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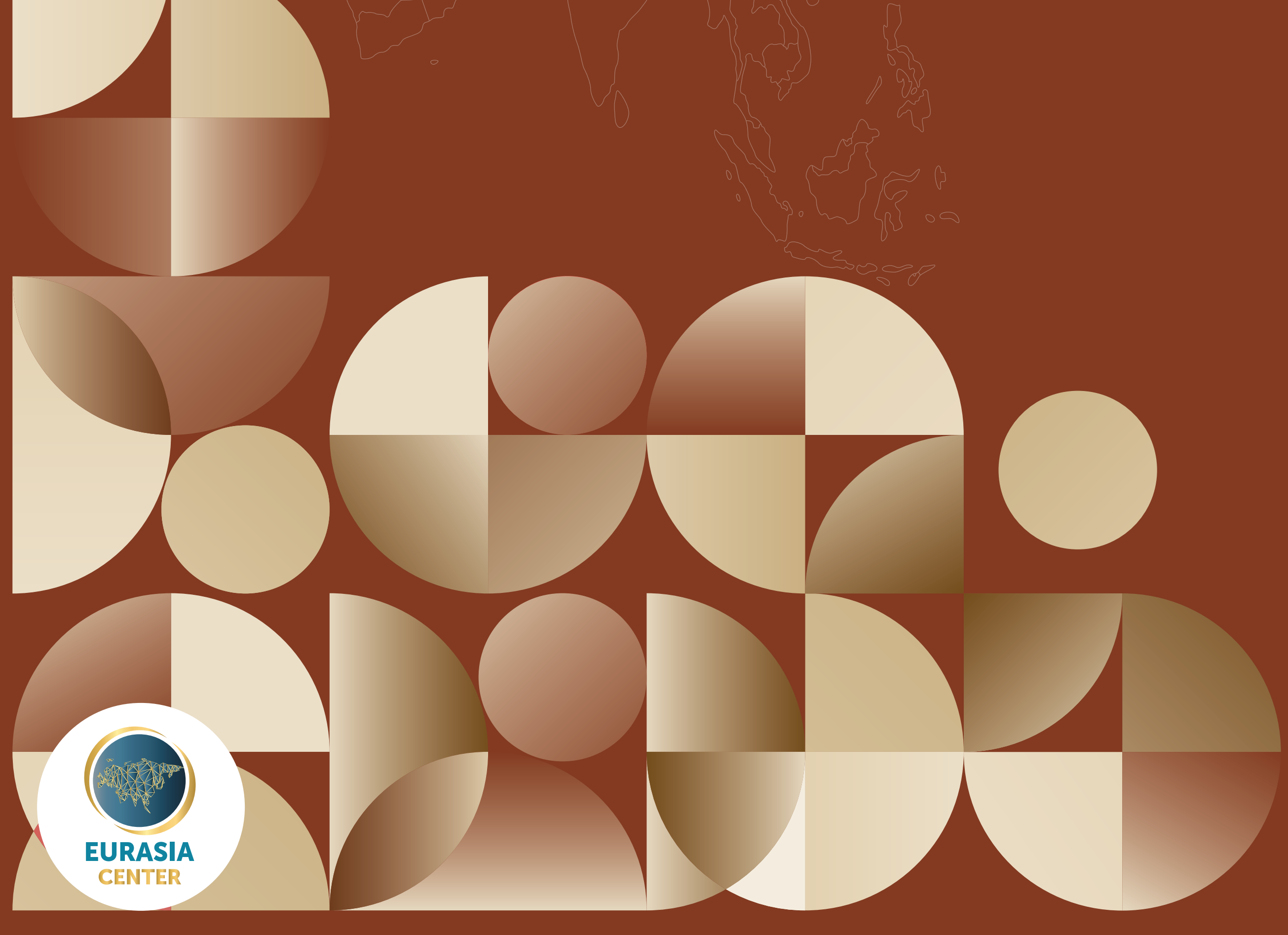
GROWTH, DEVELOPMENT, AND INSTITUTIONAL TRANSITIONS



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INTRODUCTION

Editor's Foreword

The fifth issue of *Eurázsia Szemle*, Volume V, marks a special edition devoted to the theme "Growth, Development, and Institutional Transitions." Departing from the journal's regular geopolitical column structure, this issue is organised around three thematic sections that approach the question of development from multiple disciplinary and regional perspectives: *Rethinking Development and Industrialization*, *Sectoral Transformation*, and *Urban Governance and Regionalism*.

Over the past decade, renewed attention has been given to the concept of development — not only as a measure of economic performance but as a process encompassing institutional evolution, social inclusion, and sustainability. The contributions in this issue engage with these broader understandings, exploring how different countries and sectors navigate the challenges of growth, transformation, and governance in a changing global environment.

The first section, *Rethinking Development and Industrialization*, opens with Tina Saavedra Clemente's article, *"Emancipatory Development? Evaluating Philippine Archipelagic Development Perspectives, Performance, and Measurement."* Clemente revisits the development paradigms of the Philippines through the lens of the blue economy and archipelagic governance, examining how policy frameworks reflect both progress and persistent structural constraints. Drawing on critical and post-colonial perspectives, the study explores the tensions between sustainability, inclusiveness, and economic growth, arguing for a more integrated approach that aligns maritime and land-based development. By engaging with the enduring legacies of coloniality and the contemporary pursuit of self-determined growth, the paper offers valuable insights into the evolving relationship between authority, environment, and economic policy in archipelagic states.

In the subsequent contribution, Alexander Michael Palma presents *"Decolonizing Industrialization of the Post-Independence Period: Impact of Fiscal Instruments on Foreign Direct Investment Participation."* The study examines how fiscal policy and investment incentives have shaped the Philippines' industrialisation trajectory since 1946. Through a detailed historical and empirical analysis, Palma evaluates the effectiveness of fiscal instruments in promoting industrial development while maintaining economic sovereignty. His findings suggest that industrial policy outcomes depend not only on capital inflows but also on the coherence and maturity of national institutions. The paper offers a nuanced view of how policy design mediates between openness to global markets and the need for domestic capacity-building — a theme that resonates across developing economies in the Eurasian sphere.

Together, these two studies frame development as both an economic and institutional process, calling attention to how policy legacies, governance structures, and global integration interact in shaping national development strategies.

The second section, *Sectoral Transformation*, turns to the dynamics of structural change within key economic sectors. Aloysius Gunadi Brata's paper, *"Indonesia: In the Grip of the Middle-Income Trap,"* analyses Indonesia's economic performance in the context of the long-discussed development threshold between middle- and high-income status. The study explores how institutional rigidity, human capital challenges, and uneven innovation capacities contribute to developmental stagnation. Brata argues that addressing these structural barriers requires a coordinated approach that links fiscal discipline, industrial upgrading, and governance reform, offering an instructive case for economies seeking to sustain inclusive growth.

The section continues with Sándor J. Zsarnóczai and György Iván Neszmélyi's study, *"Agricultural and Food Production in India between 2000–2020."* Their analysis examines India's agricultural transformation over two decades, focusing on productivity trends, technological adaptation, and the relationship between agricultural output and rural livelihoods. The authors highlight the critical importance of institutional adaptability in managing resource use, market access, and environmental sustainability. Their findings underscore that, in emerging economies, agricultural modernisation remains central to balanced growth and social stability.

Both contributions in this section illuminate how sector-specific developments are embedded in broader macroeconomic and institutional contexts. They collectively demonstrate that successful transformation depends on long-term policy coherence and the effective coordination of economic, technological, and social change.

The third section, *Urban Governance and Regionalism*, explores how local and regional governance structures mediate the processes of globalisation and decentralisation. Phan Thị Hồng Xuân and Đoàn Diệp Thùy Dương, in their paper *"Creative Cities and Urban Diplomacy: Prospects for Cooperation between Ho Chi Minh City and Central European Cities,"* analyse how cities act as agents of international cooperation. By situating Ho Chi Minh City's partnerships with Central European urban centres within the framework of creative industry development and cultural diplomacy, the authors demonstrate how urban policy can function as a channel for dialogue and mutual learning. The study highlights how local governments contribute to cross-regional relations and sustainable urban development through knowledge-sharing and cultural exchange.

In the concluding article, Pál Gyene and Zoltán Egeresi present *"The Different Pathways of Regional Separatism in Indonesia."* Their paper explores Indonesia's diverse experiences of regionalism and separatism, examining how governance structures, socio-economic disparities, and identity politics shape regional dynamics. Through comparative analysis, they reveal the varying institutional responses to demands for autonomy and integration. The study provides a balanced perspective on how decentralisation and national cohesion interact, offering broader lessons for managing diversity and regional governance in complex states.

In addition to the thematic studies presented in this issue, the volume features two book reviews that extend the discussions on institutional change and long-term development. Dávid Ligeti's assessment of Géza Gecse's *Russian Great-Power Politics, 1905–2021* highlights the historical continuities shaping Russia's strategic behaviour, offering valuable context for understanding contemporary Eurasian geopolitics. Complementing this, Máté Szakáli reviews *The Developer's Dilemma*, edited by Armida Salsiah Alisjahbana, Kunal Sen, Andy Sumner, and Arief Anshory Yusuf—an ambitious comparative study of structural transformation and inequality dynamics across Asia, Africa, and Latin America. The review underscores the book's contribution to debates on inclusive growth and the evolving trajectories of middle-income economies, themes that resonate strongly with the empirical and conceptual questions addressed in this special issue.

By focusing on cities, regions, and governance frameworks, this section expands the lens of development beyond national economies to encompass the subnational and local dimensions of transformation. It reflects how urbanisation, decentralisation, and local diplomacy increasingly influence the architecture of Eurasian development.

This special issue of *Eurázsia Szemle* demonstrates the value of cross-sectoral and interdisciplinary inquiry in understanding development as a multidimensional process. The articles collected here highlight that economic growth, institutional adaptation, and social transformation are deeply intertwined. They also show that development is not a uniform trajectory but a set of context-specific negotiations between history, policy, and aspiration.

By departing from the journal's usual column-based structure, this issue reinforces *Eurázsia Szemle*'s mission to explore Eurasia's transformations from new and integrative perspectives. The theme *Growth, Development, and Institutional Transitions* invites continued reflection on how societies pursue progress while addressing inequality, sustainability, and institutional change. The Editorial Board hopes that this special issue will contribute to scholarly dialogue on these pressing questions and inspire further comparative research on the evolving patterns of development across the Eurasian space.

Csaba Moldicz, PhD
Deputy Editor-in-Chief
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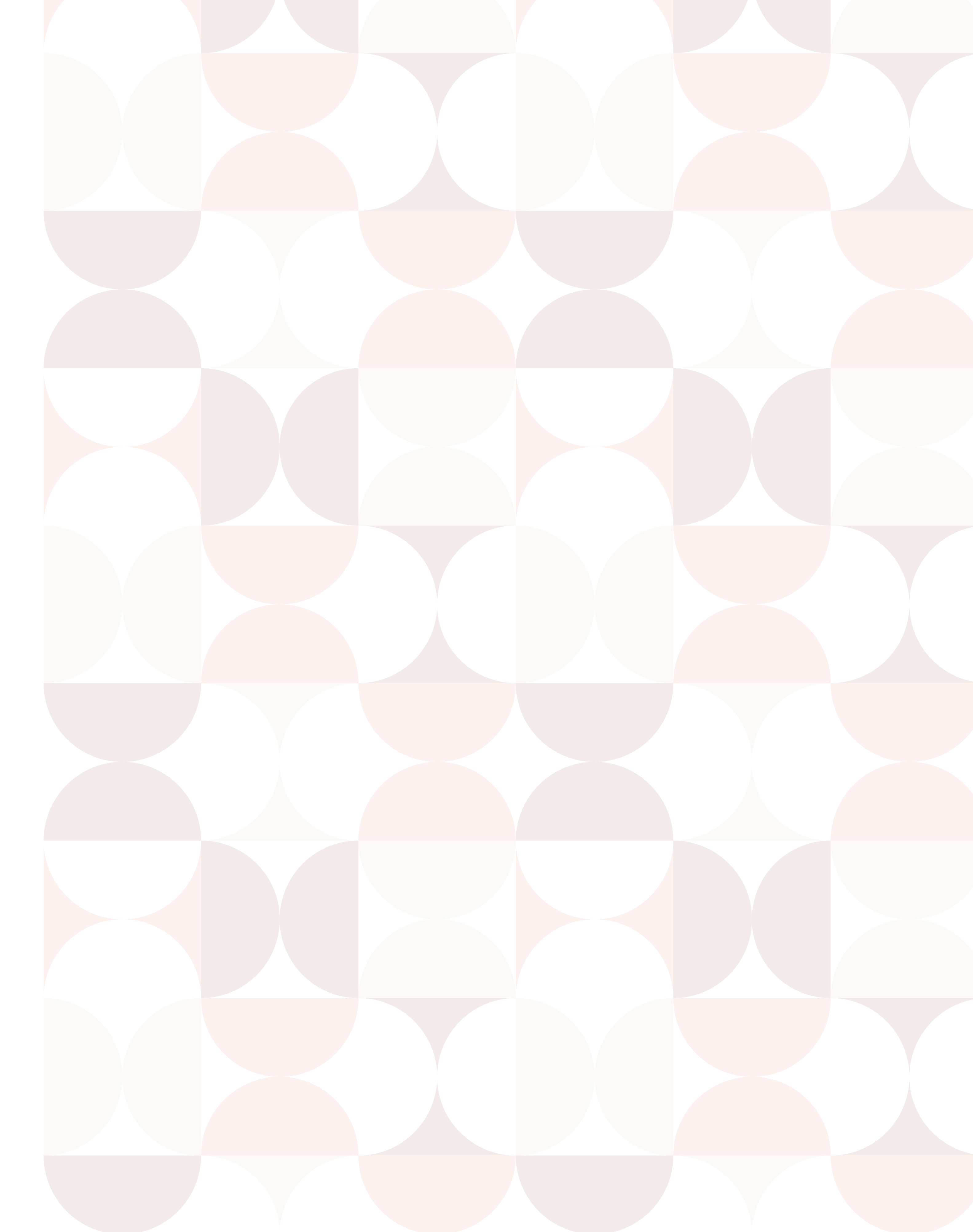
I

RETHINKING DEVELOPMENT AND INDUSTRIALIZATION



TINA SAAVEDRA
CLEMENTE

Emancipatory Development? Examining Philippine Archipelagic Blue Economy Perspectives and Performance

EMANCIPATORY DEVELOPMENT? EXAMINING PHILIPPINE ARCHIPELAGIC BLUE ECONOMY PERSPECTIVES AND PERFORMANCE

Tina Saavedra Clemente[1]

Abstract

Seventy years after the watershed Bandung Conference, colonial legacies on development continue. In the Philippines, there has been increasing scholarly attention on archipelagic development and the blue economy. This paper looks at the interface and offers a decolonial critique amid grave issues relating to sustainability, security, and socio-economic progress. Efforts toward archipelagic development reflect attempts to challenge land-centric core-periphery inequality and the marginalization of maritime communities. Meanwhile, archipelagic discourses are heavy on the blue economy component, reflecting longstanding emphasis on terrestrial matters while neglecting or even detrimentally affecting the maritime dimension. This essay seeks to generate reflections on emancipatory development in the Bandung spirit.

Keywords: decolonizing development, coloniality, extractivism, knowledge structures, governmentality

1 Tina Saavedra Clemente, PhD, Professor, Asian Center, University of the Philippines Diliman, the Philippines.

1. Introduction

Drawing inspiration from the Bandung Conference's ideals of self-determination and anti-colonialism, this paper interrogates the Philippines' archipelagic blue economy in terms of how it is conceived in national frameworks and reckoned through metrics of performance. The paper seeks to contribute ideas on emancipatory development by pointing out that weaknesses in archipelagic blue economy governance and gaps in performance indicators reflect colonial legacies. Upholding self-determination and sovereignty presupposes the right to pursue a development model that adheres to the specificities of the country rather than continuing colonial legacies in land-centric policies and core-periphery dynamics. These legacies replicate coloniality within national borders in various exploitative, non-inclusive, unequal, and marginalizing contexts. Self-determination presumes the ultimate goal of broad-based development and the effectuation of material conditions that allow people to live with dignity.

Using the lens of critical theory, the paper utilizes close reading in elucidating the value of the archipelagic blue economy as expressed in said frameworks and metrics and their incongruence with lived realities. Purposive sampling is applied to the selection of featured plans and policies that represent national frameworks, which are discussed in Section 2. The same approach is used in selecting the datasets featured in Section 3. These datasets demonstrate the expansive scope of the archipelagic blue economy, the disparateness of the measures, and contentions associated with the datasets. Given the focus on Philippine implications, only pertinent datasets from the Philippine Statistics Authority (PSA), United Nations Sustainable Development Goal 14 (UN SDG 14), Environmental Performance Index (EPI), and the Blue Economy Development Index (BEDI) are featured. Section 4 brings the two previous sections together in a discussion on the power-knowledge axis. The paper ends with conclusions and suggestions for further research.

2. Articulating Salience

2.1. National Frameworks

In the Philippines, archipelagic development is a framework on strategic planning that considers the potential and contentions that emanate from a country's archipelagic particularities. On the other hand, the blue economy denotes the use of maritime resources in a sustainable way to achieve economic and ecosystem goals. Archipelagic development has become a buzz word with an emphasis on economic and security benefits amid longstanding issues of geographical, economic, and cultural fragmentation. Hence, connectivity in its different dimensions has been a top-of-mind priority. President Marcos has committed 83 percent of his "Build, Better, More"[2] infrastructure program

2 President Marcos' "Build, Better, More" continues the unfinished projects under former President Duterte's program "Build, Build, Build." However, the former seeks to expand the targets.

to "roads, bridges, seaports, airports, and mass transport" in aid of promoting linkages across all economic activity in the country (Antonio, 2023). Security-wise, maritime disputes in the West Philippine Sea have urged "archipelagic consciousness" as vital in national perspectives.

"Along with our efforts to strengthen our external defence capabilities, I ask you too to continue working with national government agencies and civilian stakeholders to form an archipelagic consciousness amongst Filipinos. This will help champion our country's territorial integrity and sovereignty" (Presidential Communications Office, 2023).

