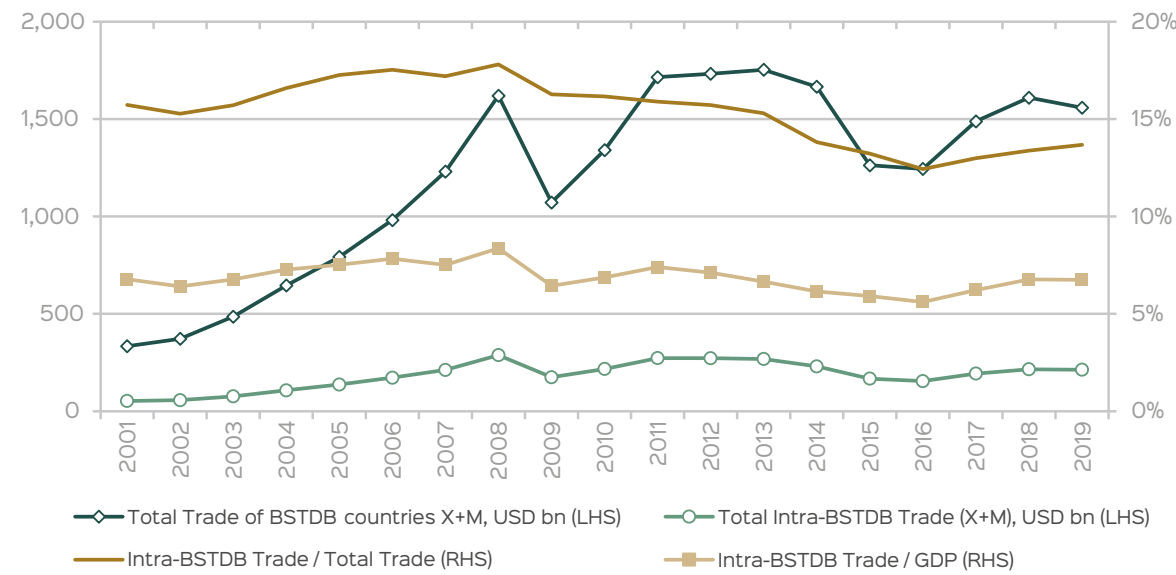
5 Liberal international relations theorists maintain that economic interdependence decreases profitability and, hence, the possibility of conflict and war among states. However, this liberal argument is criticised by those who assert that economic interdependence is just one factor among others that determine inter-state relations. Realists in particular argue that economic interdependence may, indeed, increase the likelihood of war.

6 'The Black Sea Trade and Development Bank is an international financial institution with supranational status and a mandate to foster economic growth and regional cooperation amongst its Member States in the Black Sea Region' (Black Sea Trade and Development Bank, 2024).

7 Having said that, it also has to be noted that in 2015 and 2016 the BSTDB won Capital Finance International's "Best Regional Development Bank" Global Award (Black Sea Trade and Development Bank, 2016).

8 This article uses longitudinal data to discover the trends in trade relations. However, because the Russo–Ukrainian War has had dramatic effects on regional relations and this process is still ongoing, the most recent data used belongs to the year 2021.

Figure 1: Overall and intraregional trade of BSTDB member countries, 2001–2019



Source: Black Sea Trade and Development Bank (2020)

Figure 2: BSTDB intraregional trade, share to BSTDB global trade, 2000–2021



Source: Black Sea Trade and Development Bank (2022)

Looking specifically at Türkiye’s trade with the other BSEC countries, as Tables 1 and 2 demonstrate, the level of mutual trade did not significantly change between 2013 and 2021, remaining arguably low. The share of Türkiye’s imports from other BSEC countries – except for the RF – remains small. In brief, the data shows that the BSEC has not been an effective mechanism either for the region as a whole or for Türkiye in particular.

Table 1: Türkiye's exports to BSEC countries, 2013–2021 (general trade system) (Value: thousand USD)									
	2013	2014	2015	2016	2017	2018	2019	2020	2021
BSEC countries	21,720,311	20,789,901	15,425,925	13,800,648	16,580,157	19,390,352	20,446,305	20,301,135	27,699,352
BSEC countries without the RF	14,506,417	14,619,449	11,741,662	12,007,732	13,710,310	15,737,749	16,294,168	15,794,454	21,924,960
Total exports	161,480,915	166,504,862	150,982,114	149,246,999	164,494,619	177,168,756	180,832,722	225,214,458	254,169,748
% BSEC countries	13.5	12.5	10.2	9.2	10.1	10.9	11.3	9	10.9
% BSEC countries without the RF	9	8.8	7.8	8	8.3	8.9	9	7	8.6

Source: Author's own elaboration based on statistics from Türkiye İstatistik Kurumu⁹

Table 2: Türkiye's imports from BSEC countries, 2013–2021 (general trade system) (Value: thousand USD)									
	2013	2014	2015	2016	2017	2018	2019	2020	2021
BSEC countries	42,713,347	41,995,651	32,397,418	25,023,971	31,627,320	34,075,764	33,881,585	28,044,303	43,741,733
BSEC countries without the RF	16,666,806	16,583,951	11,653,368	9,556,734	11,530,293	11,365,013	10,766,349	10,214,994	14,782,372
Total imports	260,822,803	251,142,429	213,619,211	202,189,242	238,715,128	231,152,483	210,345,203	219,516,807	271,425,553
% BSEC countries	16.4	16.7	15.2	12.4	13.2	14.7	16.1	12.8	16.1
% BSEC countries without the RF	6.4	6.6	5.5	4.7	4.8	4.9	5.1	4.7	5.5

Source: Author's own elaboration based on statistics from Türkiye İstatistik Kurumu

⁹ In 2013, Türkiye İstatistik Kurumu (the Turkish Statistical Institute) began publishing trade figures using the general trade concept. General trade figures are larger than special trade figures because they include certain trade flows through customs warehouses and free zones that the latter excludes.

3. Türkiye's Other Multilateral Initiatives in the Black Sea Region: Mixed Success

Besides the BSEC, Türkiye has also launched other multilateral mechanisms in the Wider Black Sea Region – with the same objectives of stability and security. Some of its initiatives, on the other hand, were not realised. When the Second Chechen War broke out in August 1999, Türkiye proposed the idea of a “Caucasus Stability Pact” involving Armenia, Azerbaijan, Georgia, Iran, the RF and Türkiye. After the 2008 Russo–Georgian War, Türkiye once again suggested the creation of the “Caucasus Stability and Cooperation Pact” encompassing the same countries except Iran. Both schemes, however, came to nothing. Very similar to these two proposals, only a month after the end of the Second Karabakh War between Armenia and Azerbaijan in 2020, Turkish President Recep Tayyip Erdoğan voiced the idea of a “3+3 Format” for regional cooperation between Armenia, Azerbaijan, Georgia, Iran, the RF and Türkiye. Nonetheless, Georgia refuses to be a part of this platform, stressing that since the 2008 Russo–Georgian War 20% of its territory has been under occupation and that Moscow provides diplomatic recognition to the breakaway regions of Abkhazia and South Ossetia. Armenia, on the other hand, has a lukewarm and ambiguous attitude towards this idea. As of December 2024, three “3+3 Format” meetings have been held: in December 2021, October 2023 and October 2024, all without Georgia’s participation. For the time being, it is yet to be seen whether the “3+3 Format” will be consolidated.

Türkiye’s other initiatives, however, were actually realised – and they proved to be relatively effective, although encountering problems in sustainability. Türkiye initiated the Black Sea Naval Cooperation Task Group in 2001 to facilitate maritime cooperation among Bulgaria, Georgia, Romania, the RF, Türkiye and Ukraine. In 2004, Türkiye also launched Black Sea Harmony, in which Romania, the RF and Ukraine also participate. However, after the 2008 Russo–Georgian War, Georgia suspended its participation in the naval drills within the BLACKSEAFOR framework. Since then, Georgia, has in general been averse to participating in joint naval drills with the RF. Following the occupation and illegal annexation of Crimea, Ukraine criticised these initiatives for not being functional in enhancing security and *de facto* halted its participation in these mechanisms. After the fighter jet crisis between Türkiye and the RF in November 2015,¹⁰ the latter suspended its BLACKSEAFOR membership. It should also be noted in that in January 2024, Bulgaria, Romania and Türkiye formed a task group to clear floating mines in the Black Sea. Importantly, because of Türkiye’s insistence on keeping non-littoral powers out of the Black Sea, this task force will only be open to Black Sea littoral states (Kucukgocmen & Hayatsever, 2024).

¹⁰ On 24 November 2015, Turkish F-16 fighter jets shot down a Russian Su-24 bomber that had violated Turkish airspace on the Turkish–Syrian border. Following this incident, Turkish–Russian relations were significantly strained and Moscow imposed economic measures against Ankara. In June 2016, the Kremlin announced that Türkiye had apologised for the incident. Subsequently, Turkish–Russian relations returned to a more constructive track.

4. Türkiye's Bilateral Trade Relations in the Black Sea Region

The above review shows that Türkiye’s multilateral initiatives have been successful only on a limited scale. Nevertheless, in addition to multilateral initiatives, Türkiye has also developed bilateral relations with the other countries of the region. In line with that, between 2010 and 2018, Ankara signed declarations on the formation of High-Level Strategic Cooperation Councils with the other Black Sea countries, raising the bilateral relation to a strategic partnership.¹¹ Be that as it may, the formation of strategic partnerships has to a great, though varying, extent remained only declarative and without any real strategic substance, and trade has continued to be the primary ground for Türkiye’s relations with the Black Sea countries.

Table 3: Black Sea countries' share in Türkiye's total trade, 2013–2021 (Value: %)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2013–2021 average
Bulgaria	1.17	1.21	1.13	1.32	1.42	1.31	1.19	1.22	1.31	1.25
Georgia	0.39	0.45	0.42	0.44	0.39	0.42	0.47	0.38	0.44	0.42
Moldova	0.13	0.14	0.12	0.13	0.13	0.12	0.16	0.13	0.17	0.14
Romania	1.54	1.56	1.55	1.48	1.47	1.68	1.75	1.88	1.59	1.61
RF	7.86	7.56	3.96	4.91	5.7	6.46	6.97	5.74	6.99	6.24
Ukraine	1.66	1.47	1.29	1.12	1.10	1.10	1.25	1.20	1.49	1.29
Total	12.75	12.39	8.47	9.4	10.21	11.09	11.79	10.55	11.99	10.96
Total without RF	4.89	4.83	4.51	4.49	4.51	4.63	4.82	4.81	5	4.72

Source: Author's own elaboration based on statistics from Türkiye İstatistik Kurumu

Table 3 shows that between 2013 and 2021, the share of the other six Black Sea countries in Türkiye’s trade was on average 10.96%. This could be regarded as a fair share. However, it should be underlined that 56% of this share was trade with the RF. Except for the year 2015, the RF’s share was higher than the total share of the other five countries combined. Without the RF, the average total share of Bulgaria, Georgia, Moldova, Romania and Ukraine was lower than 5%. Looking at Türkiye’s top trade partners, according to 2023 figures, the RF and Ukraine are among the top 20 exporters to Türkiye, whereas, in addition to the RF and Ukraine, Bulgaria and Romania are also in the top 20 markets for Turkish exports. It should also be stressed that while the RF is the number one exporter to Türkiye and the sixth biggest importer from the country, Bulgaria, Romania and Ukraine are in the bottom half of the top 20 trade partners list (Türkiye İstatistik Kurumu, n.d.). These figures

¹¹ Türkiye signed declarations with the RF in 2010, Romania in 2011, Ukraine in 2011, Bulgaria in 2012, Georgia in 2014, and Moldova in 2018.

reveal the far greater significance of the RF as a trade partner compared to other Black Sea countries, though Bulgaria, Romania and Ukraine are also relatively significant trade partners.

Given this condition, an important question that could be asked concerns the possibility of the growth of trade and economic relations in the coming years. This question could be answered with the help of the macroeconomic data shown in Tables 4 to 7. The average annual GDP growth rates of the Black Sea countries have been fluctuant over the years. The Russo–Ukrainian crisis in 2014 was a region-specific reason for this fluctuation. The worldwide financial crisis of 2007–08 and the Covid-19 pandemic in 2019–20, on the other hand, were the extra-regional reasons for the oscillation. A comparative examination of the average annual GDP growth rates of the Black Sea countries reveals that whereas in 2009, 2014, 2015 and 2021, economic growth remained lower than the world average, with the exception of the year 2020, the Black Sea countries have performed better than the European Union and the world average since 2016. The RF's annual GDP growth rate, on the other hand, dropped sharply in 2013, and it has remained significantly lower than the average for both the Black Sea countries and the world. In recent years, the best records of annual GDP growth rate have been achieved by Georgia, Moldova and Romania.

Table 4: Annual GDP growth of the Black Sea countries, 2009–2021 (Value: %)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Bulgaria	-3.3	1.6	2.1	0.7	-0.5	0.9	3.4	3	2.7	2.7	4	-4	7.7
Georgia	-3.7	6.2	7.4	6.4	3.6	4.4	3	2.9	4.8	4.8	5	-6.8	10.5
Moldova	-6	7.1	5.8	-0.6	9	5	-0.3	4.6	4.2	4.1	3.6	-8.3	13.9
Romania	-5.5	-3.9	4.5	1.9	0.3	4.1	3.2	2.9	8.2	6	3.9	-3.7	5.7
RF	-7.8	4.5	4.3	4	1.8	4.1	-2	0.2	1.8	2.8	2.2	-2.7	5.6
Türkiye	-4.8	8.4	11.2	4.8	8.5	4.9	6.1	3.3	7.5	3	0.8	1.9	11.4
Ukraine	-15.1	4.1	5.4	0.2	0	-10.1	-9.8	2.4	2.4	3.5	3.2	-3.8	3.4
Black Sea countries average	-6.6	4	5.8	2.5	3.2	1.9	-0.5	2.8	4.5	3.8	3.2	-3.9	8.3
Black Sea countries average without Türkiye	-6.9	3.2	4.92	2.1	2.3	1.4	-0.4	2.7	4	3.9	3.7	-4.9	7.8
Black Sea countries average without Türkiye and the RF	-6.7	3	5	1.72	2.5	0.9	-0.1	3.16	4.46	4.22	3.94	-5.32	8.18
Central Europe and the Baltics	-3.5	1.4	3.5	0.8	0.7	3.2	4	2.7	5.1	4.9	3.9	-3.4	6.5
European Union	-4.3	2.2	1.9	-0.7	-0.1	1.6	2.3	2	2.8	2.1	1.8	-5.7	6
World	-1.4	4.5	3.3	2.7	2.8	3.1	3.1	2.8	3.4	3.3	2.6	-3.1	6.2

Source: Author's own elaboration based on data from World Bank¹²

12 https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2021&locations=BG-RO-MD-GE-UA-RU-TR&name_desc=false&start=2009&view=chart&year=2019

Despite the foregoing, the annual GDP growth rates have neither changed the economic balances in the Black Sea Region nor caused a significant rise in the ranking of the countries of the region in terms of their GDP and GDP per capita. As can be seen from Table 5, Türkiye and the RF are listed among the top 20 economies in the world. Romania, Ukraine and Bulgaria are approximately in the upper quarter, upper third, and upper half of the list of the world GDP ranking respectively. Georgia and Moldova are economically among the smallest countries in the world.