Meanwhile, the blue economy has likewise been subject to much discussion as an associated and largely overlapping discourse. This dovetailing stems from the fact that the land–sea ecology of archipelagos tends to magnify their maritime problems. Also, many archipelagic countries have focused on terrestrial development more, neglecting maritime issues for far too long. Enduring maritime concerns include fish resource depletion, inefficient administration of maritime holdings (Sanchez-Escalona 2022), ecosystem degradation, waste mismanagement, and the effects of worsening weather extremes (Pinhao, 2023a).

In 1994, the National Marine Policy (NMP) came into force (Office of the President of the Philippines, 1994). Garcia (2005) and Co et al. (2016) both consider the NMP as a foundational framework for the country's archipelagic development. Implementation is glacial as the integration of development strategies and ocean planning are found wanting. The dismantling of the Cabinet Committee on Maritime and Ocean Affairs was deemed an exacerbating factor in the lack of integration (Garcia, 2005) while its ineffectiveness led to its abolition. This predicament is a symptom of more complex institutional misalignments. Co et al. (2016) revisit the NMP and underscore the importance of jurisdiction, area development and conservation, maritime security, regulation and enforcement, and climate change and disaster risk. They argue that an effective national marine policy must be able to weather political/electoral transitions and must exhibit inclusive and consolidated sustainable development pathways. Table 1 provides a non-exhaustive list of policies regarding archipelagic development and the blue economy.[3]

Table 1. Selected Policies on Archipelagic Development and the Blue Economy

Year	Policy
1994	National Marine Policy
1998	The Philippine Fisheries Code
2004	Domestic Shipping Development Act
2006	Integrated Coastal Management
2011	National Coast Watch System
2019	Fisheries Management Areas
2023	Blue Economy Act (pending)
2023	Philippine Archipelagic Sea Lanes Act
2024	Philippine Maritime Zones Act

Note: Full information of the entries are provided in the References.
Source: Author's consolidation.

The last two policies reflect frameworks whose need was heightened due to increased attention on archipelagic and maritime issues resulting from Philippines-China tensions in the West Philippine Sea. The third to the last is a result of greater recognition that the scope of the economy and its development cannot continue excluding maritime areas and resources. An extensive set of regulatory frameworks does exist, as Pinhao's (2023b) survey shows, and represents a range of pertinent sectors. These include fisheries and aquaculture, coastal and marine ecosystem and biodiversity conservation, pollution reduction and waste management, maritime transport and shipping, marine security, tourism, offshore oil and gas, renewable energy, and disaster reduction and management.

Two decades ago in 2004, the *ARCDEV, A Framework for Sustainable Philippine Archipelagic Development,* was designed to reorient a heavily land-based development paradigm to one that integrates the significance of coastal and marine areas with land holdings. This was a joint publication by the Department of Environment and Natural Resources (DENR), the United Nations Development Programme (UNDP), and the Marine Environment and Resources Foundation, Inc. (MERF). It sought to provide an alternative approach to tackling socio-economic, sustainability, and security imperatives of a development strategy that anchored on the country's archipelagic features (DENR, UNDP, MERFI 2004).

The importance of archipelagic development and the blue economy also exhibited purchase in the country's framework for development, the Philippine Development Plan (PDP) 2023-2028. The latter notably adheres to the Changwon declaration:

"A practical ocean-based economic model using green infrastructure and technologies, innovative financing mechanisms and proactive institutional arrangements for meeting the twin goals of protecting our oceans and coasts and enhancing its potential contribution to sustainable development, including improving human well-being, and reducing environmental risks and ecological scarcities (Changwon Declaration 2012)."

The PDP 2023-2028 gives attention to interfaces between archipelagic development and the blue economy. Emphasis is on the development of the maritime industry and related sectors, improving connectivity, building STI capacity, protecting maritime holdings, and engendering resilience to disasters and climate change (National Economic and Development Authority, 2023). On the other hand, a national plan that is sector-specific is the Maritime Industry Development Plan 2028. The latter provides an integrated strategic path for the maritime sector with the objective of building a merchant fleet to respond to national transport needs. The plan seeks to modernize and expand the shipping industry both domestically and internationally, upskill the workforce, and enforce transport safety, security, and environmental sustainability (Maritime Industry Authority, 2023).

3 See Pinhao (2023b, pp. 47-49) for a more extensive list.

2.2. Colonial Legacies

Despite the number of frameworks, plans, and institutions involved, challenges remain pervasive. For instance, policy frameworks require coordinated implementation involving numerous institutions that are not empowered to act in concert. Management of common resources has always been flagged in policy as an urgent matter, but the regulatory crisis is yet to be resolved. Attempts to address IUU are hampered by the lack of enforcement muscle. Overfishing endures due to the domination of industrial-scale fishers, the survival pressures faced by structurally marginalized small-scale fishers, and the unregulated pull of large markets. Waste management issues demonstrate heavy terrestrial-marine linkages, a major result of which is Philippine infamy as the top global contributor of marine plastic pollution (Clemente & Melchor, 2025). The widespread critique of sustainability being neglected in practice is reflected in the Philippines (Satizábal et al., 2020). Economic growth, productivity, investment, and extraction are consistently prioritized, whereas social equity and sustainability are largely tokenized (Croft et al., 2024; Louey, 2022; Martínez-Vázquez et al., 2021). In this light, governance needs to incorporate economic justice (Croft et al., 2024), especially given that the more marginalized sectors contribute to benefits that accrue to the state and national and international publics while bearing a disproportionate share of the costs. Meanwhile, corporations continue to dominate the blue economy, with firms from 10 countries cornering 97 percent marine genetic resource patents (Issifu et al., 2023). Tapping the blue economy as a treasure trove of resources or opening new markets for investment deprioritizes taking the hard path towards reforming against extractive practices. Kedia and Gautam (2020) critique the concentration of blue-economy stakeholding among a small group of developed countries and the dominance of a few firms in key markets, underscoring the need for critical political-economy reflection on how these dynamics shape prevailing discourses. If blue economy governance tends to be fragmented, the archipelagic setting of the Philippines complicates this even more.

What seems to be bureaucratic inefficiency as a manifestation of a weak state is rooted in coloniality. Spanish colonial occupation relied on local elites and parish-centered authority in fragmented territorial governance. When the Americans took control of the archipelago, they created state and attendant democratic institutions that were built on the previous colonial patronage structure. What resulted was a cacique democracy where elite capture and clientelism reigned (Anderson, 1988). Hence, when the present Philippine state is described as institutionally weak in regulating industrial excesses in both extraction and waste generation for example, this cannot be simply judged as bureaucratic inefficiency which can simply be addressed by rationalization and capacity-building. This deficit is rather a perpetuation of the colonial extractive structural design (Quijano, 2000; Acosta, 2017; Acemoglu et al., 2001). Historically, the colonial *raison d'être* of Philippine institutions was to enable extraction for the benefit of external centres of power, not to represent the interests of communities or protect ecosystems. When Philippine frameworks presume sustainability while the opposite proliferates, it normalizes and reproduces the "coloniality of nature" following power logics of racialized, socio-economic and knowledge hierarchies (Alimonda, 2019; Quijano, 2000; Svampa, 2019). The blue economy then translates to maritime spaces and rich ecosystems that are seen as mere resource windfalls for productivist aspirations with sustainability as an afterthought.

3. Reckoning Value and Performance

3.1. Value and Valuation

The blue economy is heralded as a game-changer in national development with burgeoning value. As such, there have been calls to develop marine related industries, push for sustainability and inclusivity, and create integrated policy and institutional support (National Academy of Science and Technology, 2019; Azanza et al., 2017; Azanza et al., 2022; and Mendoza and Valenzuela, 2017). To signify the value of the Philippine blue economy to the global ecosystem, Carpenter and Springer (2005) point out that the Philippines is the linchpin of world marine biodiversity. In the shadow of the excitement over the blue economy, however, grave concerns linger. Licuanan et al. (2017) bring to light the degradation of 90 percent of Philippine reefs. The Philippines is also the top marine plastics polluter in the world, with a 36.38 percent share. The country's rivers are seven of the top 10 rivers that contribute to ocean plastic pollution, with the Pasig River infamously topping the list (Meijer et al., 2021; Our World in Data, n.d.a, n.d.b). These juxtapositions indicate the need for an integrated understanding of the state of the blue economy. Malayang (2021) emphasizes that land-sea ecology is necessary in underlying perspectives on appraising the state of the blue economy within the larger archipelagic milieu. In consonance with this line of thinking, Ramli and Waskitho (2023) contend that terrestrial economic activities have a great effect on the blue economy. They suggest the need for a tighter correspondence between policy ideals and implementation.

While the state indeed recognizes prospects, it has been a struggle to get a better picture of the sector's existing value. Notwithstanding improvements in data gathering, processing, and consolidation, statistics that relate to the vast maritime sector have great room for improvement as they remain fragmented and challenging to access and integrate. Researchers have to utilize various sources to cover the different dimensions of the archipelagic blue economy. For example, the National Mapping and Resource Information Authority (n.d.) creates visual representations of topographical, hydrographical, oceanographical, and geospatial features and resource assessments. The Maritime Industry Authority has data on merchant fleets and shipbuilding (Maritime Industry Authority, 2023). Beyond the narrow scopes of specific agencies, there are datasets that are broader in the dimensions they cover. The following subsection features four datasets, which allow scrutiny into how the archipelagic blue economy is empirically reckoned.

Table 2. Gross Value Added of Ocean-based Activities by Industrial Origin at Current Prices, 2018-2024 (percent share to total)

Industry	2018	2019	2020	2021	2022	2023	2024
I. Agriculture, Forestry & Fishing	**23.4**	**25.3**	**33.0**	**33.2**	**30.8**	**28.0**	**24.5**
a. Ocean fishing	23.4	25.3	33.0	33.2	30.8	28.0	24.5
II. Industry	**37.1**	**34.7**	**41.5**	**42.0**	**40.1**	**34.0**	**34.2**
a. Offshore and coastal mining and quarrying	4.8	4.3	3.5	5.0	6.5	2.6	2.1
b. Manufacture of ocean-based products	19.1	18.3	23.3	22.8	21.3	20.6	20.8
c. Coastal construction	0.9	0.7	1.0	1.1	1.1	0.8	1.2
d. Ocean-based power generation, transmission, and distribution	12.3	11.4	13.7	13.0	11.1	10.0	10.1
III. Services	**39.5**	**40.0**	**25.4**	**24.8**	**29.1**	**38.0**	**41.2**
a. Marine equipment wholesale and retail	0.7	0.7	0.9	0.8	0.7	0.7	0.7
b. Sea-based transportation and storage	13.3	13.0	14.8	14.7	14.6	14.7	15.8
c. Marine information services	0.03	0.02	0.03	0.03	0.03	0.03	0.03
d. Marine insurance	1.1	1.1	1.2	1.0	1.4	1.4	1.3
e. Marine renting and business activities	0.01	0.01	0.01	0.01	0.01	0.01	0.01
f. Maritime safety, surveillance and resource management	3.0	3.4	4.5	5.0	4.5	5.4	5.0
g. Marine education	0.5	0.5	0.5	0.3	0.3	0.3	0.4
h. Coastal accommodation and food and beverage services activities	15.0	15.4	1.7	1.7	5.0	9.9	12.8
i. Coastal recreation	5.9	5.9	1.7	1.2	2.5	5.4	5.3
Total Ocean-Based Activities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Figures may not add up precisely due to rounding.
Source: Philippine Statistics Authority (2025, September 18b).

3.2. Datasets with Implications for the Philippines

3.2.1. Statistics on the Ocean Economy

At the 14th National Convention on Statistics in 2019, Bersales et al. (2019) presented provisional estimates of the Philippine Ocean Economy Satellite Accounts (POESA). The PSA updated the figures and made them publicly accessible shortly thereafter. At present, data from 2012 until 2024 have been posted on the PSA website (Philippine Statistics Authority, n.d. and 2025, September 18a). The 2024 figures show ocean-based industries exceeding PhP 1 trillion while the percentage share of ocean-based activities to GDP at current prices is 3.8 (Philippine Statistics Authority, 2025, September 18b). The PSA's effort to consolidate the POESA is commendable and unprecedented. However, the focus on how the ocean economy contributes to national output does not address the urgent balance needed between inclusive development, sustainability, and security. Tables 2 and 3 show sample PSA datasets on the performance of ocean-based activities and employment by industrial origin. These tables are helpful in identifying sectoral strengths and weaknesses and the concentration of employment across sectors. The question is, will there be an integrated dataset where goals for economic output are balanced with sustainability targets? Ebarvia (2016) posits that a proper and mainstreamed valuation of the blue economy that advances ecosystem and environmental health is essential to the achievement of a robust economic future. Such accounting supports better stewardship of natural resources and ensures that economic growth is sustainable. However, this kind of integrated valuation has yet to be developed.

Table 3. Employment in Ocean-based Activities by Industrial Origin, 2018-2024 (percent share to total)

Industry	2018	2019	2020	2021	2022	2023	2024
I. Agriculture, Forestry and Fishing	**36.5**	**37.1**	**50.1**	**51.6**	**46.2**	**42.2**	**35.6**
a. Ocean fishing	36.5	37.1	50.1	51.6	46.2	42.2	35.6
II. Industry	**5.2**	**4.8**	**6.1**	**6.1**	**6.1**	**4.9**	**5.1**
a. Offshore and coastal mining and quarrying	0.4	0.3	0.4	0.4	0.3	0.4	0.4
b. Manufacture of ocean-based products	3.2	2.9	3.7	3.7	3.7	2.8	3.0
c. Coastal construction	0.9	0.9	1.2	1.3	1.2	1.0	1.1
d. Ocean-based power generation, transmission, and distribution	0.7	0.7	0.9	0.8	0.9	0.7	0.7
III. Services	**58.2**	**58.1**	**43.8**	**42.3**	**47.7**	**52.9**	**59.3**
a. Marine equipment wholesale and retail	4.3	4.1	5.6	6.4	6.1	4.9	5.0
b. Sea-based transportation and storage	22.7	21.8	26.8	25.1	24.2	22.3	24.2
c. Marine information services	1.4	1.3	1.5	1.8	1.6	1.4	1.4
d. Marine insurance	0.1	0.1	0.2	0.2	0.2	0.2	0.2
e. Marine renting and business activities	0.1	0.1	0.2	0.2	0.2	0.2	0.2
f. Maritime safety, surveillance and resource management	1.8	1.9	2.8	2.9	2.8	2.3	2.3
g. Marine education	0.3	0.3	0.4	0.4	0.4	0.4	0.4
h. Coastal accommodation and food and beverage services activities	24.2	25.3	5.0	4.6	10.7	18.1	22.6
i. Coastal recreation	3.2	3.2	1.3	0.8	1.4	3.1	3.0
Total Ocean-Based Employment	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Figures may not add up precisely due to rounding.
Source: Philippine Statistics Authority (2025, September 18b).

3.2.2. Sustaining Life Below Water

UN SDG 14 would likewise be a natural point of reference when assessing the state of the country's blue economy. The official objective of UN SDG 14 or Life Below Water is to "conserve and sustainably use the oceans, seas and marine resources for sustainable development" (United Nations, 2015, p. 23). The Philippine attempts to facilitate progress toward achieving SDG 14 goals have produced uneven results. The country performs strongly in establishing a conservation framework for coastal and marine areas (Target 14.5) (see Table 4).

Table 4. SDG 14 Philippine Profile

Goals/Targets/ Indicators	Baseline	Latest	Target
Target 14.5: By 2020, conserve at least 10 percent of coastal and marine areas, consistent with national and international law and based on the best available scientific information			
14.5.1. p1 Coverage of protected areas in relation to marine areas			
14.5.1. p1.1 Coverage of protected areas in relation to marine areas (total, in million ha)	1.41	3.14 2022	
14.5.1.p1.2 Coverage of protected areas in relation to marine areas, NIPAS, and locally managed MPAs	0.64	1.42 2022	0.70 2030

Source: Biodiversity Management Bureau, Department of Environment and Natural Resources.
Notes: MPAs = Marine protected areas; NIPAS = National Integrated Protected Areas System.

Meanwhile, the Philippines remains one of the world's extremely biodiverse countries, but the protection and restoration of ecosystems (Target 14.2) are imperiled. Ecosystems also bear the burden of the deficient performance in reversing overfishing (Target 14.4) and the country's disastrous contribution of marine plastic pollution to the world's oceans (Target 14.1) despite policies on fisheries management areas and ecological solid waste. Subsidies contributing to overfishing continue notwithstanding international advocacy to end them (Target 14.6). Overfishing is seriously entwined with continuing socio-economic inequality and inequity showing how attempts to support small scale fishers (Target 14.9) and increase economic benefits from sustainable use of marine resources (Target 14.7) have been inadequate. Similarly, the disparities in waste management are skewed in favour of communities that are more well-off. As far as data on SDG targets are concerned, they are lacking and incomplete, and when available, they are not updated regularly, which hampers monitoring and enforcement. For instance, the goals of reducing ocean acidification (Target 14.3) and developing scientific knowledge, research, and technology in connection with ocean health (Target 14.8) are impeded by limited national capacity.[4]

4 See SDG 14 targets in United Nations (2015).

3.2.3. Indicators of Environmental Performance

With regard to environmental performance, the EPI makes a helpful evaluative tool. Philippine EPI in 2024 is ranked 158 out of 180 countries surveyed. In the three dimensions of the EPI, the country performs lamentably, coming 120th in Ecosystem Vitality (which includes marine protected areas and fisheries), 112th in Environmental Health, and 175th in Climate Change (Block et al., 2024a). Table 3 shows the EPI of ASEAN member states and selected indicators within Ecosystem Vitality. Table 5 presents selected EPI indicators with a focus on two subcategories within Ecosystem Vitality— Biodiversity & Habitat and Fisheries. Within the former subcategory, three distinctly marine components are presented, while all components under the latter are included.

Table 5. EPI of ASEAN Members States

Country	2024 EPI	Biodiversity & Habitat			Fisheries				
		MKP	MHP	MPE	FSS	FCD	BTZ	BTO	RMS
Brunei Darussalam	48.3	0	1.1	57.9	NA	35.6	34.2	48.7	50.1
Cambodia	31.2	63.1	17.6	50	23	86.7	12	15.4	52
Indonesia	33.6	28.6	13	96.1	60.3	58.3	26.3	31.7	31.1
Laos	26.3	NA	NA	NA	NA	NA	NA	NA	NA
Malaysia	41	6.2	12.4	86.1	51.5	87.8	39.4	41.3	48.7
Myanmar	27.1	5.1	2.1	98.1	50.5	55.3	22.8	25.3	56.4
Philippines	32.1	19.4	12.5	53.1	72.7	86.2	76.7	77.2	41.8
Singapore	53	NA	0	NA	NA	NA	100	100	62.6
Thailand	45.7	68.3	28.6	33	38.8	79.2	31.5	33.3	60.9
Timor-Leste	49.9	59.9	17.7	100	100	NA	NA	100	50
Viet Nam	24.6	27.5	7	40	98.2	31.8	9	13.3	29

Source: Block et al., 2024a.
Legend (Block et al., 2024b): Biodiversity & Habitat: MKP = Marine Key Biodiversity Areas (KBA) Protection; MHP = Marine Habitat Protection; MPE = Marine Protection Stringency; Fisheries: FSS = Fish Stock Status; FCD = Fish Catch Discarded; BTZ = Bottom Trawling in EEZ; BTO = Bottom Trawling in Global Ocean; RMS = Regional Marine Trophic Index

Within Biodiversity & Habitat, MKP and MHP registered scores of 19.4 and 12.5 respectively. These indicate that conservation initiatives need to drastically improve so that key marine biodiversity areas and habitats can be protected. If we juxtapose the MPE score of 53.1 with the low MKP and MHP scores, we can appreciate that dissonance between having a policy framework and its implementation. Parallel to this are higher scores for FSS and FCD at 72.7 and 86.2 while overfishing and IUU fishing are ongoing concerns (Block et al., 2024a). Managing resources and effecting conservation remain challenging in practice especially when initiatives toward environmental performance tend to be compartmentalized.

Table 6. Blue Economy Indicators of Selected Archipelagic States

No.	Country		Degree of Importance					Degree of Impact					Aggregate Score	Note
		Score	Ecosystem Scale	Resource Quality	Governance Index	Technology Index	Total Importance	Inclusiveness Index	Income Fairness	Economic Contribution	Employment Rate	Total Impact		
		Weight	0.25	0.35	0.15	0.25	1.00	0.25	0.15	0.25	0.35	1.00		
1	Comoros	Score	0.75	0.70	0.15	0.25	1.85	0.25	0.30	0.75	0.35	1.65		
		Aggregate	0.19	0.25	0.02	0.06	1.85	0.06	0.05	0.19	0.12	1.65	3.0525	Medium
2	Cyprus	Score	0.75	0.70	0.45	0.75	2.65	0.75	0.30	0.50	0.35	1.90		
		Aggregate	0.19	0.25	0.07	0.19	2.65	0.19	0.05	0.13	0.12	1.90	5.035	Medium
3	Dominican Republic	Score	0.75	1.05	0.30	0.50	2.60	0.75	0.30	0.25	0.35	1.65		
		Aggregate	0.19	0.37	0.05	0.13	2.60	0.19	0.05	0.06	0.12	1.65	4.29	Medium
4	Fiji	Score	0.75	0.70	0.30	0.50	2.25	0.75	0.30	0.75	0.35	2.15		
		Aggregate	0.19	0.25	0.05	0.13	2.25	0.19	0.05	0.19	0.12	2.15	4.8375	Medium
5	Guinea-Bissau	Score	0.75	0.70	0.15	0.25	1.85	0.50	0.45	0.25	0.35	1.55		
		Aggregate	0.19	0.25	0.02	0.06	1.85	0.13	0.07	0.06	0.12	1.55	2.8675	Medium
6	Haiti	Score	0.75	0.70	0.15	0.25	1.85	0.25	0.30	0.25	0.35	1.15		
		Aggregate	0.19	0.25	0.02	0.06	1.85	0.06	0.05	0.06	0.12	1.15	2.1275	Low
7	Indonesia	Score	0.75	0.70	0.30	0.50	2.25	0.25	0.30	0.75	0.70	2.00		
		Aggregate	0.19	0.25	0.05	0.13	2.25	0.06	0.05	0.19	0.25	2.00	4.5	Medium
8	Ireland	Score	0.75	0.70	0.45	0.75	2.65	0.75	0.30	0.25	0.35	1.65		
		Aggregate	0.19	0.25	0.07	0.19	2.65	0.19	0.05	0.06	0.12	1.65	4.3725	Medium
9	Jamaica	Score	0.75	0.70	0.30	0.50	2.25	0.50	0.30	0.75	0.35	1.90		
		Aggregate	0.19	0.25	0.05	0.13	2.25	0.13	0.05	0.19	0.12	1.90	4.275	Medium
10	Japan	Score	0.75	0.70	0.45	0.75	2.65	0.75	0.30	0.75	0.35	2.15		
		Aggregate	0.19	0.25	0.07	0.19	2.65	0.19	0.05	0.19	0.12	2.15	5.6975	High
11	Madagascar	Score	0.50	0.70	0.15	0.25	1.60	0.50	0.30	0.75	0.35	1.90		
		Aggregate	0.13	0.25	0.02	0.06	1.60	0.13	0.05	0.19	0.12	1.90	3.04	Medium
12	Maldives	Score	0.75	0.70	0.30	0.50	2.25	0.25	0.30	0.75	0.35	1.65		
		Aggregate	0.19	0.25	0.05	0.13	2.25	0.06	0.05	0.19	0.12	1.65	3.7125	Medium
13	Malta	Score	0.75	1.05	0.45	0.75	3.00	0.50	0.45	0.75	0.35	2.05		
		Aggregate	0.19	0.37	0.07	0.19	3.00	0.13	0.07	0.19	0.12	2.05	6.15	High
14	Mauritius	Score	0.75	0.70	0.30	0.50	2.25	0.50	0.30	0.75	0.35	1.90		
		Aggregate	0.19	0.25	0.05	0.13	2.25	0.13	0.05	0.19	0.12	1.90	4.275	Medium
15	New Zealand	Score	0.75	1.05	0.45	0.75	3.00	0.75	0.30	0.25	0.35	1.65		
		Aggregate	0.19	0.37	0.07	0.19	3.00	0.19	0.05	0.06	0.12	1.65	4.95	Medium

No.	Country	Degree of Importance						Degree of Impact					Aggregate Score	Note
		Score	Ecosystem Scale	Resource Quality	Gover-nance Index	Techno-logy Index	Total Impor-tance	Inclusiveness Index	Income Fairness	Economic Contribution	Employment Rate	Total Impact		
16	Papua New Guinea	Score	0.75	0.70	0.15	0.50	2.10	0.50	0.45	0.00	0.35	1.30		
		Aggregate	0.19	0.25	0.02	0.13	2.10	0.13	0.07	0.00	0.12	1.30	2.73	Medium
17	Philippines	Score	0.75	0.70	0.30	0.75	2.50	0.50	0.30	0.75	0.70	2.25		
		Aggregate	0.19	0.25	0.05	0.19	2.50	0.13	0.05	0.19	0.25	2.25	5.625	High
18	São Tomé and Príncipe	Score	0.75	0.70	0.30	0.25	2.00	0.25	0.45	0.50	0.35	1.55		
		Aggregate	0.19	0.25	0.05	0.06	2.00	0.06	0.07	0.13	0.12	1.55	3.1	Medium
19	Singapore	Score	0.25	0.70	0.45	0.75	2.15	0.50	0.30	0.75	0.35	1.90		
		Aggregate	0.06	0.25	0.07	0.19	2.15	0.13	0.05	0.19	0.12	1.90	4.085	Medium
20	Sri Lanka	Score	0.75	0.70	0.30	0.50	2.25	0.50	0.30	0.75	0.35	1.90		
		Aggregate	0.19	0.25	0.05	0.13	2.25	0.13	0.05	0.19	0.12	1.90	4.275	Medium
21	Timor Leste	Score	0.75	0.70	0.30	0.25	2.00	0.25	0.45	0.75	0.35	1.80		
		Aggregate	0.19	0.25	0.05	0.06	2.00	0.06	0.07	0.19	0.12	1.80	3.6	Medium
22	United Kingdom	Score	0.75	0.70	0.45	0.75	2.65	0.75	0.30	0.50	0.35	1.90		
		Aggregate	0.19	0.25	0.07	0.19	2.65	0.19	0.05	0.13	0.12	1.90	5.035	Medium

Sources: Archipelagic and Island States Forum (n.d.); Adrianto et al. (2020).
Note: Table processed by Jenina Melchor, based on data from Archipelagic and Island States Forum (n.d.).

3.2.4. Measures for Archipelagic Blue Economies

The BEDI recognizes the country's maritime spaces as a crucial part of development, and incorporates the dimensions of growth, sustainability, and social equity. The index is the first of its kind to represent blue economy indicators tailored to the archipelagic environment. Covering a number of indicators, the BEDI is designed to be useful in monitoring and strengthening governance in marine and coastal areas and elucidating weaknesses. Table 6 shows the BEDI as applied to twenty-two archipelagic states. The index looks at two main indicators: Degree of Importance and Degree of Impact. These and their sub-indicators demonstrate the attempt to construct comprehensive measures. Degree of Importance has the following sub-indicators: ecosystem scale, resource quality, governance, and technology. On the other hand, Degree of Impact consists of the following sub-indicators: inclusiveness, income fairness, economic contribution, and employment rate. Country performance is positively related to the score. The Philippines is listed with an overall score of 5.625 and labelled as "High" alongside countries like Japan and Malta. However, the reality is that the Philippines' high performance is not felt on the ground, raising the question of how far a cross-country index can capture particularities that shape the everyday realities that this paper previously identified in Section 2 as well as the concerns arising from the focus on economic output (see the POESA discussion) alongside concerns arising from the UN SDG 14 and EPI figures (Archipelagic and Island States Forum, n.d.; Adrianto et al., 2020).

4. Challenging the Power-Knowledge Axis

The previous sections tackled various data sources for measuring the value and performance of the blue economy in the Philippine archipelago. Performance indicators present patterns and trends that facilitate broad perusal and analysis. In turn, analysis allows researchers to study not just positive projections but also departures from targets or goals for policy design and strategic development. Datasets have a significant role in evaluation, monitoring, and enforcement (Smith-Godfrey, 2022). However, data gathering, organization, curation, and analysis need to be considered from the vantage point of structuration as knowledge is a central peg in the workings of governmentality (Foucault, 1991; Hornidge et al., 2023). In particular, indicators for the blue economy are connected to embedded ontologies, values, and interests that are not necessarily explicit regarding how individual agencies and their personnel manage and deploy datasets.

In the various appraisals of value and blue economy performance, recurring gaps between goals and practice - despite policy interventions - indicate governmentality dominated by imperatives of the market and imaginaries of growth and production (Midlen, 2021). While output contributions are routinely treated as baseline data for blue-economy management, the impacts of marginalization, inequity, and weak sustainability on economic well-being are frequently downplayed. This both

marginalizes indicators unrelated to growth and production and defines what information is treated as mainstream and acceptable.

The unevenness of perspectives and of how value and performance are reckoned is further reinforced by pervasive "epistemic inequalities." Differences in voice, access to decision-makers, positions in government, funding, and prestige accorded to disciplines constitute a site for reflection. For example, scientific and economic disciplines are often regarded as "rational," in contrast to feminist and indigenous frameworks. This configuration limits broad participation in meaning-making in blue economy narratives and trajectories of development (Hornidge et al, 2023, p. 26). The blue economy is constantly espoused as a clarion call for progress in the ocean's economic, environmental, and social equity dimensions, while allowing continued ecosystem degradation and socio-economic injustice. The danger in this is the further entrenchment of path-dependent regimes of exploitative extraction (Schutter, 2021), which dispels any hope for game-changing transformation. As in other global contexts, the notion of the blue economy has become fashionable, as evidenced by its prominence in political discourse. This, however, obscures the significant need for stronger governance, especially reforms aimed at ending socio-economic injustice, which has direct implications for the economic development being pursued (Wuwung et al., 2022).

5. Conclusions and Further Research

The preceding sections underscore three major points. First, colonial legacies underpin weak governance. Second, blue economy discourses risk reinforcing extractivism despite declared ideals. Third, emancipatory development requires re-centering equity and sustainability into praxis.

If normalized understandings of the blue economy arise from entrenched path dependence, the question becomes: how can we fortify counter-discourses in ways that reflect the spirit of Bandung? In unpacking the gaps between goals and local realities, it is vital to contest the power-knowledge axis where narratives and discourses, which manifest in policies, emanate from colonial and extractivist structures of power. In this light, further research should aim to unsettle thinking that has become ossified by the inertia of unchanging practice (Germond-Duret, 2022). For instance, multisectoral and interdisciplinary policy-oriented research can examine how sustaining and enriching Philippine marine fish biodiversity is critical for the world's ecosystem, promoting South-South cooperation on transboundary issues. Furthermore, to counter the overemphasis on the growth imperative, greater effort should be directed toward generating research that evaluates economic gains and losses related to ecosystem health, inequality, and inequity. Empirical studies would be helpful. Relatedly, a more radical approach is to envisage a common future of doom from wanton extraction, drawing attention to how human activity strains the carrying capacity of the planet. This allows a clearer view of how a vision of the future should affect the present. Finally, social-scientific research can collaborate with speculative writing and visual media in popularizing the discourse. This can be accomplished by storytelling two futures in stark contrast: dystopian living as a result of neglecting sustainability, and a progressively improving quality of life when sustainability is upheld.

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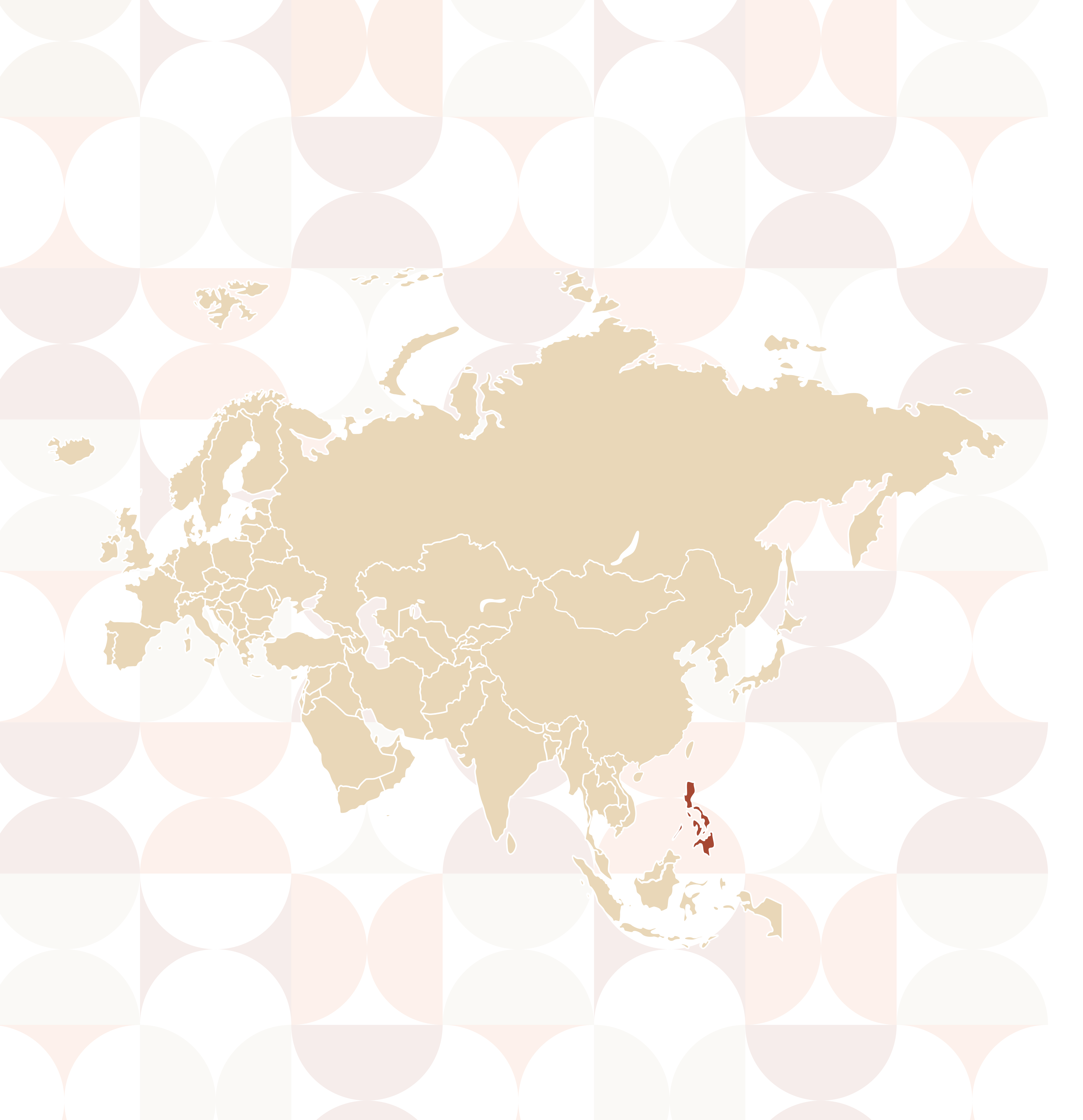

ALEXANDER MICHAEL PALMA

Decolonizing Industrialization of the Philippine Post-Independence Period: Impact of Fiscal Instruments on Foreign Direct Investment Participation

DECOLONIZING INDUSTRIALIZATION OF THE PHILIPPINE POST-INDEPENDENCE PERIOD: IMPACT OF FISCAL INSTRUMENTS ON FOREIGN DIRECT INVESTMENT PARTICIPATION

Alexander Michael Palma[1]

Abstract

Immediately after the Philippines gained independence in 1946, industrialization figured in certain pronouncements of the government that were criticized by nationalists because these indicate a continued dependence on the U.S. economy. Foreign influences reflected prominently in hallmark trade and investment agreements, as well as in development assistance and forms of economic aid. These influences also mirrored the pattern of development of institutions which persisted for several years

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after independence. It has been almost four decades since the 1987 Constitution the announced the promotion of balanced industrialization, but there remains, up until now, is the lack of coherent, sound, and more defined industrial policy to speak of. Since the Philippines attained independence, an industrialization goal was immediately articulated. However, in the entire span of the post-independence period, industrialization has hardly gained ground. The use of fiscal instruments continues to focus on the attraction of foreign direct investment more than domestic investment, and the impact of these instruments hardly constitutes the nationalization of industrial initiatives.