Table 5: GDP rankings of the Black Sea countries in the world, 2009–2021

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
Bulgaria	71	76	77	78	80	80	81	78	80	76	75	72	70	76-77
Georgia	123	123	121	121	122	121	118	118	118	118	117	118	119	119-120
Moldova	152	147	147	147	146	146	149	147	145	143	141	137	136	144-145
Romania	48	49	50	55	56	55	52	51	49	47	47	45	46	50
RF	12	11	9	8	8	9	12	12	12	12	11	11	10	10-11
Türkiye	17	17	18	17	16	16	16	17	17	19	19	20	19	17-18
Ukraine	52	55	54	54	55	60	61	62	60	58	57	55	53	56-57

Source: Author's own elaboration based on Knoema Enterprise Data Solutions¹³

One thing that needs to be noted is the salient imbalance between the GDPs of the Black Sea countries. Even with the RF's worsening economic performance since 2013–14, the sum of the GDPs of the other six Black Sea countries is still lower than that of the RF alone. Likewise, Türkiye's GDP continues to remain significantly higher than that of the rest of the Black Sea countries except for the RF, and the sum of the GDPs of Bulgaria, Georgia, Moldova, Romania and Ukraine is lower than that of Türkiye.

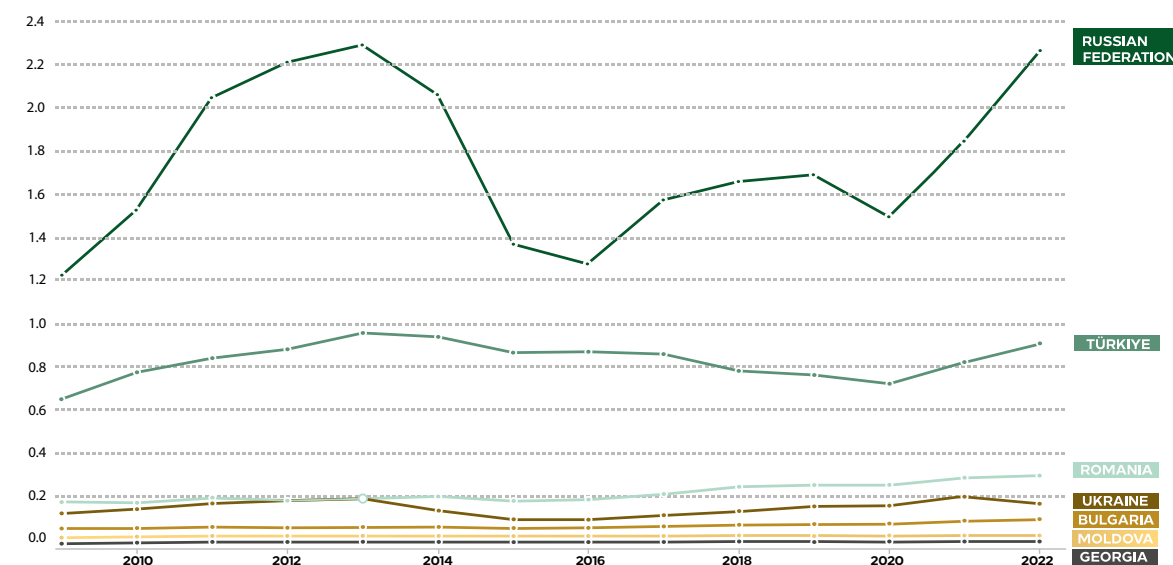
13 <https://knoema.com/mhrzolg/historical-gdp-by-country-statistics-from-the-world-bank-1960-2018>

Table 6: GDPs of Black Sea Countries, 2009–2021 (current USD)
(Value: billion USD / *RF value: trillion USD)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Bulgaria	52,02	50,76	57,74	54,29	55,85	57,16	50,81	53,96	59,31	66,37	68,88	70,37	84,04
Georgia	10,77	12,24	15,11	16,49	17,19	17,63	14,95	15,14	16,24	17,6	17,47	15,84	18,63
Moldova	5,44	6,97	8,41	8,71	9,5	9,4	7,8	7,98	9,52	11,25	11,77	11,53	13,69
Romania	174,1	170,03	192,61	179,13	189,79	199,71	177,88	185,29	210,15	243,32	251,02	251,36	285,81
RF*	1,22	1,52	2,05	2,21	2,29	2,06	1,36	1,28	1,57	1,66	1,69	1,49	1,84
Türkiye	649,29	776,97	838,79	880,56	957,8	938,93	864,31	869,68	858,99	778,97	761,01	720,34	819,87
Ukraine	121,55	141,21	169,33	182,59	190,5	133,5	91,03	93,36	112,09	130,89	153,88	156,62	199,77

Source: Author's own elaboration based on data from World Bank¹⁴

Figure 3: GDPs of Black Sea countries, 2009–2021 (Value: current USD)



Source: World Bank¹⁵

14 <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2022&locations=BG-MD-GE-RU-UA-TR-RO&start=2009-&view=chart>

15 <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2022&locations=BG-MD-GE-RU-UA-TR-RO&start=2009-&view=chart>

The GDP per capita of the Black Sea countries indicates that in terms of the prosperity of their citizens, none of them is in a good state. In particular, Georgia, Moldova and Ukraine are in the bottom half of the global ranking. Having said that, since 2018 there seems to have been progress in this regard.

Table 7: GDP per capita rankings of Black Sea countries in the world, 2009–2021

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
Bulgaria	93	96	96	100	99	98	100	99	97	93	92	83	81	94-95
Georgia	135	132	131	125	125	127	127	128	128	125	129	128	123	118-119
Moldova	147	149	149	148	146	147	149	149	143	135	132	126	118	141-142
Romania	81	87	87	92	90	89	88	85	82	78	79	77	75	83-84
RF	80	77	71	67	66	76	87	88	83	84	82	81	80	78-79
Türkiye	78	78	80	83	79	83	79	80	84	92	94	90	90	83-84
Ukraine	139	135	136	133	132	150	161	159	153	150	143	138	126	142-143

Source: Author's own elaboration based on statistics from Knoema Enterprise Data Solutions¹⁶

In summary, the macroeconomic data does not promise a breakthrough in economic and trade relations in the Black Sea Region in the short and medium terms. Besides, because of the political turmoil caused by the Russo-Ukrainian War, political dynamics are not likely to help economic dynamics.

Lastly, an examination of the export-import ratio of Türkiye's trade with the other Black Sea countries provides insights into the profitability of its trade with them. As Table 8 shows, with respect to this criterion, Türkiye has the most advantageous trade relations with Georgia, Moldova and Romania. Nevertheless, because of the small size of the Georgian and Moldovan economies, the net profit remains quite limited and this is likely to remain the case in the future. On the other hand, as a member of the EU, Romania's importance for Türkiye may increase. The least profitable trade partners of Türkiye concerning the export-import ratio are Ukraine and the RF.

Between 2014 and 2020, Ukraine's GDP remained lower than its 2013 level. Its GDP per capita fell during the same period. Given the immense destruction resulting from the Russo-Ukrainian War, Ukraine will face serious economic challenges in the years to come. Accordingly, it is doubtful that Ukraine will become a significant market for Türkiye in the short or medium terms. Having said that, the burgeoning relations between Türkiye and Ukraine that feature strategically important elements must not be ignored. As a result of the changing security environment and military balance in the Black Sea Region following the RF's occupation and illegal annexation of Crimea in 2014, common security concerns for Ankara and Kyiv began to surface. In December 2020, the two

16 <https://knoema.com/jesqmb/historical-gdp-per-capita-by-country-statistics-from-the-world-bank-1960-2018>

governments initiated the 2+2 meetings in the quadriga format between the Ukrainian and Turkish foreign and defence ministers to develop strategic relations between the two countries (Ministry of Foreign Affairs of Ukraine, 2020). At the same time, cooperation in the military-industrial sphere was commenced. Within this context, Türkiye began to sell high-end weapons such as Bayraktar TB-2 armed drones and MilGem (Ada)-class corvettes to Ukraine (Dost, 2024; Kasapoglu 2023; Özberk, 2023; Polityuk & Gumrukcu, 2022). In view of this, military-industrial relations between Türkiye and Ukraine might be a significant boost not only for economic and trade relations, but also for strategic relations. Furthermore, the post-war reconstruction of Ukraine may become another stimulant. The damage to Ukraine caused by the ongoing war is currently estimated to be between USD 411 billion and USD 1 trillion (Merritt, 2024). The EU, certain Western governments, and various international organisations have been deliberating on the post-war reconstruction of Ukraine and debating ways to raise funds to this end. As such, Ukraine's eventual post-war reconstruction opens up business opportunities for companies around the world. In this context, it is worth noting that on 31 January 2024 Türkiye and Ukraine signed a document allowing Turkish firms to assist in Ukraine's post-war reconstruction (Reuters, 2024). Accordingly, post-war Ukraine may provide significant economic opportunities for Turkish firms.

Türkiye's bleakest trade relation regarding its export-import ratio is the one with the RF because of the huge trade deficit to the disadvantage of Türkiye. Besides the export-import ratio, the kind of goods traded between Türkiye and the RF, particularly Russian exports to Türkiye, is an important matter for its political and strategic implications. As Tables 9 and 10 show, Türkiye has a very risky dependency on the RF for its energy imports, particularly with respect to natural gas. Regarding this same challenge, the Nuclear Power Plant (NPP) in Akkuyu, which is currently under construction and will be the first NPP in Türkiye, is another important matter. The Akkuyu NPP is a joint project between Türkiye and the RF. However, according to the agreement between the two parties, Russia will own no less than 51% of the plant (Resmi Gazete, 2010). Taking this into consideration, it is quite striking that, speaking to Moscow's Rossiya-1 TV channel in October 2023, the CEO of the Akkuyu NPP, Anastasia Zoteeva, stated, 'Including the Soviet period, for the first time in Russia's nuclear history, we are building a power plant in the territory of another country, but for ourselves. This NPP belongs to Russia. This is an NPP that is built in another country but which belongs to us' (Kırım Haber Ajansı, 2023). All of the foregoing reveals the importance of the RF for Türkiye's energy needs, making the RF, from a strategic perspective, Türkiye's most critical trade partner among the Black Sea countries, with the risks that this entails.

Understanding these risks, Türkiye has in recent years started to endeavour to diversify its energy sources. In this framework, Ankara is making important investments to develop renewable energy sources. Presently, in terms of installed capacity in renewable energy, Türkiye ranks fifth in Europe and twelfth in the world (Ministry of Foreign Affairs of the Republic of Türkiye, 2022c). Besides that, Türkiye also got lucky. According to its government, between August 2020 and December 2022, a total of 710 billion cubic metres of natural gas were discovered in the Black Sea. In April 2023, President Erdoğan declared that when the gas fields are fully operational, these reserves will

Table 8: Türkiye's exports, imports and total trade with Black Sea countries and the world, 2013–2021 (general trade system) (Value: thousand USD)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Bulgaria	Export	2,136,157	2,117,335	1,762,803	2,488,143	2,919,793	2,816,992	2,668,230	2,634,444	3,953,436
	Import	2,810,687	2,924,659	2,348,245	2,162,772	2,791,323	2,545,867	2,384,901	2,124,162	2,545,472
	Total trade	4,946,844	5,041,994	4,111,048	4,650,915	5,711,116	5,362,859	5,053,131	4,758,606	6,498,908
Georgia	Export	1,409,043	1,611,346	1,258,059	1,315,739	1,337,800	1,438,618	1,578,014	1,461,257	1,703,745
	Import	241,236	275,018	274,975	227,787	219,607	258,701	272,350	3,352	470,851
	Total trade	1,650,279	1,886,364	1,533,034	1,543,526	1,557,407	1,697,319	1,850,364	1,464,609	2,174,596
Moldova	Export	297,650	319,916	223,027	279,067	306,142	290,032	343,345	335,048	453,079
	Import	262,929	262,382	221,784	176,695	218,302	198,507	264,286	181,389	380,324
	Total trade	560,579	582,298	444,811	455,762	524,444	488,539	607,631	516,437	833,403
Romania	Export	2,783,798	3,141,513	2,924,657	2,801,685	3,315,130	4,137,338	4,073,075	3,893,981	5,175,021
	Import	3,716,898	3,540,608	2,718,048	2,388,990	2,596,477	2,720,956	2,770,908	3,434,434	2,769,253
	Total trade	6,500,696	6,682,121	5,642,705	5,190,675	5,911,607	6,858,294	6,843,983	7,328,415	7,944,274
RF	Export	7,213,894	6,170,452	3,684,263	1,792,916	2,869,847	3,652,603	4,152,137	4,506,681	5,774,392
	Import	26,046,541	25,411,700	20,744,050	15,467,237	20,097,027	22,710,751	23,115,236	17,829,309	28,959,361
	Total trade	33,260,435	31,582,152	14,428,313	17,260,153	22,966,874	26,363,354	27,267,373	22,335,990	34,733,753
Ukraine	Export	2,387,613	1,855,867	1,181,147	1,330,651	1,465,923	1,684,156	2,156,454	2,090,327	2,900,545
	Import	4,607,646	4,295,993	3,519,255	2,596,436	2,936,030	2,753,654	2,725,419	2,590,375	4,524,675
	Total trade	6,995,259	6,151,860	4,700,402	3,927,087	4,401,953	4,437,810	4,881,873	4,680,702	7,425,220
World Total	Export	161,480,915	166,504,862	150,982,114	149,246,999	164,494,619	177,168,756	180,832,722	169,637,555	225,214,458
	Import	260,822,803	251,142,429	213,619,211	202,189,242	238,715,128	231,152,483	210,345,203	219,516,807	271,425,553
	Total trade	422,303,718	417,647,291	364,601,325	351,436,241	403,209,747	408,321,239	391,177,925	389,154,562	496,640,011

Source: Author's own elaboration based on statistics from Türkiye İstatistik Kurumu

meet approximately 30% of the nation's annual natural gas needs (Aydoğan, 2023). If these figures are correct, these reserves may help to reduce Türkiye's natural gas dependency on the RF in the coming years.