Keywords: industrialization, foreign direct investment, incentives, institutions

1. Introduction

The period following Philippine independence in 1946, saw the emergence of intense desire for a localized strategic direction to industrialize the country. Exploring the answers to the question, why Philippine industrialization did not take off involves a confluence of contributing factors---political, economic, lack of nationalist perspective, socio-economic, to name a few.

Industrialization emerged as an objective of many governments after the Second World War, and in the Philippines, this became more apparent after independence was gained in 1946. The post-independence period that extends up to the globalization era of the present comprises the scope of analysis in this study. The specific episodes of development in this period include, the post-colonial era (1946 to mid-1950s), the neo-colonial era (1956 to 1969), the market liberalization era (1970-1989), and the globalization era (1990 to present).

The growing consciousness of this neocolonial dependence was highlighted on the international platforms, such as regional conferences to include the Bandung Conference of 1955 held in Bandung, Indonesia. Carlos P. Romulo, a known diplomat at that time wrote an insider-look of this conference in his book, "The Meaning of Bandung" (1956). During this era, countries in Asia and Africa, most of which were underdeveloped, and had just gained independence from Western power, set out to chart their course in world diplomacy. These countries then started to achieve economic development and social progress, against a backdrop of continuing colonial dependence, lack of political freedom, and racial inequality. The focus of the Philippines in this era was true national independence, and genuine political freedom. Early attempts for regional unification emerged during this era, to balance the interests of the contending forces of the First World.

A balance of payments crisis occurred in 1970, after Ferdinand Marcos was re-elected. Export promotion was intensive during this period, and the Export Incentives Act (RA 6135) was passed to expand incentives offered under the previous Investment Incentives Act (RA5186). In addition to these policy instruments, Presidential Decree No. 66 came into being, establishing export processing zones in the year 1972, when martial law was declared. This introduced full foreign ownership of priority industries, and allowed 30% of total production be directed to the domestic market.

The democratization process leading to the passing of the 1987 Constitution, which provided that, "*the State shall promote industrialization and full employment based on sound agricultural development, and agrarian reform, through industries that make full use of human and natural resources, which are competitive in both domestic and foreign markets*".

Development should not be separated from material, intellectual, social, spiritual and artistic liberation, and the basic premise is economic independence which is only believed to be achievable in a nationalist, anti-imperialist framework. Such a nationalist framework became even more challenged after the 1990s, when important landmark legislation and executive declarations removed restrictions on foreign investments and imports. The Foreign Investment Act (RA 7042), for example, liberalized regulations, allowing 100% foreign equity participation in certain industries that have traditionally been reserved for Filipinos.

In this paper, the contribution of policy instruments, in particular fiscal incentives, to industrialization initiatives is examined in greater depth. Foreign direct investment generation, which is one of the intended outcomes of industrialization, depends not only on the extent of fiscal incentives extended, but more importantly on the maturity of institutions that dispense it.

2. Objectives of the Study, Research Question, Scope and Limitations

The primary aim of this research is to examine the industrialization strategies adopted during the post-independence period, over six decades from 1946 or until 2014. Until 2014, industrialization featured in the governance agenda of each administration. This period reflects the introduction of major policy interventions including the use of fiscal instruments to direct industrial development through the entry of investments, local and foreign alike. A close examination of policy instruments indicates that industrialization was most pronounced in the period until 2014. After 2014, industrialization did not significantly figure as an economic strategy. The study also focuses on the impact of the instruments such as fiscal incentives in the generation of foreign direct investments, and whether the application of these instruments was essential to the overall national goal of leading industrial development, as planned in the past several years.

The research question posed in this paper is whether fiscal instruments have contributed to the generation of foreign direct investments (FDIs) in strategic industries that were identified as crucial to overall economic development in the Philippines. The extent of such contribution also measures the amount of revenue forgone by the government, and further indicates if reliance on foreign capital is key to industrial development.

3. Research Methodology and Instruments

To examine the effectiveness of fiscal instruments such as tax incentives, some relationships need to be established. Effectiveness, for example, can be measured through the influence of a fiscal instrument on desired outcomes. The method of establishing correlation or the relationship between two measurable parameters will be adopted, using a guide that Evans (1996) suggested, where the absolute value of correlation coefficient, r is classified in given ranges. The strength of linear relationship is depicted as a statistical measure where r,

$$-1 \leq r \leq 1$$

The relative values of the so-called Pearson's correlation coefficient also denote the linear relationship between two variables. Positive values for the correlation coefficient suggest a positive linear correlation which means that one variable has the tendency to increase with an increase in the other variable. Conversely, negative values of the correlation coefficient show negative relationship between two variables, suggesting that a variable has a tendency to decrease while the other increases. A value of 0 means that no linear correlation can be established, or two variables do not tend to either increase or decrease. Furthermore, values of paired data closer to 1 or -1 also denote stronger linear correlation. To measure the strength of correlation, the absolute values of the correlation coefficient are given in *Table 1*, as follows:

Table 1. Strength of Correlation based on Evans' Guide

Range of r values	Strength of Correlation
.00 – .19	Very weak
.20 – .39	Weak
.40 – .59	Moderate
.60 – .79	Strong
.80 – 1.0	Very Strong

Source: Author's own work.

BOI data on project cost, or the amount invested in a particular industrial project over a fifteen-year period (2000 to 2014) was paired with the amount of employment generated in specific industries. As earlier mentioned, data until 2014 is relevant because the industrialization agenda was more pronounced until this year. The objective is to find out whether the amount of investment generated using fiscal incentives was sufficient to address the burgeoning unemployment problem, and whether the country had already amassed the labour force required by industries. The derivation of correlation in this research aims establish the relationship based on indicative trends, in contrast to regression analysis that may further test for causation. By determining the relationship between these two variables, the results of the analysis are able to identify which industries respond more significantly to perennial and overarching problems like unemployment and underemployment. The

cost to government of dispensing fiscal incentives to industries should be accompanied among other things, by the attraction of labour to the market.

4. Relevant Studies and Review of Related Literature

The development contexts of the post-independence period provided contrasting perspectives on the industrialization approaches adopted in specific eras. *Figure 1* illustrates the landscape and development perspectives of the post-independence period. From 1945-1950, many underdeveloped and developing countries struggled for political and economic independence. Worldwide policy aimed to boost aggregate demand through state intervention, and the authority exercised by the state was subject to much criticism. Several historical literatures provide valuable sources for reflection, and include the writings of great Filipino thinkers. The essays and public addresses of Claro M. Recto expressed general sentiments on development at the time. Recto's addresses included "Our Lingering Colonial Complex" (1951a), which attributed the multiple problems of Philippine society to the intensive and pervasive colonization that enslaved Filipinos in pursuance of American interests. In the same year, Recto espoused the view that foreign policy must be based on national self-interest in his "Our Mendicant Foreign Policy" (1951b). In 1954, Recto criticized the trade agreement between the Philippines and the United States in his address entitled "Our Trade Relations with the U.S." The so-called agreement dubbed the Bell Trade Act, passed by the U.S. Congress in 1946, spanned a total of eight years, and a second period lasting twenty years that ended in 1974. In "A Realistic Economic Policy for the Philippines" (1956). Recto equated industrialization with economic progress. The economic policy advocated by Recto is full spectrum industrialization that includes heavy industry. He made reference to industrialization as the common denominator in the progress of the United States, Britain, Russia and China. He asserted that Philippine industrialization needed foreign capital, i.e. loans in the form of capital goods coming from foreign sources, not capital in the form of foreign investment. What is clear from Recto's statements is that while espousing the import of technological capital, he failed to take into account the fact that local manpower did not have the technical skills necessary to make foreign technology work. Industrialization, according to Recto should be supported through industrial financing based on peso investments. Recto believes that it is the peso, not the dollar, that should be the chief instrument of the entrepreneur. Recto's work hardly made any mention of the institutional requisites needed to pursue the policy direction he proposed. The government was still in the phase of rebuilding after the war, which included economic reconstruction in institutions had to play a dominant role. It is not surprising that institutional arrangements were patterned after the American system. Recto's views were anchored more on the nature of policies than on the institutions that implemented them.

Figure 1. Development Perspectives and Landscape of the Post-Independence Period

Source: Author's own work.

In the mid-1950s to late 1960s, newly-industrialized countries (NICs) emerged, and new ideas in neoclassical economics such as, free market policies and export orientation formed part of the economic agenda in many countries. There were also critical views about the structure of international relations and trade, including the dominant role of transnational corporations. The reformist views of authors like Jose Ma. Sison were embodied in his collection of essays and speeches. In his work, "Struggle for Democracy" (1967), he claimed foreign monopoly-capitalism, domestic feudalism and bureaucrat capitalism had worsened during the Marcos administration. Clearly from Sison's perspective, the continuing struggle for democracy was rooted in a deeply entrenched economic dependence with capitalist states like the U.S.. Sison's exposition dwelt more on political institutions, as they influence economic transactions. The capitalist system, as seen by Sison, is the root cause of all problems, which could only be solved by completely dismantling the system in which most of the institutions of today are anchored. Industrialization is advocated in a form that promotes local industrial development, away from foreign control and influence.

Debt crisis and World Bank structural adjustment programs World Bank characterized the period 1980-1990. This was a period of recession and increased poverty. The experiences of NICs were revisited, ranging from large state intervention approaches to ones that considered liberalization of markets. It was also during this period that the roles of institutions figured among the important determinants of growth. On the domestic front, the works of Renato Constantino, such as "The Nationalist Alternative" (1984), pointed out that the core problem was the country's neo-colonial status, particularly the impact of American policies and influence on the global economy. He drew parallels with the growing liberalization of markets that characterized the globalization era. This argument was reinforced in his succeeding work, "Synthetic Culture and Development" (1985), where it was posited that the development perspective that revolved around this period was a post-colonial trend of economic dependence by former colonies, as they become integrated into the world capitalist system. Constantino reinforced this argument in succeeding works, and regarded globalization as the invisible enemy in "Invisible Enemy: Globalization and Development" (1997). These works of Constantino, like Sison's, needed to be linked with discussions that relate to institutional reforms.

The perspectives on development in these published works may totally diverge from the prevailing systems, but is a useful reference in the introduction of reforms to further improve institutions.

Discourse on the Philippine industrialization process will necessarily touch on the prevailing profile of industries. Micro-and-small and medium-scale enterprises (microSMEs) remained the backbone of industrial growth. The contribution of these microSMEs in the Philippines should be regarded as crucial because they comprise the wider industrial base, outnumbering the large-scale companies in the industrial sector up to the present time. Moreover, these enterprises needed to scale up to the next level of industrial structure, but never did, for various reasons. The concept of social enterprises may be compared to the microSMEs, and such can be traced back in history to as far as Rizal's teachings. In Quibuyen (2011), Jose Rizal propagated social entrepreneurship when he initiated several business activities aimed principally at benefitting and transforming communities during his exile in Dapitan. He undertook certain public works projects such as providing water supply for underserved, neglected or highly disadvantaged populations at that time. Quibuyen also recounts that Rizal formed the first farmer's cooperative, which allocated capital for farmers to buy agricultural inputs for their work. He organized industrialists as partners and shareholders, while ensuring better profits for farmers, which he also did in a joint venture for the construction and operation of a lime-burner (used for building mortar), adoption of fishing implements, and in the construct of a European-designed oven for brick-making. The slow progress made in developing industrial structure from the time of Rizal to the present is also an indication of the state of institutional development. Many of the studies that include reports from development agencies and government, often fail to consider how institutions should scale up to bring about the gradual growth of industry from being largely comprised of microSMEs to being dominated by large and major domestic players.

In a more contemporary study by Rivera (1994), he postulated that class structure in the manufacturing industry has been dominated by a few families, which resulted in a shift from agriculture by landlord clans to business during the Marcos regime[2]. The vestiges of this pattern continue to prevail at the present time because of the dynamics in political power. All these have institutional ramifications, which continue to beset the industrialization process. It may be observed that large tracts of agricultural land have been gradually converted to industrial use. The land reform program has been blamed for failing to improve and sustain agricultural production.

Local studies that point to the development of industry have contributed to the current stock of research geared towards institutional approaches. These studies include Aldaba's (2012) inquiry on whether foreign direct investments (FDIs) create spillover effects in domestic manufacturing industry. Aldaba posited that if such spillover effects existed, they are eroded by the inability of domestic firms to compete and absorb technologies. She reaffirmed this in a survey of 97 SME firms, which showed the continued dependence on internally-generated sources of financing, not only during the start-up phase, but also at later stages of operation. The primary recommendation of Aldaba's paper was institutional innovation--an implementation of a Central Credit Information Corporation that will address prevailing informational asymmetries. Studies such as this have recognized institutional elements in addressing research inquiries, however, these were survey-based, and periodic changes in industrial structure are likely to occur.

2 The long period of administration that span over two decades from 1966 to 1986 was referred to as Marcos regime, because of the dictatorial powers associated with his rule.

A report from the Asian Development Bank (2007) outlined critical development constraints and laid out a growth diagnostic framework that identified policy priorities and institutional reforms towards a more sustained and broad-based growth. This framework took into account the measures aimed at eradicating large variations in the incidence of poverty incidence, which were exacerbated by the wide disparity in access to infrastructure and social services across regions. The ADB report on "Poverty in the Philippines: Causes, Constraints and Opportunities" (2009) took an even more incisive look at the causes of poverty, and showed that access to institutions by a great majority was the underlying cause. Other local studies, including De Dios (2008), explored institutional constraints on Philippine growth and show how political economy constrains policy and economic outcomes. He cited political instability and corruption as clearly affecting long-term Philippine growth and investment. These were presented as stemming from deeper roots in institutional dysfunction.

An interesting consolidation of studies on Philippine institutions published by Action Economic Reforms (2010) provided a more updated discussion on industrialization, taking into account the experience of the global economic crisis and transition in the Philippine political system. Several facets essential to industrial development, ranging from political economy, regulations, fiscal policy, to governance, were tackled by distinguished scholars.

5. Results and Discussions

The employment of fiscal instruments such as tax incentives is regarded as one of the most effective means of compensating for the lack of critical structures that would enable private industries to thrive and sustain their operations. These industries are being promoted because they are perceived to be a crucial part of the industrialization blueprint. Providing tax incentives extended over a specific duration is an example of a fiscal instrument usually supported by a national law. Such tax privileges were extended by other countries in the region. South Korea had an industrialization thrust pursued along the lines of developing its heavy and chemical industries (HCI). Tax privileges were extended to private industries because of the exceedingly high capital and operating costs involved. China also removed tax impediments by allowing non-state owned enterprises to engage in industrial activities reserved for them, and to avoid fear of their competing with state-owned enterprises that were then directed to take up other industries.

Immediately after independence, the Philippines showed it recognized the value of dispensing tax incentives to attract needed investments, especially foreign ones in an effort to explore the vast material resources waiting to be converted through productive processing. The ultimate objective in this approach would be to gradually withdraw these incentives, as industrialization initiatives produce the desired progress. Revisiting industrial structure, as we move through the industrialization pro-

cess is essential to assessing the extent to which fiscal incentives are working to attain the targets. These tax privileges are meant to help certain critical industries to be sustainable in the short-term, but much criticism arose around the lack of measurable parameters in determining when the grant of these incentives should stop. Thus, the national government is confronted with the dilemma of the need to bridge the gap through fiscal incentives while not depriving itself of much-needed tax revenues from profitable industries that would have been generated if these incentives had not been extended.

5.1. The Policy Landscape

As discussed earlier, industrialization is the sum process of the development that should occur in critical sectors—infrastructure, labor, fiscal and monetary environments, and even peace and security. All these elements should conspire to bring about the industrial development that the country aims for. Some models have been documented to explain industrialization in East Asia and some other parts of the world and provide a common convergence point regarding the role institutions play in the process.

The industrialization strategies of the post-independence period were shaped by a landscape of laws aimed at promoting certain industries, whose contribution to overall economic development is vital. Fiscal incentives used as tools to attract these industries are embodied in four major laws: 1) the Omnibus Investments Act of 1987; 2) Special Economic Zone Act of 1995; 3) Export Development Act of 1994, and; 4) Bases Conversion and Development Act. In this study, the focus is on the fiscal incentives that are governed by the Omnibus Investments Act of 1987.

The Board of Investments, an agency attached to the Department of Trade and Industry administers the grant of incentives to a set of industries determined annually through a listing called the Investments Priorities Plan (IPP). The industries listed in the IPP are priority industries that the government promotes consistently with the overall industrialization goals of a given administration. While such synergy exists, only public hearings that involve the private industries themselves constitute the major source of information on the basis of which industrial activities are selected for eligibility to fiscal incentives. These fiscal incentives take the form of income tax holidays or exemption from the payment of income taxes for a period of three consecutive years, tax- and duty-free importation of capital equipment and a host of other privileges.

There are other separate laws that support the development of industries, with the mechanism of incentives being used to generate the needed investments. But little is known on how targeted outcomes from these laws would sum up to measure where the industry is, and where it should be headed. For example, investments located in special economic zones are accorded a different set of incentives under the Special Economic Zone Act of 1995. This is independent of investments that choose to register under the Omnibus Investments Act of 1987. These two laws are administered by two different institutions, but essentially aimed at achieving similar, if not the same, objectives. Another location-driven investment law, the Bases Conversion and Development Act of 1992, provides

incentives to enterprises which locate themselves in the Subic Bay Freeport Zone. These enterprises also enjoy another distinct set of incentives.

In a move to promote public-private partnerships to spur infrastructure development with private sector participation, a Build-Operate-Transfer (BOT) law also eased certain restrictions on government financing and composition of foreign-owned corporations that are involved in big-ticket infrastructure projects. This type of sector-driven legislation is aimed at accomplishing targets for specific sectors that are not readily generated from local capital. The export sector, which is a recognized contributor of foreign currency earnings for the country, was previously the subject of Republic Act No. 7844 (The Export Development Act of 1994). In the finance sector, Republic Act No. 7721 liberalized the entry and operations of foreign banks and financial institutions in the country. Development in these sectors would have significantly contributed to industrialization, if the outcomes had worked in better coordination with the objectives. While different institutions are responsible for the implementation of these laws, there is no overarching institution that puts together the actions of the individual players. Because this landscape for policies cuts across sectors, the institutions that manage them are naturally varied. In terms of authority, some of the institutions are accountable to the executive branch, while others to the Trade and Industry department, the Finance department, or other autonomous institutions created for the purpose of overseeing the implementation of these laws.