Table 9: Türkiye's natural gas consumption and imports, 2013–2021 (Value: cubic metres)

	Total consumption	Imports	Imports from RF	Imports from RF (%)
2013	45,918	45,268	26,212	57.9
2014	48,717	49,262	26,975	54.76
2015	47,999	48,427	26,783	55.31
2016	46,395	46,352	24,540	52.94
2017	53,857	55,249	28,690	51.93
2018	49,204	50,282	23,642	46.95
2019	45,285	45,211	15,196	33.61
2020	48,261	48,125	16,178	33.62
2021	59,854	58,703	26,343	44.87

Source: Author's own elaboration based on statistics from T.C. Enerji Piyasası Düzenleme Kurulu¹⁷

Table 10: RF's share in Türkiye's imports of all petroleum products (crude oil, diesel fuel, fuel oil, aviation fuels, marine fuels and others), 2013–2021 (Value: %)

	Imports from RF
2015	17.7
2016	19.38
2017	18.87
2018	25.21
2019	35.47
2020	21.18
2021	24.20

Source: Author's own elaboration based on statistics from T.C. Enerji Piyasası Düzenleme Kurulu¹⁸

¹⁷ <https://www.epdk.gov.tr/Detay/Icerik/3-0-94/yillik-sektor-raporu>

¹⁸ <https://www.epdk.gov.tr/Detay/Icerik/3-0-107/yillik-sektor-raporu>

5. Conclusions

Türkiye's concerns about military conflicts and instability in the region, viewed as a major threat to the nation's security, have been the main determinants of its Black Sea policy. After the collapse of the Soviet Union, Türkiye sought to ensure stability in the region by enhancing cooperation among the Black sea countries. In doing that, Ankara anticipated that the regional cooperation would translate into political cooperation and the emergence of a sense of regional ownership, which it regarded as being an antidote to potentially destabilising interventions from outside forces. In addition to regional multilateral mechanisms, Türkiye also strove to develop bilateral relations with the other Black Sea countries. It particularly emphasised economic and trade relations. In addition to establishing cooperation and stability in the Black Sea Region through regional multilateral mechanisms and bilateral relations, Türkiye also sought to establish itself as a regional leader.

Nevertheless, in 2008, a war erupted between Georgia and the RF. In February–March 2014, right after the Euromaidan revolution in Ukraine, the RF occupied and illegally annexed Crimea. In April of the same year, an armed conflict between RF-backed separatists and Kyiv flared up in the east of Ukraine. Finally, in February 2022, a full-fledged war broke out between the RF and Ukraine. As a consequence, the Black Sea Region turned into one of the most unstable regions in the world. As such, Ankara's strategic objective of preventing conflicts and instituting stability in the region has been shattered. In this context, Türkiye's determination to uncompromisingly implement the 1936 Montreux Convention has saved the Black Sea from turning into a battleground. These developments have also exhausted Türkiye's prospects for regional cooperation, as while Ankara sustains its balanced policy vis-à-vis the RF and Ukraine, other Black Sea countries pursue antagonistic policies against the RF. At the time of writing, it seems that after 30 years, once again an iron curtain is about to fall over the Black Sea. Lastly, the hope for the emergence of a sense of regional ownership has come to nothing. Other than the RF and Türkiye, the Black Sea countries are rather looking for a US/NATO presence in the Black Sea – an approach that jeopardises the 1936 Montreux Convention. All these factors suggest that Türkiye's strategic objectives in the Black Sea Region are being challenged.

To all intents and purposes, this is a result that is largely determined by wider geopolitical dynamics and the global power competition among the Great Powers. In light of this, Türkiye by itself could not have prevented such an outcome. Apart from this wider picture, however, Türkiye's multilateral initiatives and bilateral relations have been only partially successful. The BSEC has not been a sufficient instrument to enhance regional trade and render the Wider Black Sea Region an economic region, as hoped. It has not been a particularly useful mechanism for Türkiye's trade with the member countries either. Although through the BSEC, Türkiye gained a certain level of soft power in the region after the collapse of the Soviet Union, the organisation ceased to serve that function in later years. As for BLACKSEAFOR and Black Sea Harmony, although these initiatives served their purpose for some time, they grew relatively idle as tensions between the RF and other Black Sea countries increased.

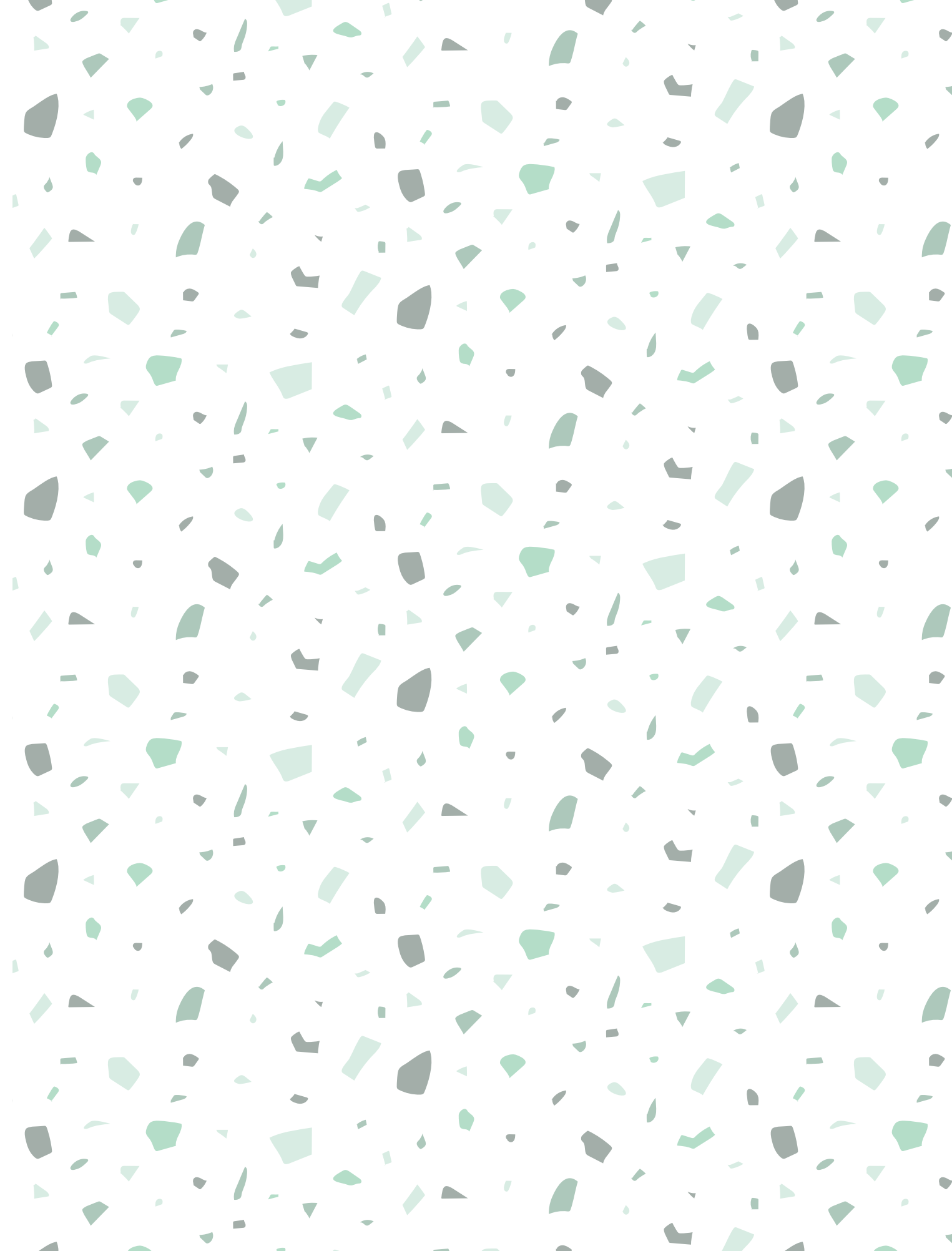
It is difficult to make an overall evaluation of Türkiye's bilateral economic and trade relations. The RF appears as a very significant trade partner for Türkiye. Bulgaria, Romania and Ukraine are Türkiye's other important economic and trade partners, though not to an extent comparable to the RF. Georgia and Moldova, on the other hand, are not significant trade partners. This unevenness is largely due to the Black Sea countries' varying economic sizes and potentials rather than Türkiye's choices. What Türkiye could be held responsible for, though, is its very risky energy dependency on the RF, which inevitably limits its radius of action and strategic choices in certain situations. Türkiye's recent efforts to diversify its energy sources are the only positive developments in this regard.

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BOOK REVIEWS



S. JAISHANKAR: THE INDIA WAY: STRATEGIES FOR AN UNCERTAIN WORLD

PÉTER KLEMENSITS¹

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S. Jaishankar has been the Government of India's Minister of External Affairs since 2019 and he was Minister of State for External Affairs from 2015 to 2018. He has spent four decades as a diplomat. From 1990 to 1993, he served as Commercial Counsellor at the Indian Embassy in Budapest. He also represented India as Ambassador to China (2009–13) and Ambassador to the United States (2014–15), and played a key role in the implementation of the Indo–US nuclear deal. After his retirement, he was Chairman of Tata Sons until 2019, when he joined the Narendra Modi administration. In addition to his experience in foreign policy, he has a degree in political science and a PhD in international relations. His book *The India Way: Strategies for an Uncertain World* has been published in several languages. His second work, *Why Bharat Matters*, published in 2024, examines Indian foreign policy and highlights the importance of India's growing role as a potential superpower in the global arena.

The Importance of the Book

Many works on India's foreign policy and international relations have been published in English, but *The India Way: Strategies for an Uncertain World* is unique in that its author is none other than India's incumbent foreign minister, who shapes the country's international relations. In fact, S. Jaishankar's book is a collection of his speeches at think tanks, business forums and conferences, its main message being that in the multipolar world order of the twenty-first century, India is an emerging power to be reckoned with. To understand and address India's growing international role and influence in the changing geopolitical environment, it is necessary to understand Indian thinking abroad, its strategic objectives, foreign policy challenges and all the aspirations that can deepen cooperation with the world's most populous country.

The India Way not only places great emphasis on providing foreigners with an insight into India's foreign policy thinking, but also provides an appreciation of historical events and the relevant wisdom of the ancient epic *Mahabharata*, additionally offering lessons for a general audience that can be applied not only in India, but also in other parts of the world. And an important lesson for every nation is that we should properly evaluate the events of the past, learn from the mistakes of our predecessors and strive for fruitful cooperation with all for the present, keeping our own national interests in mind.

The Structure of the Work

The book is divided into eight chapters grouped around a variety of themes, yet all ultimately deal with differing aspects of the same problem: What strategies should India adopt in a world undergoing profound changes, especially with the rise of China? The reader is not offered a definitive guide, but rather a general philosophy and discourse on the spheres of Indian power today. The eight essays cover topics such as the emerging global order, the changing priorities of the USA, the rise of China and its consequences, Indo-Pacific dynamics, nationalism and its contradictions, the *Mahabharata* as a prism for assessing Indian strategy, and post-nineteenth century international realities. The themes that emerge in these chapters serve as important indicators of the changing priorities of India's foreign policy.

'The Lessons of Awadh'

In the first chapter of the book, the author explores the ways and means through which India can become a reliable engine of growth and a friendly supporter in an era of globalisation that is shaping the development of the modern world. He cites Satyajit Ray's film about two Indian nawabs engrossed in a game of chess while the British East India Company occupies its kingdom of Awadh, an example that is mirrored in the chapter's title. According to Jaishankar, India has been defensive for the last five to six decades, and it now faces significant and severe consequences: insufficient understanding of its partners, delay in becoming a nuclear power, underestimation of the strength of neighbouring threats, and a ten to fifteen-year development gap with China.

Scrutinising the dynamics between the USA and China, the author argues that India needs to manoeuvre masterfully and decisively in the present times in order to be – and remain – strong in the volatile times to come. He also emphasises the "Neighbourhood First" approach as a key ideology to achieve global good while promoting national interests.

The chapter concludes with the question: Does the world continue to define India or does India define itself? The lessons from the story of Awadh will certainly help answer this question and provide a guide for India's journey of self-discovery.

¹ Péter Klemensits, PhD, Senior Research Fellow, Eurasia Center, John von Neumann University, Budapest, Hungary.

‘The Art of the Disruption’

The second chapter examines the implications of the ongoing shift in the global balance of power as American hegemony weakens and China emerges as a challenger to the Western-dominated order. For many countries, including India, the new balance of power offers new opportunities. The author argues that it is crucial for India to make the most of convergence with other countries and to contribute to the overall balance by forging more modern relationships on all major issues. He strongly believes that the world is increasingly becoming multipolar, with the key being the creation of a new balance of power rather than collective security. India will have to learn from past experiences and play a more creative role in the various partnerships. A recurring theme in this book is that India needs to build partnerships with like-minded countries with whom it shares common values.

‘Krishna’s Choice’

The third chapter is one of the most instructive in the book. The famous Indian epic the *Mahabharata* is based on the events of the great war between the Pandavas and their cousins, the Kauravas.

Jaishankar believes that the *Mahabharata* epitomises Indian thinking on the governance of the state, and that it also contains many lessons, as it can be seen as a collection of approaches and responses whose combined effect is to advance the entire state. Indeed, the stories of the epic reflect the personal dilemmas of the actors involved, the choices they make, and the consequences of those choices. The narrative is as much about morality as it is about power. The author’s main message is that India must act as a moral force on the world stage.

Jaishankar pays particular attention to issues such as the rule of law, the conditions for breaking rules, the importance of building a credible narrative based on dharma or ethical behaviour, the art of disruption and camouflage in diplomacy and warfare, the importance of strategic clarity in achieving goals, and the many nuances of diplomacy from alliances to neutrality. In analysing the episodes from the *Mahabharata*, the author draws parallels between the multipolar worlds of then and now. Among the lessons for today, he points out that it is particularly vital to clarify strategic goals. He also warns that while the possession of power is important, that power must be used ethically and with restraint.

‘The Dogmas of Delhi’

Chapter 4 is the most important part of the book as it contains Jaishankar’s principal message. He emphasises that in order to come to terms with the new realities, India must free itself from the dogmas of the past. For this, the nation needs a clear understanding of emerging trends, risk-taking and self-confidence – all qualities it did not possess in former times. The Indo-US nuclear deal of 2005 marked a turning point in Indian foreign policy, raising India’s global profile and opening up a range of opportunities. Since the Modi government took office in 2014, India’s foreign policy has become more realistic and pragmatic. According to the author, the world’s most populous country needs more realism, a stronger economic toolbox, multi-directional engagement, risk-taking and, above all, a proper understanding of global trends.

‘Of Mandarins and Masses’

In Chapter 5, the author discusses the growing influence of public opinion on foreign policy and discusses the history of India’s post-independence foreign policy in six distinct periods. Taking stock of the past decades, he concludes that, fundamentally, India has not done too badly, but that it could have achieved much more, as during the era in question the country was overtaken by China in many respects. A comprehensive assessment of the situation therefore requires confidence and a willingness to take risks. Jaishankar concludes that foreign policy is no longer just a game played by elites, as we are witnessing a rise in nationalism worldwide, be it “America First” or the “Chinese Dream”. He points out that Indian nationalism is historically inclusive, which means that it has the potential to serve as a bridge between the established and the emerging orders. Although Indian officials rarely talk about Indian nationalism in the context of foreign policy, the fact remains that nationalism gives India a self-confidence that is essential for dealing with the rest of the world. ‘This time it is values and strategy that can bring India and the West closer, not customs and culture’, says the Minister of External Affairs.