The industries which choose to register under any of the specific laws mentioned are also subject to the institutional arrangements distinctive of the implementing agency. Thus, private industries are expected to comply with several institutional accountabilities, making it very difficult to consolidate outcomes attributed to each of these institutions. Further complications would be avoided if these legal instruments are periodically revisited for necessary refinements, and these can be made only through legislative reviews. But such legislative reviews have often become ministerial. Many laws have become outdated, often poorly enforced because of the lack of some institutional mechanisms in an environment where multiple institutional players exist.

This study looks at Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, and the fiscal incentives it offers to industrial enterprises which chose to register with the Board of Investments. As discussed earlier, an annual listing called the IPP, specifies the industries that are eligible for fiscal incentives. The IPP is supposed to embody the directions coming from a general industrialization strategy. These directions are made more explicit at the advent of every administration, particularly at the level of the Executive. Such directions as manifested in the six-year Medium-Term Philippine Development Plan, now called the Philippine Development Plan (PDP). The National Economic Development Authority (now the Department of Development) under the Office of the President is largely responsible for providing the blueprint that includes an industrialization strategy. Institutional complexities emerge when these directions are about to be translated into concrete operational plans that involve the different line and staff agencies. It is at this juncture that agencies such as the Board of Investments are expected to contribute toward an industrialization strategy that is made relevant and updated every six years but using as tools for implementation laws

that were made from previous years. For example, Executive Order 226 was developed from 1987, and if amendments were necessary, the long legislative process will take up much of the governing administration's time before these are passed. Meanwhile, any industrialization strategy will have to deal with a given legal and policy framework and landscape for implementation. Because of the varying strategic directions to develop industries, a more or less fixed set of institutional arrangements, and an outdated mandate, reforms are difficult to introduce. If such is the case, it is, therefore, no longer surprising to see targets not being achieved, and industrial structures remaining largely unchanged. Ability and ease of introducing of reforms are important in responding to changing environments. Philippine institutions are poor in this respect because of existing legal frameworks.

Apart from the directions coming from the executive as to the industries that will end up listed in the IPP, the listing should also cover certain so-called "mandatory inclusions" that automatically qualify certain industries by virtue of an operating law. These include build-operate-transfer projects (Republic Act No. 6957), iron and steel projects (Republic Act No. 7103), mining projects (Republic Act No. 7942), oil deregulation projects (Republic Act No. 8479), and power generating plants (Republic Act No. 9513). The implementation of these laws is typically reviewed annually, but this does not cover the extent to which targets are attained relative to the amount of incentives poured into the development of these industries. While support is being extended to the development of industries in terms of incentives, there seems to be a lack of assessment of the extent to which these incentives help to achieve targeted levels of industry capacity. The assessment of such impact, usually in the form of industry studies, is extremely needful as a guide to policymakers, particularly in their decisions regarding the inclusion in or removal from the IPP of certain industries. In other words, some ex-post evaluation is lacking in determining the industries that need to be promoted on a more sustained basis, and those for which incentives should cease, especially where industry capacity has been fully attained.

5.2. Fiscal Incentives as a tool for Supporting Industry and Promoting Priority Industries

The Omnibus Investments Code clearly lays out the type of incentives that may be extended to industries. These usually take the form of income tax holidays or non-payment of income taxes for the initial years of operation of a newly-established enterprise or one gearing up for expansion, tax and duty-free importation of capital equipment, and other facilitation of government procedures, to name a few.

As earlier argued, fiscal incentives given to industries are meant to compensate for high initial capitalization requirements and operating expenses. These incentives also make up for certain infrastructure inefficiencies such as high power costs, the inaccessibility of markets and port-related issues. However, granting these monetary incentives can result in billions of pesos of forgone revenues, and thus significantly affect the government's revenue position. Over a ten-year period from 2004-2013, total income tax privileges amounted to over 214 billion pesos, an amount equivalent to a 0.008% share of the 2014 budget. In addition to this, total taxes and duties waived on imported capital

equipment reached 6 billion pesos in the same period of study. These amounts of revenues that should have been collected refer only to one institution that administers the dispensation of fiscal incentives. The combined amounts of incentives including those offered by other institutions would have been too staggering that it may alter the fiscal position of government at any given year.

Examining a typical BOI incentive, which is the income tax holiday, one can assess the magnitude of government resources involved in facilitating industrialization. It is interesting to note that the amount of income tax holiday provided to industries which register under a mandatory law is more substantial than the amount extended to industries that are regularly listed. Income tax holidays for industries that are mandatorily included in the IPP reached up to three-quarters of the total ITH availment in a given year. These are particularly high among BOT projects, mining and power generating plants. In the year 2008, incentive availment by the iron and steel industry stopped. Industries that are actively promoted by government such as those in the information technology sector and infrastructure projects are among the industries with the highest ITH availment. This is an example of the pronounced support by government of business process outsourcing and private sector-led infrastructure that were opened by government for competitive bidding.

Over the ten-year period, certain industries were availing themselves of more incentives than others. Between 2009 and 2013, for example, greater ITH availment was recorded for agricultural products and allied services and mass housing. This particularly resulted in policies that encouraged property developers to allocate a certain percentage of their inventories to mass housing by providing them windows for tax incentives, as well as support extended to the local agricultural sector for increased domestic production. Thus, the amount of incentive availment provides every indication of the level of prioritization given to a particular industry, and its perceived contribution to overall industrial development. Looking closely at a specific incentive availment, the BOI should also be able to gauge the level of industry participation, and its reception of the prioritization accorded by government. If incentives are offered, but an industry does not avail itself of them, then, close government and industry collaboration should set in. This collaboration is similar to the Japanese *keiretsu* that facilitated the industrialization process in Japan. The business network or alliance that typify the concept of *keiretsu* in Japan involves industry coordination that facilitates collaboration with government. It was this strong linkage between industry and government that characterized the Japanese model of post-war economic development.

At present, the linkage with the private sector is being strengthened with the initiative from BOI to develop road maps for each industry. These road maps are supposed to lay the groundwork for more intensive government-private sector collaboration. BOI's instrument of support is the fiscal incentives for priority industries, with the IPP as the vehicle for extending such support.

The Philippines is lagging some way behind in terms of technical accumulation, making it rational for some industries to import required machinery and equipment, or so-called capital equipment. The tax and duty-free importation of capital equipment incentive of BOI is commonly availed of by industries requiring mechanized processes. According to incentive utilization data submitted to Congress, availment is particularly high for chemical, textile and allied industries, the manufactur-

Table 2. Industry Correlation with Employment, 2000-2014

Sector	No. of Years with Data*	Correlation Between Project Cost (in PhP) and Employment	Interpretation of Correlation using the guide by Evans (1996)
Accommodation & Food Service Activities	15	0.819	Very Strong
Administrative & Support Service Activities	15	0.637	Strong
Agriculture, Forestry & Fishing	15	0.612	Strong
Arts, Entertainment & Recreation	4	0.491	Moderate
Construction	7	0.649	Strong
Education	4	-0.347	Weak
Electricity, Gas, Steam & Air Conditioning Supply	15	0.656	Strong
Human Health & Social Work Activities	5	0.883	Very Strong
Information & Communication	14	0.633	Strong
Manufacturing	15	0.404	Moderate
Mining & Quarrying	12	0.643	Strong
Professional, Scientific & Technical Activities	8	0.364	Weak
Real Estate Activities	14	0.846	Very Strong
Transportation & Storage	15	0.494	Moderate
Water Supply; Sewerage, Waste Management & Remediation Activities	13	0.980	Very Strong
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	6	0.876	Very Strong

Source: Author's own work.
** Only data covering 2000-2014 were considered (partial 2015 data excluded); 15 refers to complete data for all the years from 2000-2014.*

ing sector, and agricultural and allied industries. From 2009-2010, power generating and mining industries' capital equipment incentive surged to over 90% of total incentive availment from an annual average of almost 60%. The availment of these industries has been up in the years since then. Meanwhile, the availment of industries under the regular listing has been fairly consistent, averaging at a rate of 46%, except in 2009 and 2013 when availments were rather low. BOI needs to look at the generated production capacities of these industries over the years, and relate these to total availments to determine if an incentive remains relevant. This may indicate that certain incentives are unnecessary, or that other forms of incentive would be more relevant. But the incentive system does

not work this way, because it comes in packages as provided for under the law, and thus, there is not much room for change given such a legal framework.

Examining closely the investment data of BOI over a fifteen-year period, from 2000 to 2014 (Refer to *Table 2*), and relating this to the goal of generating jobs, we find that some industries are strongly related to employment creation.

This is exhibited by industrial activities which have high correlation with employment such as accommodation and food service, human health and social work, real estate, water supply, sewerage, waste management and remediation, wholesale and retail trade. Employment generation as a potential criterion for IPP inclusion should consider these industries.

Weak correlation was observed particularly in certain industries such as education, professional, scientific and technical activities. Industries that have strong and moderate correlation with employment must exhibit other characteristics that may qualify for IPP inclusion. At present, employment generation potential is used as an arbitrary yardstick or criteria for IPP listing.

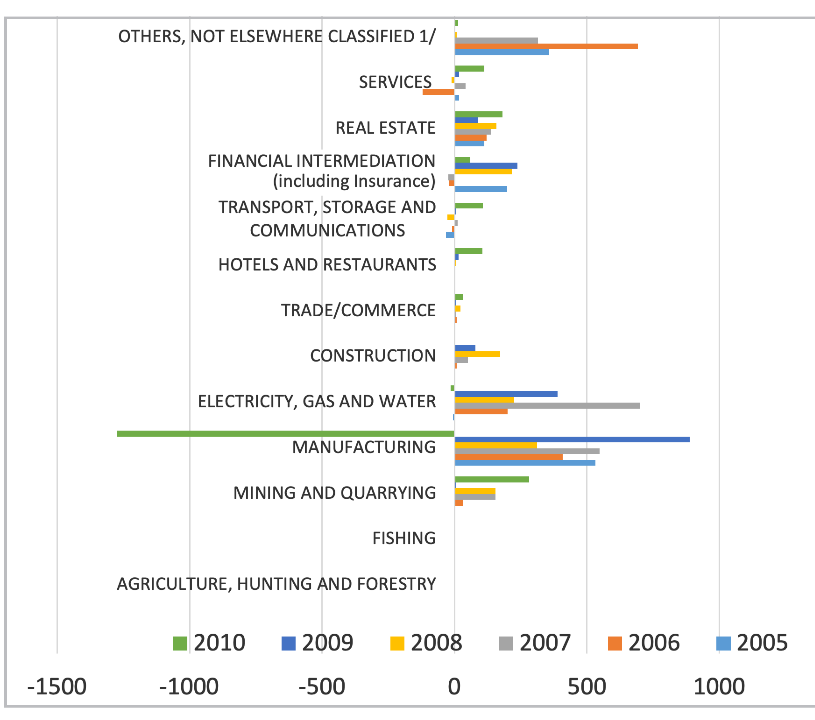
It is also interesting to look at the general foreign direct investment landscape, not just FDIs for which BOI was instrumental, but also the total FDI generated in the country in industries, with or without the use of fiscal instruments such as incentives. These include industries that decided to locate in the Philippines for all the comparative advantages it offers—improved basic economic indicators, quality labour force, strategic location relative to markets, a sizeable potential domestic market,

Figure 2. Foreign Direct Investment Flow in the Philippines 2005-2010

Source: Bangko Sentral ng Pilipinas (n.d.).

among others. The FDI data from *the Bangko Sentral ng Pilipinas* (BSP) is representative of the total FDI picture (See *Figure 2* and *Figure 3*). These include non-resident investments in the Philippines, including equity capital, reinvested earnings and transactions in debt instruments, or intercompany borrowings/lending. In other words, this covers the total amount of investments that are channelled through the domestic banking system. The graph suggests that most FDIs generated from 2005 to 2010 were in the manufacturing industry. The growth has been in manufacturing more than in other sectors. The same trend can be observed in 2010-2014, indicating that industrial development has been primarily manufacturing-led. This is in stark contrast with industrialization in many Asian countries, which was initialized by strategic industries, notably heavy and chemical industries.

Figure 3. Foreign Direct Investment Flow in the Philippines 2010-2010



Source: Bangko Sentral ng Pilipinas (n.d.).

5.3. Contribution of Fiscal Instruments to Philippine Industrialization

Pairing the total investment picture with the amount of fiscal incentives administered by an institution tasked with attracting industrial investment, an inquiry on how effective fiscal incentives in attracting foreign direct investments or FDI is made. Two types of fiscal instrument will be used to measure effectiveness relative to the investments created. The first of these is the income tax holiday (ITH), or the waiving of annual income taxes for an investment, and this may run into hundreds of millions depending on the magnitude of investment, and projected amount of income earnings. Another fiscal incentive comes in the form of waiving taxes and duties on imported capital equipment

acquisition (CA). There are companies that necessarily require the adoption of technologies from their parent country in the form of bringing in desired machinery and equipment for production. Are these types of incentives really necessary or do they only have a secondary influence on decisions regarding industrial investment in the Philippines? Are these incentives addressing a gap, or have we long been extending a benefit that is no longer relevant given that conditions have changed since these incentives were first given?

The following correlation results (See *Table 3*) show the extent to which fiscal instruments of ITH and CA extensively affected investment generation in the past ten years.

Table 3. Relationship between Fiscal Instruments and FDI using 2001-2014 Data

	Income Tax Holiday	Capital Equipment Incentive
Foreign Direct Investment (FDI)	0.398 Weak	0.344 Weak
ITH – Cap. Equipment	0.477 Moderate	

Source: Based on BOI data on FDI, ITH and CA submitted to Philippine Congress.

Examining further the relationship between fiscal instruments such as ITH and CA incentive, and their effectiveness in attracting investments, correlation results suggest that the application of these instruments has a very weak effect on FDI generation. This can also be seen from the annual data on years where ITH availment and capital equipment incentive peaked but did not cause significant movement in the amount of foreign direct investments. For example, the high ITH availment from agricultural products and allied services industry and mass housing from 2009 to 2013 did not attract much investment, and this despite accompanying policies aimed at improving agricultural production, and greater encouragement for property developers to engage in the mass housing sector.

It would seem that the incentive system is also not so effective in facilitating technological transfer, as may be gleaned from the data on availment of capital equipment incentives. Such a system of incentives may have to be supplemented by more tangible measures such as local adaptation of technology in the form of prototyping equipment parts and the like. It has been observed that industry is very slow to adapt technologically, being heavily reliant on technologies brought from parent companies overseas. The lack of a strong heavy industry constrained the development of so-called backward linkages or industrial activities that support raw material processing. Extending the incentive without a scheme for technical adaptation is not sustainable. That usually happens when the FDI pulls its operations out of the country. In contrast, the progression in Japanese adaptive technology took place during the Meiji Restoration period (1868-1889) (Lee et al, 1998). Only the availment of CA incentive in the manufacturing sector during the period under review was accompanied by an increasing trend in FDI, but not in the mining industry and power generating sector, where increased incentive availment was recorded, as earlier discussed. But this has not been matched with generated FDI.

The moderate correlation between ITH and CA incentives is attributed largely to the fact that these two incentives are among the usual packages of incentives extended to BOI-registered enterprises. Thus, the former incentive is usually availed of in tandem with the latter.

The varying criterion in the promotion of industrial investments through fiscal incentives leaves a question on whether the Philippines is really headed down the path of industrialization. In view of the lack of a strong institutional oversight to probe into the efficient utilization of public resources, including tax revenues that would have been channelled through the system, the use of fiscal instruments must be dealt with through careful study and periodic assessment.

Results of the correlation analysis show that mere potential for employment generation cannot be a stand-alone criterion for IPP inclusion. Fiscal authorities must not be blinded by the absolute amount of investment and employment that an investment will create, if it is anyway bound to locate in the country for more valid reasons besides the offer of fiscal incentives. They may be more concerned with its effect on our fiscal positioning, as the quantity of tax revenues that may be earned from an industrial activity may far outweigh the cost of having such.

From earlier discussions, it is clear that institutional mandates should be revisited alongside budget reviews, as well as the ability of institutions to perform and deliver desired results. Measurable parameters such as institutional absorptive capacity may prove useful.

The path of industrialization in the Philippines involves multi-institutional involvement that requires very well-coordinated and less complicated institutional arrangements, clear and delineated levels of authority, periodic and more institutionalized system of oversight, and constantly-revisited institutional mandates.

The weak relationship between FDI generation and fiscal incentives pose serious challenges to government about how to ensure that institutions respond effectively to the goal of industrialization.

6. Recommendations

6.1. Convergence of Institutional Arrangements

In an environment, where there are multiple institutional players, there is always the threat of coordination failure. This means that gaps in institutional arrangements exist and remain unaddressed. This is even made more complex with the differing authority levels on which similar institutions operate. The Board of Investments is an attached agency of the Department of Trade and Industry, while other agencies also administering fiscal incentives are under the executive branch. It is perceived that actions by the latter agencies are easily influenced politically, so there are cases of companies being given unusual favours and differential treatment.

The budget is a critical component of any institutional reform. It must consider other parameters, aside from the usual pre-set criteria that determine the current institutional budget. The absorptive capacity of an institution is another means to determine the merit of any budget increase, because if resources are simply increased without the corresponding ability to fully utilize them, then these may just end up being wasted. A review of the expenditure items by program should be undertaken by institutions to keep them up to date with recent developments that require contributions towards a particular outcome, such as industrialization.

An industrialization plan must be backed up by an operating plan, which clearly defines institutional contributions, especially where multiple actors with differing authority levels are involved. Such a plan must operate within the medium-term or within the six-year period of the administration.

To keep track of industrialization outcomes, institutional arrangements should converge around certain indicators of performance. If institutional targets are set at the start of each budget year, these targets of related institutions and their attainment must form part of an annual monitoring and evaluation exercise that is also linked to a relevant oversight institution. This should prevent further revenue losses and program gaps that impede implementation. In Japan for example, institutional checks and balances are conducted at the interim, mid-term and final project stages, and these are linked to some oversight functions. These monitoring and evaluation exercises serve as part of the institutional audit that is eventually channelled through the budget system. At present, NEDA remains the overall monitoring body. At the inception of the Philippine Development Plan, the institutional targets are set, but these targets may change depending on situations that affect attainment of these targets.