‘The Nimzo-Indian Defence’

In Chapter 6, the author discusses what is probably the most important challenge for India’s foreign policy, namely how to deal with the rise of China. He provides an overview of relations between the two countries, and details the adverse consequences for India of China’s rise. Although India and China have been on good terms for most of their history, a territorial dispute and border issue arose in the 1950s that remains unresolved to this day and continues to be the source of many problems. Although the aforementioned dispute seems to have worsened relations between the two nations, it is a story of dominance, and the entire conflict was triggered by the world politics of the time. China’s growing presence in India’s neighbourhood and its relations with Pakistan pose a serious security concern for India. The question is: Will Sino-Indian relations improve? As Jaishankar states, ‘the key to a more orderly Sino-Indian relationship is for the two countries to embrace multipolarity and enforce greater reciprocity’. He also points out that the power asymmetry between India and China does not make things any easier, as China has an advantage over India in building its overall national power, while India is far from such a goal. Be that as it may, as the title of the chapter suggests, the Nimzo-Indian defence in chess puts Black in a more favourable position, and so India should follow suit by winning the defence.

‘A Delayed Destiny’

In Chapter 7, the author examines in detail the significance of the strategic partnership between India and Japan in the emerging balance of power in Asia. The two countries have enjoyed cordial relations for most of their history; however, this has not led to the establishment of a strategic partnership. Japan sharply criticised India’s nuclear tests in 1998, but the situation only began to change in 2000, when Japanese Prime Minister Yoskiro Mori visited India. Although economic partnership steadily strengthened, political relations were not taken to the next level for a long time. For Japan, trade was the main driving force, while India saw improving the security situation as crucial. In addition to

joint military exercises, relations have now also become closer in the economic sphere, with Japan's official development assistance playing an important role. However, India must recognise that Japan has a different culture and mentality. As a result, despite the existence of common interests, India will need to be patient in order to further develop relations.

In this chapter, the author also emphasises the importance of ASEAN for India's foreign policy, noting that while Japan is an important partner, 'ASEAN remains India's gateway to the East'. The Look East and Act East policies have filled an important gap in India's foreign policy, as ASEAN has done much to help India rediscover its past. India is aware of ASEAN's central role in Indo-Pacific regionalism, and, in addition, Indian thinking has been significantly influenced by close cooperation with ASEAN.

'The Pacific Indian'

In Chapter 8, Jaishankar provides a clear analysis of the strategic concept of the Indo-Pacific region, which is an important pillar of India's foreign policy. Today, India has managed to formulate an Indo-Pacific policy and a comprehensive maritime strategy. In the author's view, India's Indo-Pacific approach is best reflected in Prime Minister Narendra Modi's speech at the 2018 Shangri-La Dialogue, in which he outlined a free, open and inclusive space founded on the acceptance of a rules-based order for all. In other words, all states would have equal access to air and sea space, and the Indian government would focus on cooperation rather than rivalry.

Epilogue

In his epilogue, Jaishankar shows how the Covid-19 pandemic influenced India's foreign policy. The crisis sparked lively debates on trends and changes in the post-1945 world order while exposing the shortcomings of multilateralism. India was one of the few countries that sent medical supplies to other nations, significantly improving its image in the affected countries. As an advocate of reformed multilateralism, India now has the opportunity to continue the dialogue. In conclusion, the author argues that India must now seek to consolidate its position as a just and equal power and a leader for the global South.

A Brief Assessment

Researchers agree that South Asia is gaining importance in the changing world order of the twenty-first century and that India could be one of its most powerful international players. Understanding the region and the geopolitical game of the great powers is crucial for the future of Eurasia, and the Indian foreign minister's book is a valuable contribution to such an awareness.

What distinguishes S. Jaishankar's book from other works on the subject is that the author is not just an idle observer of the debate on India's rise and its global role in the twenty-first century. As an active participant, he is in a unique position to outline the challenges India faces while offering useful advice to his compatriots.

The India Way provides an excellent summary of current issues in Indian foreign policy in a highly readable style. It is therefore of value not only to professionals, but also to academics and the general public interested in the subject.

OKAMOTO MASAOKI & JAFAR SURYOMENGGOLO (EDS.): INDONESIA AT THE CROSSROADS: TRANSFORMATION AND CHALLENGES

MÁTÉ SZAKÁLI¹

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Indonesia's *Reformasi* of 1998 paved the way for the reconfiguration and improvement of the nation's institutions in the interests of supporting economic growth. Indonesia is now transitioning from lower middle-income status to being an upper middle-income country, while at the same time facing several challenges in the strengthening of its democratic institutions. *Indonesia at the Crossroads: Transformation and Challenges* brings together 12 original chapters to discuss the achievements and difficulties of Indonesia's post-1998 transformation. The book examines how state institutions and civil society manage the complexities of the Southeast Asian countries' transformations to develop common ground upon which to reach a national consensus. It is co-edited by Okamoto Masaaki, Professor at the Center for Southeast Asian Studies of Kyoto University, and Jafar Suryomenggolo, Associate Member of Centre Asie du Sud-Est, Paris, and Adjunct Professor at Ca' Foscari University, Venice.

The Theme and Scope of the Book

Since democratisation in the late 1990s, Indonesia has transformed from a crisis-ridden decaying dictatorship into a middle-income electoral democracy. Numerous studies have comprehensively explored the benefits and challenges of this process, and *Indonesia at the Crossroads* is one of the latest offerings. Yet what sets this collection of essays apart from the rest of the literature is its coverage of the multiple aspects of politics, economics and social life, rather than a preoccupation with electoral and party dynamics.

1 Máté Szakáli, Researcher, Eurasia Center, John von Neumann University, Budapest, Hungary.

This co-edited volume on post-1998 reformation Indonesia was published in 2022, but the monographs compiled in it are based on a workshop conducted in 2017. Despite the wide temporal gap between the time of writing and the publication of the volume, the editors clearly state the publication's objectives and the contributors' professional backgrounds in their Introduction. One aim of the book is to showcase the voices of contributors who do not usually publish their works in English, the dominant language of most contemporary debates and literature on the study of Indonesia. Another aim is to enhance the dialogue between academics and practitioners actively engaged in the field of Indonesian Studies, such as Assistant Professor Sabina Satriyani Puspita, whose review served as a secondary source for the present article.²

Structure and Sources

The book comprises twelve chapters and is divided into three parts: 'Governance and Social Dynamics', 'Paths to Equality' and 'Structural Challenges'. The first part discusses the dynamics of maintaining peace in heterogeneous societies. The four chapters here analyse cases of policymaking at the national level, such as the claiming of space to express group identity through street art, violence against religious minorities, and the meaningful inclusion of indigenous people. The second part then explores problems of inequality in four areas: education, urban poverty, rural land and infrastructure. Finally, the third part deals with issues of corruption, human rights, security and the intelligence apparatus.

The editors set the tone in their Introduction, which provides a balanced overview of Indonesia: a democracy with a vibrant economy, but pressing issues concerning inequality, rapid urbanisation, cartel politics and religious conservatism. The diverse array of East Asian researchers and Indonesian scholars and activists who are the contributors continue in this vein.

Indonesia at the Crossroads compiles observations of the post-Suharto state made not only by scholars, but also by field researchers and NGO workers based in Indonesia, Japan and South Korea. The lack of clarity with which some of the sources of statistical data are presented in the Introduction's few footnotes (pp. 8, 10, 21), however, somewhat undermines the added value of the authors' experiences and insights. Scholars express dissatisfaction with the availability of statistical data in Indonesia quite frequently; therefore, clear citations of the sources could have reinforced the reliability of the editors' arguments while providing valuable resources of credible information for other scholars to scrutinise in their ongoing and future research.

'Governance and Social Dynamics'

The first part of the book features four engaging chapters on multiculturalism, street art and urban spaces in Yogyakarta, anti-Shia violence in Madura, and the peace process in Papua. These chapters offer fresh understandings of their respective topics.