6.2. Application of Fiscal Instruments to Achieve Economic Efficiency

Findings suggest that the application of fiscal instruments may not always produce economic efficiency, as exemplified by the weak relationship between fiscal incentives and foreign direct investment. If institutional oversight remains limited to financial post-audit, with very little attention given to process audits, the present budget system falls short of its objective of ensuring efficient utilization of resources. It is not enough that the budget of institutions is increased whenever government coffers are endowed with excess resources, because absorptive capacity may have already reached an optimal level and so any increase in the current budget level is likely to be poorly utilized.

The Philippine Development Plan remains the strategic document where institutional targets can be indicated. The PDP is the official document that sets out industrialization objectives. This plan is developed each time a new administration takes over. Ideally, these industrialization objectives have to be translated into specific institutional interventions, not only to enhance accountability but also to provide early and measurable directions. Reforms are best initiated at this stage where institutions need to make their commitments. Policy blueprints such as PDP have to be stated in more specific terms to engage institutions to contribute more significantly to national goals, rather than conduct themselves on a business-as-usual mode and not make any improvement on the past years' contribution.

The implications of the adoption of fiscal instruments such as incentives are usually determined ex-ante, leaving very little provision for review after their adoption. Ex-post evaluation is not popular in the Philippine system of governance, owing partly to the lack of oversight mechanisms and institutions that can handle it. This will result in the persistence of institutional practices that often lead to the waste of resources. Revenue-generating institutions like the Department of Finance have always played a tug-of-war with incentive-administering institutions in the contemporary post-independence period, but are unable to support each other's claims because of a lack of measurable parameters with which to evaluate outcomes. The former claim that incentives have caused significant revenue losses to government but only have estimations to support them, while the latter contend that the incentives granted by government result in social and economic benefits arising from the magnitude of investments generated with the given incentives, but without a credible study to back their views up. In short, for the past several years there has been no government-driven attempt to reconcile both sides. Existing laws that created institutions administering incentives are often cited as a constraint in arriving at such reconciliation, because any attempt to stop them will disrupt the implementation of these laws. We are thus confronted with a situation where economic efficiency becomes too difficult to attain because of impediments in the legal framework.

7. Conclusions

Industrialization perspectives in the post-independence period followed the pattern of development in developed and developing economies after the Second World War. In the Philippines, government intervention in the initial period proved inadequate to create the environment necessary for industrialization to take off. In other Asian economies, industrialization strategies were accompanied by strong institutions that enforced these strategies. Philippine industrialization hardly took off during the entire period after independence because of the apparent lack of attention given to institutional development to realize industrialization outcomes.

The difference between the economic environments of the immediate post-colonial period and the contemporary globalization era meant that the institutional requirements necessary to achieving the goal of industrialization were not developed. Policy instruments in the Philippines introduced after the war, as well as the institutions that implement them, displayed lack of fiscal equivalence, economic efficiency, redistributional equity, and conformity to the values of local institutional actors, and this resulted in unintended outcomes. These were exhibited in the Bell Trade Act and Parity Amendment of 1946. Consequently, the elements crucial to institutional development did not appear in hallmark legislations and major policy pronouncements for most of the post-independence period. Furthermore, current institutional reforms should focus on oversight in the areas of industrial planning, public finance management, evaluation and monitoring. In terms of priorities, the prevailing institutional mandates need revisiting so as to identify which specific interventions may be initiated.

It was seen that the relationship between fiscal instruments and intended outcomes cannot be clearly established. If fiscal instruments administered by institutions fail to generate the FDI needed to catalyze industrialization, and these instruments continue to be enforced because a legal framework continues to support their adoption, then institutions are falling into a trap. As mentioned earlier, if there is neither effective oversight nor a measurable means to assess outcomes, there may be a need to revisit present institutional mechanisms.

Six decades have passed since the Philippines gained independence, yet its industrial development has progressed very slowly in comparison to that of its Asian counterparts. Some findings about institutions that may serve as springboard for future interventions are highlighted below.

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II.

SECTORAL TRANSFORMATION

ALOYSIUS GUNADI BRATA

Indonesia – In the Grip of the Middle-Income Trap

INDONESIA – IN THE GRIP OF THE MIDDLE-INCOME TRAP[1]

Aloysius Gunadi Brata[2]

Abstract

Indonesia, Southeast Asia's largest economy, boasts impressive growth and a youthful population, positioning it as a potential future giant of Asia. However, Indonesia faces a challenging obstacle: the middle-income trap (MIT). This paper explores Indonesia's economic trajectory, then identifies challenges that hinder Indonesia's graduation to high-income status. Some possible interrelated factors that hinder the country from escaping from MIT are stagnant productivity, premature deindustrialization, dependency burden and middle-class issues, and insufficient institutional support. To escape from the MIT, it is important for Indonesia to navigate these challenges.

Keywords: Indonesia, middle-income trap, stagnant productivity, premature deindustrialization, institutional support

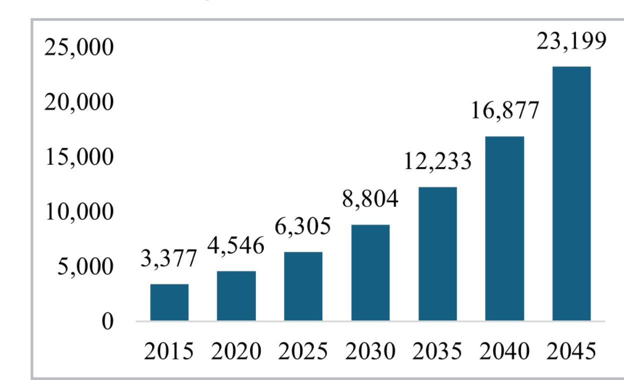
1. Introduction

The vision for Indonesia's future was first announced on December 30, 2015, at Hasanap Sai Field in Merauke, Papua, where President Joko Widodo (Jokowi) inaugurated the Time Capsule Monument for Indonesia's Dreams 2015-2085. This time capsule, akin to a treasure chest, contains the hopes and dreams of people from across Indonesia. Sealed in 2015, it is slated to remain unopened until 2085. The accompanying document, "Indonesia's Dreams 2015-2085", outlines an ambitious roadmap for Indonesia to emerge as a global leader across multiple sectors. It serves as a foundational framework for the nation's development strategy.

In 2019, this document was revised and renamed "Indonesia 2045: Sovereign, Advanced, Just, and Prosperous" by the Ministry of National Development Planning/Bappenas. According to this new document, Indonesia aims to become the world's fifth-largest economy by 2045, with a nominal GDP of USD 7.4 trillion. This ambitious target would position Indonesia behind China, the United States, India, and Japan.

Additionally, the document projects that Indonesia will successfully escape the middle-income trap in 2036 and transition to high-income country status (Figure 1a). To achieve this transformation, the document envisions a significant shift in Indonesia's economic structure. By 2035, the contribution of agriculture to GDP is expected to fall below 10%. In contrast, the manufacturing and services sectors are projected to contribute more than 23% and 52% respectively (Figure 1b). Another key issue highlighted in the report is the potential benefits of Indonesia's demographic dividend. Due to a decline in mortality rates followed by a decrease in fertility, the country has experienced a significant increase in its working-age population (15-64 years old) compared to both children (0-14 years old) and the elderly (65+ years old). This demographic shift is expected to continue until around 2040. The dependency ratio, which measures the ratio of non-working-age individuals to working-age individuals, reached its lowest point in 2022. It is then projected to increase again in the coming years (Figure 1c). The Bappenas report also provides estimates of Indonesia's middle-class population (Figure 1d). Based on McKinsey's definition of the "consuming class," the Indonesian population classified as middle-income is expected to reach 223 million people (70% of the total population) by 2045. This indicates substantial growth in the country's middle-class segment. Individuals are considered middle-income if they earn at least USD 3,600 per year.

Figure 1a. GDP per capita



Source: Ministry of National Development Planning/Bappenas (2019).

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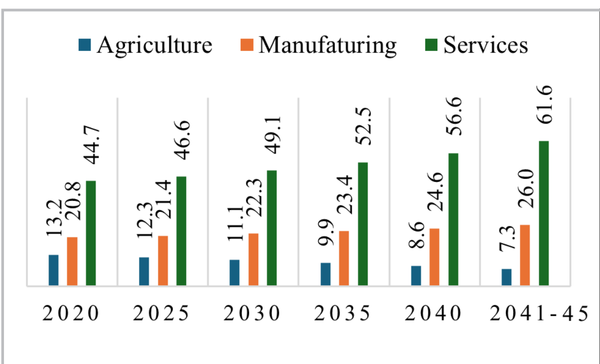
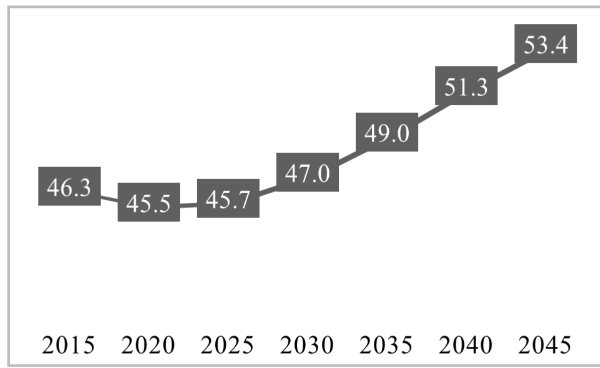
Figure 1b. Contribution of production sector to GDP



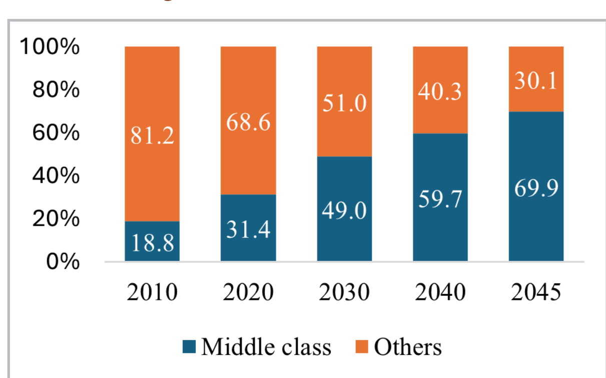
Source: Ministry of National Development Planning/Bappenas (2019).

Figure 1c. Dependency Ratio, projection based on SUPAS 2015



Source: Ministry of National Development Planning/Bappenas (2019).

Figure 1d. Middle class, in %



Source: Ministry of National Development Planning/Bappenas (2019)

The newest vision is outlined in the National Long-Term Development Plan (RPJPN) 2025-2045 (Ministry of National Development Planning/Bappenas, 2024). The document details Indonesia's development goals and strategies for the next two decades, aiming to transform the country into a "sovereign, advanced, and sustainable Nusantara nation" by 2045. The Government of Indonesia and the House of Representatives (DPR RI) finalized the plan on 20 August 2024.

The Indonesia Gold 2045 Vision, timed for the nation's 100th anniversary, represents a comprehensive national development blueprint. One of the five key targets of the RPJPN 2025-2045 is achieving a per capita income comparable to developed countries, with a projected Gross National Income (GNI) per capita of US23,000–US30,300. Additionally, the plan anticipates the maritime sector contributing 17.5% to GDP and manufacturing accounting for 28%. Indonesia aims for 7% annual economic growth, targeting a GDP of US$9.8 trillion by 2045.

The above background indicates a dream to escape from the middle-income trap (MIT) – a phenomenon where economies achieve middle-income status but struggle to advance to high-income levels. This research aims to provide an evaluation of possible explanations of why Indonesia has been in the grips of the MIT. For this purpose, this paper employs a mixed-methods approach, primarily relying on qualitative analysis of secondary data from various sources.

This paper is structured as follows. The next section provides a review of literature on the MIT, examining theoretical frameworks and global case studies. Section 3 presents a historical overview of Indonesia's economic development, tracing its growth trajectory and key milestones. Section 4 explores possible explanations for Indonesia's prolonged MIT, analysing structural, institutional, and demographic factors. Finally, Section 5 provides conclusion and offers recommendations to help Indonesia overcome the MIT and achieve its high-income aspirations by 2045.

2. Literature Review of Middle-Income Trap

As argued by Larson et al. (2016), even if the middle-income trap (MIT) is a myth, it underscores the need for policymakers to remain vigilant and adaptable in economic planning, particularly as traditional growth drivers become less reliable.

The term "middle-income trap" was first indirectly introduced by Garrett (2004), who hypothesized that some middle-income countries struggle to compete with both low-income and high-income economies, resulting in stagnant per capita income growth for over 20 years. Gill and Kharas (2007) later formalized the concept in their report An East Asian Renaissance: Ideas for Economic Growth, explaining how rapid growth from low-income to middle-income status—driven by cheap labour, basic technological catch-up, and resource reallocation from low-productivity sectors (e.g., traditional agriculture) to high-productivity manufacturing—often leads to slower growth thereafter. Kharas and Kohli (2011) further elaborated that while countries may escape poverty traps to reach middle-income status, many subsequently face growth stagnation, preventing advancement to high-income levels.

In other words, the MIT refers to economies that achieve rapid growth and middle-income status but then fail to progress further, remaining unable to catch up with developed nations (Glawe &

Wagner 2016). As illustrated in Figure 2 (Zhou & Hu 2021), the transition to high-income status depends on successful economic restructuring during the middle-income phase; failure to do so results in prolonged stagnation within the MIT.

Figure 2. The theoretical model for the MIT

Source: Zhou & Hu (2021).

Islam et al. (2023) synthesize key factors contributing to the MIT, including unfavorable demographics, limited economic diversification, inefficient financial markets, inadequate infrastructure, low innovation, weak institutions, and dysfunctional labour markets (Pruchnik & Zowczak 2017). Conversely, Lee (2020) notes that successful transitions are associated with strong human capital, a favourable working-age population, the rule of law, affordable investment goods, and advanced exports/patents. Akbas and Sancar (2021) further emphasize the role of export sophistication, product diversification, and market expansion in sustaining growth.

Agénor (2017) identifies productivity slowdowns as a primary cause of MIT, attributing them to diminishing capital returns, exhausted labour/imitation advantages, low human capital quality, weak intellectual property protections, talent misallocation, infrastructure gaps, and financial constraints. Islam et al. (2023) apply these insights to Bangladesh, projecting its escape from lower-middle-income status by 2029 and potential high-income achievement by 2041—contingent on maintaining a 9.69% annual GNI per capita growth rate.

The literature reveals that the MIT describes economies that, after initial rapid growth fueled by cheap labour and basic technology, stagnate due to an inability to compete with low-cost producers or high-innovation leaders. Key barriers include demographic challenges, undiversified economies,

inefficient markets, infrastructure deficits, and institutional weaknesses. Conversely, successful transitions rely on human capital, innovation, and institutional strength.

For Indonesia—trapped in the MIT for over 30 years—these insights are critical. Its 2040 high-income aspirations hinge on addressing structural bottlenecks through human capital development, institutional reforms, technological advancement, and economic diversification. Lessons from successful cases (e.g., South Korea) highlight the need for adaptive, long-term policies to overcome stagnation. The following section examines Indonesia-specific MIT drivers.

3. Historical Overview of Indonesian Economy

The latest data from the World Bank classifies 54 countries as upper-middle-income economies, including Indonesia, based on the World Bank Atlas method. Indonesia's journey through the middle-income bracket began in 1993, when it transitioned from a low-income to a lower-middle-income nation. After significant economic progress, it achieved upper-middle-income status in 2019. However, external shocks—such as the 1990s Asian financial crisis and the COVID-19 pandemic—severely disrupted Indonesia's growth, causing temporary reversals to lower-middle-income status in 1998–2002 and 2020–2021. The country regained its upper-middle-income standing in 2022 (Table 1, Figure 3), demonstrating its resilience but also exposing its vulnerability to global economic instability.

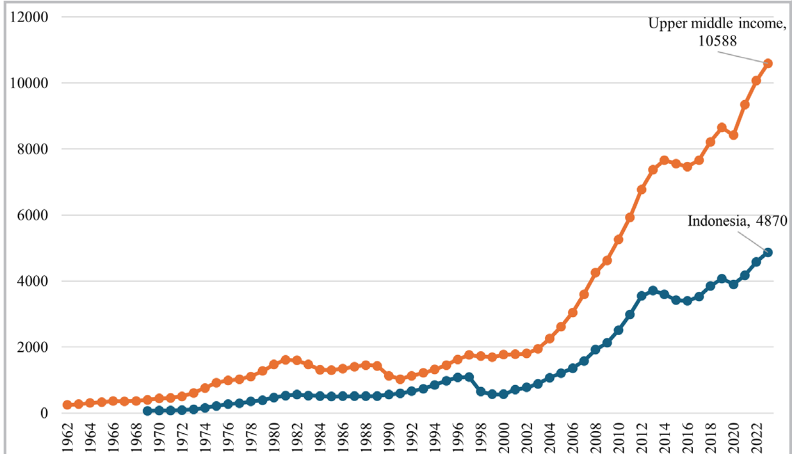
Table 1. Analytical history of Indonesia economy

Year	Classification
Until 1992	Low income
1992-1997	Low middle income
1998-2002	Low income
2003-2018	Low middle income
2019	Upper middle income
2020-2021	Low middle income
since 2022	Upper middle income

Adapted from World Bank (n.d.).

This analytical pattern highlights two critical issues. First, Indonesia's susceptibility to economic shock. Second, Indonesia's prolonged stagnation in the middle-income tier for over three decades. As of 2023, Indonesia's GNI per capita stands at US$ 4,870 (Figure 3) and still a long way from the expected GNI per capita in 2045, at only 16% of the Indonesian dream target. Given that most countries trapped at this level struggle to advance further, Indonesia's official projection of escaping the MIT by 2036 and reaching high-income status by 2045 appears increasingly daunting.

Figure 3. The evolution of Indonesia GNI per capita (Atlas method, current US$)



Source: Data from the World Bank (n.d.).

Indonesia's struggle mirrors broader trends observed in other MIT economies, where growth plateaus because of rising wages, declining competitiveness in labor-intensive industries, and sluggish innovation. Compared to regional peers like Malaysia and Thailand, Indonesia has lagged in productivity growth, FDI diversification, and high-value manufacturing expansion—key drivers of high-income transitions. For instance, while Malaysia's GNI per capita (US$11,780 in 2023) is more than double Indonesia's, its economic structure has steadily shifted toward technology and advanced services, whereas Indonesia remains reliant on commodities and low-end manufacturing.

4. A Diagnostic of the Grip of Mit on Indonesia

Indonesia faces several critical economic challenges that threaten its transition to high-income status and risk trapping the country in middle-income stagnation. These challenges include persistently low productivity, premature deindustrialization, demographic pressures, and insufficient institutional support - all of which require urgent policy attention (see also Thawley et al. 2024).

4.1. Low or Stagnant Productivity

A key concern is Indonesia's stagnant productivity growth, as evidenced by its rising Incremental Capital-Output Ratio (ICOR). The ICOR increased from 4.1 in 2010 to 6.3 in 2023, indicating significantly worsening investment efficiency. When excluding the anomalous year of 2020, the average ICOR stands at 6.4, while including 2020 brings the average to 4.9. Unfortunately, Indonesia's GDP growth has consistently fallen below its ICOR since 2013, demonstrating that capital investments are generating diminishing returns. This trend is further supported by Figure 4b, which shows that

growth in gross capital formation consistently outpaces both overall GDP growth and GDP per capita growth, confirming the pattern of inefficient capital allocation.

While the ICOR metric has certain limitations, these figures strongly suggest structural problems in resource allocation and decreasing marginal returns on investment. One contributing factor appears to be substantial investments in potentially unviable infrastructure projects, such as toll roads and airports with low traffic volumes. While such infrastructure development may yield long-term economic benefits, in the short-term it depresses productivity measures.

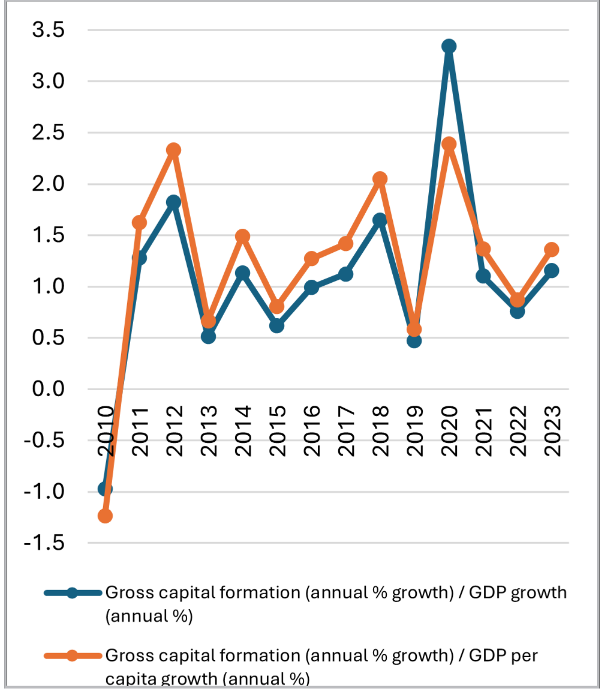
Figure 4a. Incremental Capital Output Ratio (ICOR)

Source: Adapted from BPS (2023), processed by the author.

Indonesia's critical economic challenges in its transition to high-income status mirrors other middle-income economies. The country's stagnant productivity growth, evidenced by its rising Incremental Capital-Output Ratio (ICOR) between 2014 and 2023, reflects a trend observed in many middle-income trap cases. Other middle-income countries, like Brazil, experienced a productivity decline in the manufacturing sector, especially across all technological segments of Brazilian manufacturing (Diegues & Yang 2025). Kim and Park (2018) also found that the decline in the productivity growth rate, measured by Total Factor Productivity (TFP), explain a significant part of the growth slowdowns in middle-income countries.

Looking ahead to 2045, Indonesia aims to reduce its ICOR to 4.6, but achieving this target will require significant improvements in investment quality and allocation efficiency. Addressing these

Figure 4b. Ratio of Growth of Gross capital formation to Growth of GDP



Source: Adapted from World Bank (2024), processed by the author.

productivity challenges will be crucial for Indonesia to avoid middle-income trap dynamics and achieve its development ambitions.

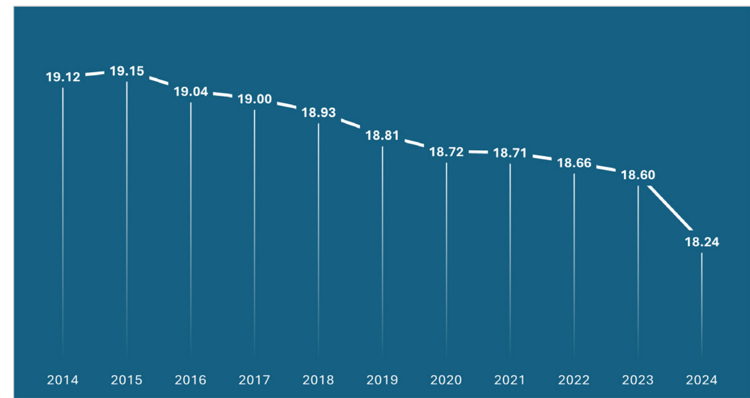
4.2. A Premature Deindustrialization

Premature deindustrialization describes a situation when the manufacturing sector starts to decline relatively early in its development process. This can result in lower economic growth and democratic failure (Rodrik 2016). Recent studies also confirm the negative impact of premature deindustrialization. According to Andreoni and Tregenna (2020, 2021), premature deindustrialization limits middle-income countries' technological development and their capacity for value addition in global value chains (GVCs), thereby hindering the sustained productivity growth needed for economic catch-up. Rekha and Suresh Babu (2022) find that the premature deindustrialisation trend increases the incidence of growth slowdowns in middle-income countries.

In the last ten years, the contribution of the manufacturing sector to GDP consistently decreased from 19.12 in 2014 to 18.24 in 2024 (Q2) as shown in Figure 5a. The decrease of the manufacturing contribution to GDP is an indication of a premature deindustrialization. On the employment side, the contribution of manufacturing is also relatively low. In the last ten years, it has always been lower than 15%.

It is well-known that MIT countries also exhibit patterns of premature deindustrialization. For example, as Andreoni and Tregenna (2021) demonstrate, South Africa's persistently slow manufacturing growth reflects this structural economic shift, which has significantly contributed to its prolonged middle-income status. When compared with other major developing economies - particularly Brazil, China, and Malaysia - South Africa's manufacturing employment share remained the lowest in both 2005 and 2015, revealing particularly acute deindustrialization pressures. Brazil's has experienced deindustrialization since the 2000s, while China presents dynamic progress (Diegues & Yang 2025). Meanwhile, Poland which has been identified as a successful country to escape or almost escape from MIT has a high level of sophistication of production and export basket (Bayar 2021). For Indonesia, addressing premature deindustrialization represents a critical policy challenge that must be addressed to successfully transition to high-income status.

Figure 5a. Contribution of manufacturing to GDP



Source: Adapted from BPS (2023), processed by the author.

Figure 5b. Contribution of manufacturing to employment

Source: Adapted from BPS (2023), processed by the author.
Note: F is February, A is August.

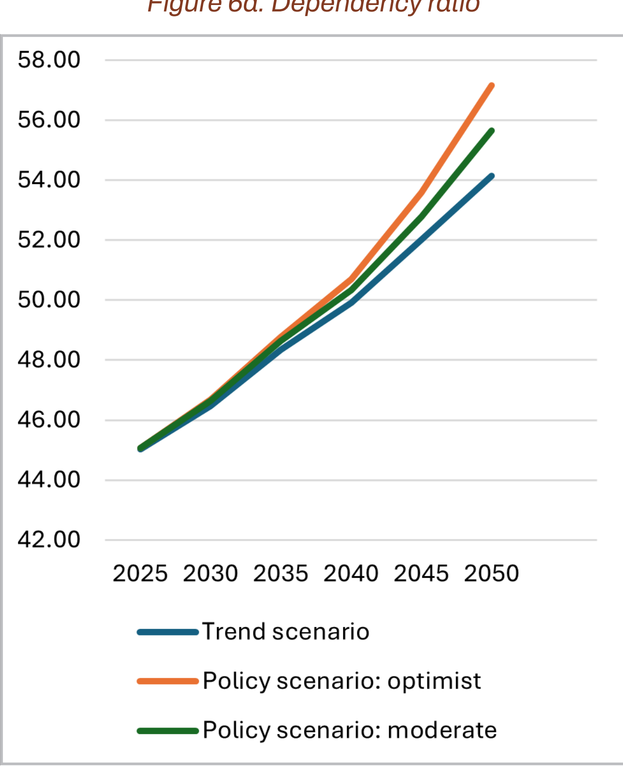
4.3. Dependency Rate and Middle-income Class Issues

Demographic dividend is argued to be one of the advantages that Indonesia can exploit to imporve the economy. A demographic dividend occurs when a country has a dependency ratio below 50%, meaning that for every 100 working-age individuals, there are fewer than 50 dependents. Previously, it was expected that Indonesia would reach its demographic bonus in the 2030s. Indonesia started to experience this dividend in the 2010s. However, the recent BPS publication (*Proyeksi Penduduk Indonesia 2020–2050 Hasil Sensus Penduduk 2020*) shows that Indonesia's dependency ratio was 44.33% in 2020 and then consistently increased to more than 54% in 2025.

Since the lowest dependency ratio was in 2020, the peak of our 'demographic bonus' period —when the working-age population is larger relative to the dependent population—happened in 2020, not in 2030 as widely argued. This implies that Indonesia has passed the window of opportunity and could now face a demographic burden. Figure 6a shows that the dependency ratio in 2045 will be more than 50%. Therefore, in the future, a larger proportion of the population will be economically dependent on a smaller working-age group. It will then be crucial to improve the productivity of the working-age group.

Besides that, the middle-class is argued to be one of the key factors behind economic growth. The middle class is generally defined by its access to significantly higher levels of disposable income, enabling greater consumption and economic participation. Ozturk (2016) found that the middle class plays a vital role in increasing the odds of a country escaping the middle-income trap. For ASEAN countries, Brueckner et al. (2018) gave an indication of the role on the middle class with their find that an increase in their income share increases economic growth. They also found that investment is an important channel through which the rise of the middle class affects economic growth. Therefore, when there is not a sufficient middle-class, a country could fall into MIT.

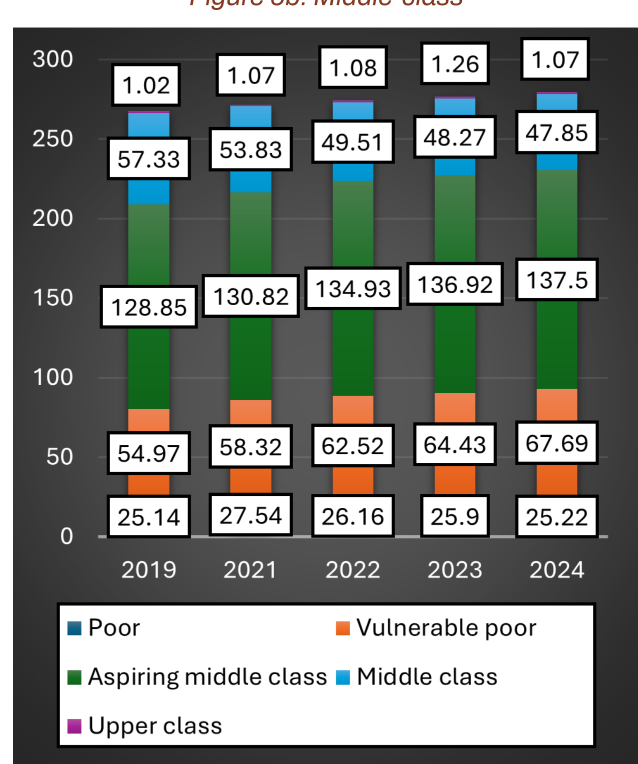
Figure 6a. Dependency ratio



Source: Adapted from BPS (2023), processed by the author.

Following the World Bank's criteria in the *Aspiring Indonesia—Expanding the Middle Class* (2019), BPS estimates the size of the middle class in Indonesia. The latest estimate shows a decline in the proportion of the middle class from 21.45% in 2019 to 17.13 in 2024 or 57.33 million to 47.85 million, respectively (see Figure 6b). Meanwhile, the size and proportion of the vulnerable poor and the aspiring middle-class increase. This indicates that the middle class in Indonesia shrank by 9.4 million between 2019 and 2024, primarily due to the COVID-19 pandemic.

Figure 6b. Middle-class

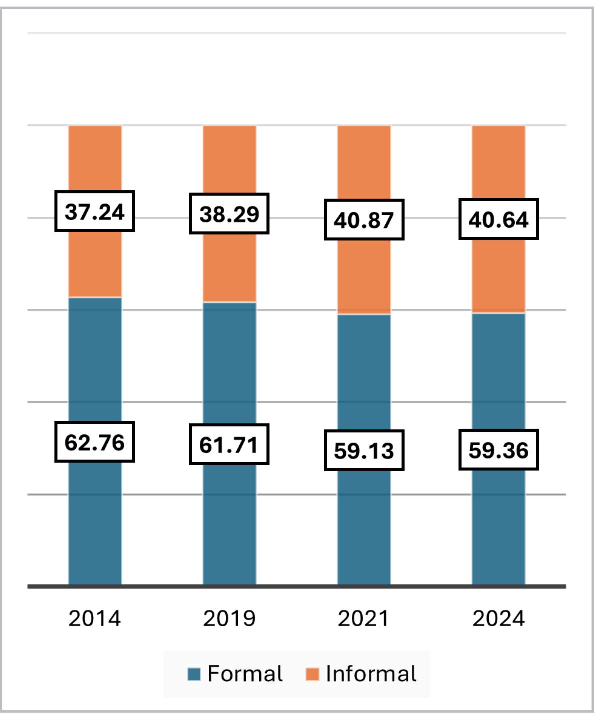


Source: Adapted from BPS (2023), processed by the author.

The BPS also reports that the percentage of middle-class workers in the formal sector declined from 62.76% in 2014 to 59.36% in 2024 (Figure 7a). In terms on economic sectors, the proportion of the middle-class working in the agricultural sector rose significantly from 12.9% to 19.97%, while in the manufacturing there was a small increase, and in the services sector showed a substantial decrease (Figure 7b).

The figure is in line with a previous report that shows that nearly two out of three workers in Indonesia are trapped in sectors with comparatively low levels of labour productivity, which prevents them from earning higher wages (Wihardja & Cunningham 2021). It is known that the middle class group is a primary driver of consumption in Indonesia through household spending. Therefore, a decline in middle class lower aggregate demand for various goods and services leads to worse economic growth. In other words, the figures indicate that the Indonesian economy is suffering from the negative effect of middle-class decline on potential demand and thus economic growth. This means that the recent trend of the middle-class in Indonesia can increase the probability of Indonesia finding itself in the grips of the MIT.

Figure 7a. Th middle-class in terms of working status

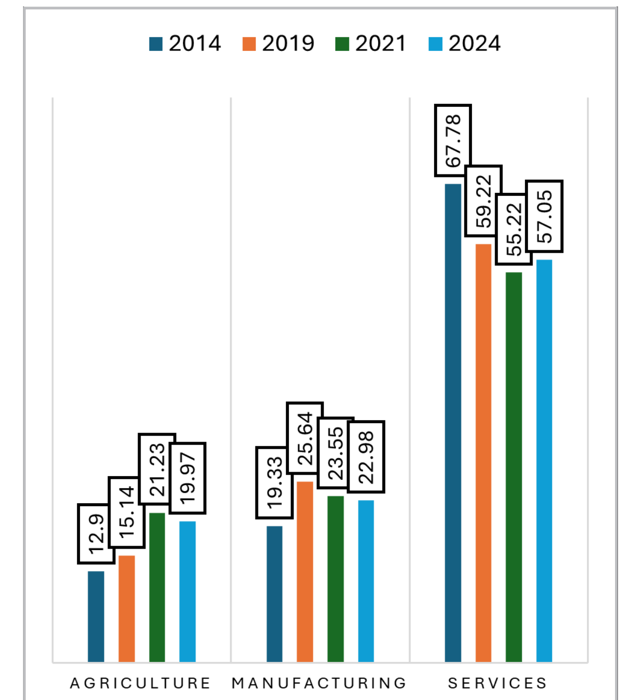


Source: Adapted from BPS (2023), processed by the author.

4.4. Insufficient Institutional Support

Another critical issue regarding MIT is the institutional aspect. Ang and Dong (2023) for instance, find that there is an adverse effect of corruption on real GDP per capita. They argue for the importance of institutional reform in fighting against corruption for middle-income countries to escape MIT. Song et al. (2023) also find that a country should have an appropriate institutional environment, which includes rigorous adherence to the rule of law, high regulatory quality, and high government effectiveness to avoid falling into the MIT.

Figure 7b. The middle-class in terms of working sector



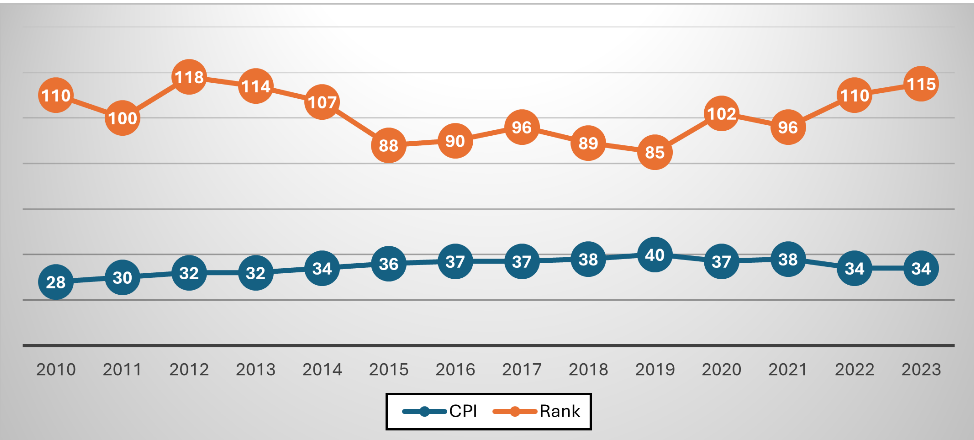
Source: Adapted from BPS (2023), processed by the author.

A previous study by Doner and Schneider (2016) also indicates that countries in MIT face institutional and political challenges. Investment in institutional capacity is required to upgrade productivity such as in innovation, but it is difficult when there is a lack of political capacity.