2 Puspita, S. S. (2023). Review of the book Okamoto Masaaki/Jafar Suryomenggolo (Eds): *Indonesia at the Crossroads: Transformation and Challenges*. *IQAS*, 54(3), pp. 333–335.

Chapter 1 by Thung Ju Lan problematises the discourse on “multiculturalism” within the Indonesian state and society. The article unpacks how Indonesia’s state ideology and government policies mitigate the complexities of its society’s diverse levels of social mobilisation by religious and ethnic affiliation. Her article stimulates readers to question why reparations and repatriation remain challenging for Indonesia, given its narrow conceptualisation of multiculturalism. Lan’s analysis thus moves beyond the trite idea of tolerance, as is rampant in the development sector, to explore how politics, history and socioeconomic class affect multiculturalism. Her arguments regarding the problematic conceptions of multiculturalism held by many national-level policymakers, which impact the legitimisation of discrimination and violence against minorities, are echoed by Chapters 2 to 4, in which the other three authors in this section cover important case studies exploring local contestations over space, power, resources, and social and political networks.

Brigitta Isabella (Chapter 2) demonstrates how various groups in Yogyakarta assert their power through murals expressing local pride, political satire and provocative messages. While some themes are peaceful, others are hateful (e.g. anti-LGBT content), and many murals are said to ‘convey normative and moralist messages’, in the author’s opinion thus ‘merely serving the interests of the government’ (p. 66). Kayane Yuka (Chapter 3) explains how violence against the Shia community in Madura is a manifestation of power struggles between the less and more popular religious authorities, in addition to struggles between politicians at the local and state levels seeking electoral support from religious authorities and their followers. Rosita Dewi (Chapter 4) traces the national government’s affirmative action policies on Papua since the Dutch occupation in 1942 and discusses their impacts on Papuan autonomy to date.

‘Paths to Equality’

The book’s second part discusses Indonesia’s economic performance and challenges, including regional educational outcomes and poverty in the Greater Jakarta Area, as well as policy recommendations. The topics covered in this section are pertinent for academic analysis and policy.

The authors of two of the chapters here highlight the significance of education in alleviating social and economic inequalities. Abdul Amin (Chapter 5) uses data at the regency level to illustrate disparities in secondary school enrolment rates based on ethnicity and gender. Ernoiz Antriyandarti and Susi Ani (Chapter 7) use data from four rice production sites in Central and East Java to show how farmers with small plots of land and low education levels tend not to lease out their land because they are unable to generate income from other sources – thus increasing the chance that they will live in poverty. The authors propose farmland liquidation as a way of improving agricultural productivity and farmers’ incomes. While empirically rich, this chapter is a little too technical and overlooks key studies on Indonesia’s rural political economy from the tradition of agrarian studies, which offers insight into the links between class relations and rural welfare.

Other contributions to the second part of the book call for greater collaboration among different government agencies in producing policies to resolve economic problems. For example, Asep Suryahadi and Cecilia Marlina (Chapter 6) compare the statistical data of households at the national level

with those at the Greater Jakarta Area/metropolitan level to show the need for better coordination among the city governments of Jakarta, Bogor, Depok and Tangerang. Maxensius Sambodo and Latif Adam (Chapter 8) examine Indonesia’s fiscal policies since the 1997 Financial Crisis – which have impacted government spending on infrastructural projects in the long run – to argue for better coordination among state-owned enterprises. Consequently, they stress the importance of public-private partnerships in financing infrastructure development.

‘Structural Challenges’

The final part of the book focuses on Indonesia’s structural problems, namely corruption, human rights, organised violence, and intelligence and security sector reform. In their respective chapters, the authors Adnan Topan Husodo, Suh Jiwon, Okamoto Masaaki, and Muhammad Haripin and Diandra Mengko illustrate the Indonesian state’s capacity to enable its institutions to tackle issues related to corruption, human rights, law enforcement and national security, thus linking their analysis to wider questions of government accountability in the years of democratisation.

In Chapter 9, for example, Adnan Topan Husodo highlights the obstacles to combatting corruption, particularly collusive relationships between aspiring politicians, elected officials and business elites. In Chapter 10, Suh Jiwon explores Indonesia’s various strategies for the promotion of human rights, ranging from ad hoc human rights courts to programmes in certain cities. These chapters address prominent issues, but their arguments would carry more strength had the authors discussed ways of moving beyond niche civil society support to attract a broad cross-class consensus.

Linking together different studies from multiple perspectives is not an easy editorial accomplishment, yet in their Concluding Remarks Masaaki and Suryomenggolo artfully summarise the key takeaways from each chapter and reiterate that Indonesia’s path towards equitable and pluralistic democracy is an ongoing process.

Assessment

The main academic contribution of *Indonesia at the Crossroads* lies in the variety of new perspectives offered to analyse Indonesia’s development since *Reformasi*. Written with authority but also impartiality, each chapter stimulates readers to enquire into the correlation between the years of political reform or economic development and the strengthening of the state’s capacity to resolve conflicts. The presentation of such a broad range of themes on Indonesian development is laudable, and this volume is useful for readers who would like to grasp a broad understanding of Indonesia’s political development since its democratic transition in 1998. Moreover, the selection of contributors presents a gender-balanced configuration, with nine of the seventeen contributors being women. Hence, the editors merit appreciation for their efforts in mitigating the lack of women’s representation in academia and scholarship on Indonesia in particular. The book’s publishing process is also a good example of slow, collaborative scholarship. The editors have clearly made sure that each chapter engages with societal and governmental shifts over two decades, while their attempts to bridge scholarly and activist perspectives, as well as to promote the work of Asia-based writers,

is commendable. This is an accessible, far-reaching study on contemporary Indonesia for a diverse audience.

At over 400 pages, readers might take some time to work their way through the book, but their efforts will be compensated for by the excellent research and diverse topics, which also somewhat mitigate the drawback that the book only covers events up until the end of 2019, meaning that issues such as the pro-reform *Reformasi Dikorupsi* protest movement and the Covid-19 pandemic are not discussed.

Nonetheless, some improvements could be considered. Given the wide temporal gap between the time of writing and the publication of the volume, and the fact that the editors do not explicitly explain their choice of title for the volume, readers are left wondering exactly what kind of “crossroads” is being referred to. The admirable aims expressed in the Introduction are somewhat undermined by the less academic methodology. The arguments presented in the book would be more convincing if there was more engagement with theoretical debates on issues such as the oligarchic hijacking of democracy and deindustrialisation. A more thorough exploration of trends in the cultural and social lives of Indonesians would also have been welcome. The inclusion of studies on recent pop culture, music and street language, for example, would have provided readers with a glimpse into both the enduring cornerstones and the fleeting trends of Indonesian culture.

Indonesia at the Crossroads is important because it offers a comprehensive perspective in assessing the future of Indonesia. Several major consensuses within the Indonesian nation, such as economic development, the vibrant life of the democracy and its civil society, and the growing harmony of a pluralistic society have become a reason for optimism about the country’s future. In a context in which Islamic societies have historically struggled with democracy, and as many neighbouring Southeast Asian countries are becoming increasingly less democratic, the Indonesian experience of democratisation is especially noteworthy.

In light of the above, this book should be of particular interest to a wide range of readers, from those with minimal knowledge about Indonesian politics to graduate students and scholars of Indonesian Studies around the globe. *Indonesia at the Crossroads: Transformation and Challenges* could also be useful for foreign diplomats who need to familiarise themselves with the Southeast Asian country’s key contemporary developments and make meaningful connections with their Indonesian counterparts.

INFORMATION FOR AUTHORS

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