Figure 8a shows that Indonesia faces an increase in the corruption perception index (CPI) indicating that there is a serious challenge in fighting corruption (Baker 2023, Detik.com 2024.). There has been no significant improvement in the CPI score during the last ten years. Although, Finance Minister of Indonesia, Sri Mulyani Indrawati, in 2022 stated that corruption is one of the key factors of the middle-income trap and impedes efforts to achieve the status of developed country (Tempo 13/12/2022), as political interests tend to deteriorate the war on corruption (see Baker 2023).

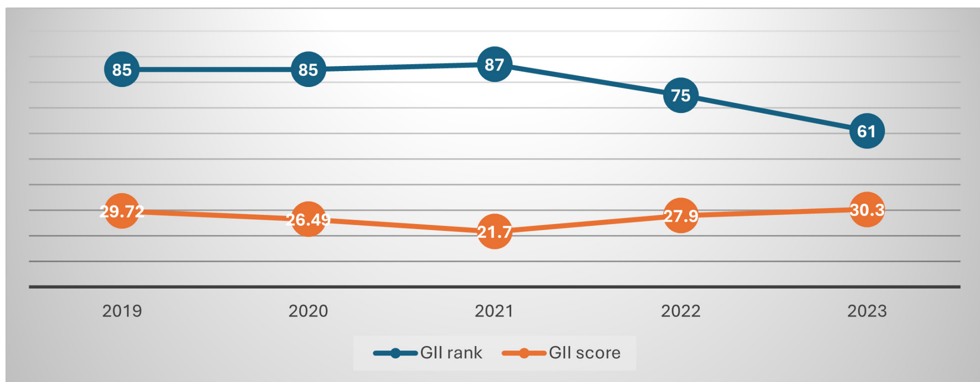
Fortunately, the rank of Indonesia in the Global Innovation Index has consistently improved - the score has fluctuated but increased overall (Figure 8b). This upward trend indicates a strengthening of Indonesia's innovation capabilities over the past few years. The score in the GII has also shown an overall increase suggesting that Indonesia is making progress in enhancing its innovation ecosystem. Otherwise, the World Competitiveness Center ranking for Indonesia is 27 (Figure 8.c). This constitutes a significant increase compared to the previous year. Business efficiency, government efficiency, and economic performance have made a large contribution to the overall achievement. However, Indonesia still experienced a low rank in infrastructure ratings. It can be expected that Indonesia could improve its innovation and competitiveness if it has better institutional support.

Figure 8a. Indonesia's Corruption Perception Index (2010-2023)



Source: Data from Transparency International (2025).

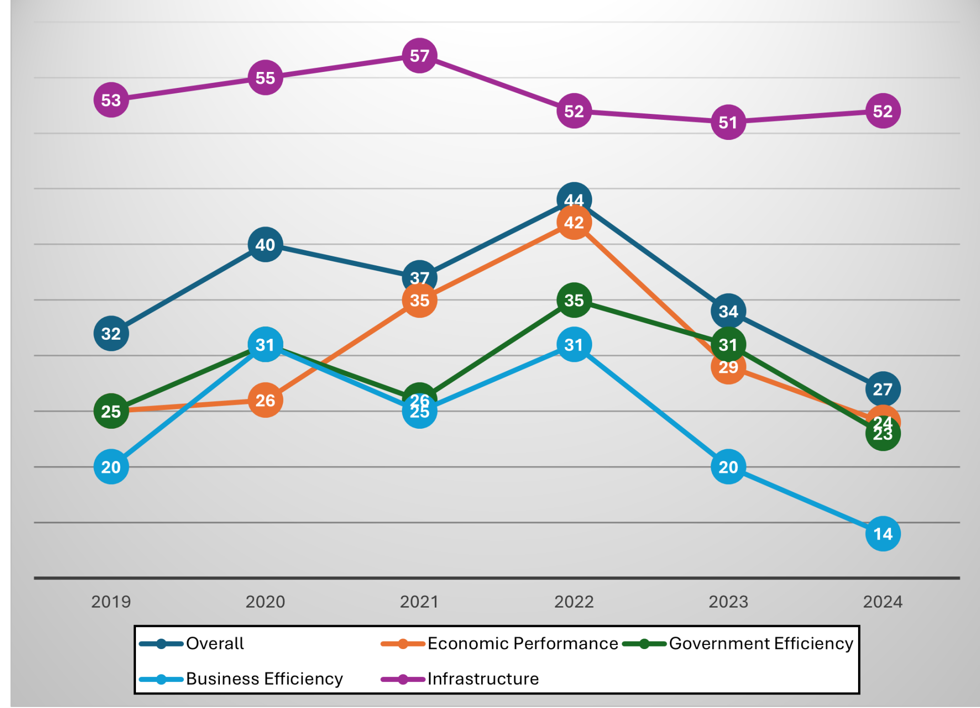
Figure 8b. Indonesia in the Global Innovation Index (2019-2023)



Source: Adapted from World Intellectual Property Organization (2023).

Paus (2019) also indicates that one of the reasons behind low productivity growth in Latin America countries under the market led strategies, especially Brazil, is a limited development of domestic innovation capabilities. In contrast, China's strategic focus on domestic innovation has propelled its rise as a global manufacturing leader. South Korea's experience especially, in the period 1960s – 1990s when this country extraordinarily escaped from the middle–income trap, indicates a focus on developing science and technology and constant innovation (Trang 2021). The same suggestion is also applied to Malaysia in which its successful transition from middle-income to advanced-economy status fundamentally depends on institutional reforms, innovation systems, and competitiveness enhancement (Nguyen 2021). For Indonesia, these findings suggest the importance of advancing domestic innovation capabilities as a key development strategy.

Figure 8c. Indonesia's Ranking in the World Competitiveness Index (2019-2024)



Source: Adapted from IMD (2025).

5. Conclusions and Recommendations

5.1. Conclusion

Indonesia's aspirations for sustained high-income status are challenged by a confluence of interconnected economic issues. Foremost among these is a concerning trend of low and stagnant productivity, indicating diminishing efficiency in translating investment into economic output, suggesting potential misallocation of capital towards less productive activities and the presence of structural bottlenecks hindering overall efficiency. The nation is also struggling with premature deindustrialization, characterized by a declining contribution of the manufacturing sector to both GDP and employment. This premature decline risks limiting technological advancement, hindering participation in higher-value global value chains, and increasing the economy's vulnerability to growth slowdowns.

Adding to these economic headwinds are demographic shifts and challenges related to the middle class. The anticipated demographic dividend has seemingly peaked earlier than projected, leading to a rising dependency ratio which could stress social security systems and dampen economic dynamism. Simultaneously, the proportion and size of Indonesia's middle class have shrunk in recent years, potentially weakening domestic demand, limiting investment in human capital, and increas-

ing the risk of the nation falling into the grip of the middle-income trap. This shrinkage causes further concern in view of a shift in middle-class employment towards lower-productivity sectors like agriculture, away from potentially higher-growth areas like services.

Finally, insufficient institutional support intensifies these economic vulnerabilities. Persistent corruption undermines investor confidence, distorts resource allocation, and hinders overall economic efficiency. While Indonesia has shown improvements in global innovation and competitiveness rankings, significant weaknesses in infrastructure continue to pose a constraint on economic development. Addressing these multifaceted challenges requires not only sound economic policies but also robust and effective institutional reforms to ensure a conducive environment for sustainable and inclusive growth.

5.2. Policy Recommendations

To navigate these complex challenges and steer Indonesia towards a path of sustained high-income growth, a comprehensive and coordinated set of policy recommendations is crucial. Addressing the issue of low productivity necessitates a focus on enhancing investment efficiency through careful project evaluation, strategic resource allocation towards high-potential sectors, and the removal of structural barriers. Revitalizing the manufacturing sector requires targeted industrial policies that promote technological upgrading, foster inter-sectoral linkages, and invest in the skills needed for a modern industrial base.

Counteracting the demographic shift and the shrinking middle class demands strategic investments in human capital development, the strengthening of social safety nets to protect vulnerable populations, and the implementation of policies that actively promote job creation in higher-productivity sectors while reducing income inequality. Fostering a conducive business environment and supporting formal sector employment are also vital for expanding and strengthening the middle class. Crucially, tackling the issue of insufficient institutional support requires a multi-pronged approach. This includes a persistent commitment to strengthening anti-corruption measures through enhanced law enforcement and greater transparency, prioritizing strategic investments in critical infrastructure, streamlining regulations to improve the business environment, and fostering a vibrant ecosystem that supports innovation and technological advancement.

Ultimately, a holistic and well-implemented strategy that addresses these interconnected challenges is vital. By focusing on enhancing productivity, revitalizing the industrial sector, strengthening human capital, supporting the middle class, and enacting meaningful institutional reforms, Indonesia can build a more resilient and dynamic economy, paving the way to escape the middle-income trap and achieve its long-term development aspirations.

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SÁNDOR J. ZSARNÓCZAI –
GYÖRGY IVÁN NESZMÉLYI

Agricultural and Food Production in India between 2000–2020

AGRICULTURAL AND FOOD PRODUCTION IN INDIA BETWEEN 2000–2020

Sándor J. Zsarnóczai[1] – György Iván Neszmélyi[2]

Abstract

This case study analyzes the recent economic developments in India's agricultural and food production sectors, focusing on agricultural gross value added, food production, water use, and population changes. India would like to decrease its level of food dependence from the world market and mainly food imports. Expanding employment in agriculture cannot replace the need for agricultural technology developments for example advanced linear irrigation systems, testing of plants resistant against drought, terrace plant production farming in soil erosion control, use of fertilizers, pesticides, regular veterinary supervision to ensure the health of breeding animals, experimenting with more productive animal varieties per animal, mechanization, expansion and quality food production concerning the demands of national and international markets. The analysis is based on a statistical program for social sciences, which emphasized correlations between economic variables and their economic features. India has increased its food dependence on the world market, because of less food production was by supplying suppiled by the domestic market for the researched period of 2000-2020. This study also analyses correlations of share of agricultural gross value added produced by irrigated agriculture, with food availability average protein and value of food imports over total merchandise exports. Food dependence as value of food imports over total merchandise exports in India increased from 5% in 2000 to 6% in 2020. Food consumption was affected by the more than doubling of the consumer food price indices in the same period. For the future in India, green sustainable investment in agricultural and food production sectors should be realised in order to increase food supply.

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Keywords: domestic market, economic variables, gross value-added, population changes, statistical methods, technology developments

1. Introduction

In recent decades India has implemented a spectacular development process in agricultural production which had considerable influence on the food industry and the agricultural business in order to ensure the increased food self-sufficiency of the increasing population of India. Regarding the agricultural and food development, test food, herbs, cereals, rice and some kinds of main milk product production have increased recently

India has achieved impressive results in recent decades, but it still faces grave economic and social challenges that hinder its sustainable development. The country's economic growth has slowed in recent years due to the COVID-19 pandemic, and although it has since recovered, the economy continues to face structural problems. One of the biggest challenges is the unequal economic development that exists between rural and urban areas. While the IT and service sectors are growing dynamically, modern economic opportunities are less attractive to the hundreds of millions of people employed in agriculture, and many are vulnerable to weather extremes (Neszmélyi, 2025). From the perspective of worsening ecological problems, the issue may play a decisive role in the choice of the future development path of India. A particularly significant example of the unequal distribution of natural resources in India is the situation of agriculture, which employs 70 percent of the population. The opportunities for this economically and socially important sector, which uses traditional, often ancient, methods of cultivation, are becoming increasingly limited, which could lead to a social crisis. The agricultural area per capita is already only 650 m2, while in the United States, for example, it is 1,900 m2. There is practically no unused land, and soil erosion, urbanization, and internal migration are burdening the sector with new tensions (Neszmélyi et al., 2007).

In the future India may become an increasingly important industrial power thanks to its large, well-trained workforce, so it will be able to compete in the world market in the field of new technologies. Changes are also expected in other areas. For example, a demographic shift that will alleviate the pressure on India from the population explosion. Furthermore, Indian agriculture, which has been largely neglected until now, embodies a production potential that could make India an exporter of all kinds of agricultural products (Majoros, 2022).

The present case-study analyses some of the most significant recent economic changes in agricultural and food production in India concerning the agricultural gross value-added accompanying food production, water use and population changes. India would like to decrease its level of the food dependence on the world market and mainly food imports.

The study has set up the different statistical data coming from FAO, FAOSTAT and AQUASTAT based on the national governmental statistical books. The analysis covered the agricultural and food development process for the period of 2000 to 2020 (FAO, 2017; FAO, 2018; FAO AQUASTAT, 2023; FAO 2024a).

Some experts (Ravikishore et al., 2022; IFAD, 2019) have emphasized the main agricultural aims of India to ensure better and more efficient agricultural production for food self-sufficiency based on the *single window clearance system*, for example: promote fruit processing clusters; strengthen agriculture marketing infrastructure; facilitation of land allotment; promote major food parks; support the development of logistical infrastructure; compliance with food safety regulatory requirements and support to business units that have established backward integration (Ruckstuhl & Ward, 2017).

Some Indian authors have emphasized the importance of the *moving agribusiness:* which includes the cultivating practice primarily utilized by ancestral groupings to develop tuber and root crops. *Land is obtained by clearing a forested region and planting crops there.* At the point when land loses its fertility, another territory is cleared and crops are moved there (Manida & Nedumaran, 2020).

Also, the authors wrote that in India at least 66% of the working populace procure their living through agrarian work. In various sectors of the economy, there has been a decline in the business and employment opportunities for the country's growing working population (Manida & Nedumaran, 2020; IFAD, 2016).

In the authors' view, this presents difficulties and contradictions in the form of the expansion of land use for crop production, which may reduce the size of important forested areas. The decrease in the size forest areas may accelerate, further increasing global warming, changing wind directions (el-Nino effect) and possibly causing huge cyclones in many regions. In addition, forest soils often require supplementary nutrient inputs to enable more efficient crop production. Also, grain, protein and biological yields were significantly increased as the volume of irrigation water increased. Results indicate that grain yield and its components significantly declined due to the water deficit. The recommended number of irrigations at the vegetative and reproductive stages need to be applied properly and in a timely manner for better yields. Water use efficiency (WUE) can be described on various scales from leaf to field (Shrief & El-Mohsen, 2014).

Teh Government of India has declared four priorities, which are as follows: 1. sustainable agricultural production, 2. food and nutrition security to strengthen the food independence of India, 3. climate resilience and sustainable natural resource management and 4. inclusive, gender responsive agrifood systems governance (FAO, 2024b, Country programming framework for India, 2023-2027). Naturally these priorities were in the previous period relevant to objectives of this study. Also, India has piloted innovative and practical agricultural solutions to climate impacts, which are as follows: agro-advisories, participatory community-based approaches and innovative technology-based farm information and financial management technologies through the NMSA (National Mission for Sustainable Agriculture"). FAO will support the Government of India initiatives to address climate change, biodiversity conservation, land and water degradation in natural ecosystems and agrifood system sustainability. The agriculture sector in India accounts for 14 percent of total GHG emission in the country.

India is the world's sixth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP). The country ranks 139th in per capita GDP (nominal) with $2,134 and 122nd in per capita GDP (purchasing power parity) with $7,783 as of 2018 (FAO, n.d.). Agriculture accounted for 23% of GDP, and employed 59% of the country's total workforce in 2016. Agriculture, with its allied sectors, is the largest source of livelihoods in India. 70 percent of its rural households still depend primarily on agriculture for their livelihood, with 82 percent of farmers being small and marginal. In 2017-18, total food grain production was estimated at 275 million tonnes (MT). India is the largest producer (25% of global production), consumer (27% of world consumption) and importer (14%) of pulses in the world. India's annual milk production was 165 MT (2017-18), making India the largest producer of milk, jute and pulses, and it has the world's second-largest cattle population 190 million in 2012. India is the second-largest producer of rice, wheat, sugarcane, cotton and groundnuts, as well as the second-largest fruit and vegetable producer, accounting for 10.9% and 8.6% of the world fruit and vegetable production respectively (FAO 2025) strengthening food independence of India from the world market. The inflation rate of India was 4% in 2000, 4.25% in 2005, 12% in 2010, 4.91% in 2015 and 6.62% in 2020 (Macrotrends). While food price inflation was 4% in the researched period of 2000-2020, which was a moderately low level, consumer prices food indices increased by 223% over the same period. This last issue resulted in less favourable cooperation of small and middle scale farmers in the field of trading for selling their agricultural products in local markets in India. Wholesale trading companies have better bargaining positions to increase market prices of food products for local consumers. Therefore, the cooperation of farmers is needed for purchasing main inputs for their agricultural production. Another difficulty was less developed logistic networks between farmers and producers on local markets, which could contribute to higher costs of trading.

The risk and cost to farmers of adopting new low-emission, climate-resilient practices, the fragmented planning and monitoring of climate change-fighting measures on the ground, and inadequate entry into climate finance mechanisms and private sector involvement are all barriers to scaling up this type of climate action (also see in Mahesh et al 2023).

Our opinion is that, as a naturally economic features of a developing country, the agricultural sector could provide jobs for the majority of the rural population, and can be seen in cases of economic conditions of India. But expanding employment in agriculture cannot replace the need for agricultural technology developments, for example advanced linear irrigation systems, testing of plants resistant to drought, terrace plant production farming in soil erosion control, use of fertilizers and pesticides, regular veterinary supervision to ensure the health of breeding animals, experimenting with more productive animal varieties, mechanization, expansion, and quality food production according to the demands of national and international markets.

2. Methodology

2.1. Hypotheses for the Research

Hypotheses included in the research analysis are as follows:

Analyse correlations of the share of agricultural gross value added (GVA) produced by irrigated agriculture in 2000-2020 (*AGVAi101*) *with* food availability average protein supply (g/capita/day) (3-year average) (FoodP116) and the value of food imports over total merchandise exports (3-year average) in percent (FoodIm097).

Analyse correlations of change of GDP per capita in percent (2000= 100) constant 2011 USD(*GDPpCap4*) *with* Human Development Index (HDI) [highest = 1] (HDI5), food availability average protein supply (g/capita/day) (3-year average) (FoodP116), per capita food supply variability (kcal/capita/day) (FoodPeCa108), change of irrigated agriculture water use efficiency (2000=100) in percent, US$/m3 (IrAgWatUE9), change of total population in percent in 2020, where 2000 = 100 in 1000 inhabitants (TotalPo10), consumer prices, food indices in percent, 2000 = 100 (ConPrice11) and agricultural water withdrawal as percent of total water resources (AgrWat13) in 2000 – 2020.

Analyse correlations of food availability average protein supply (g/capita/day) (3-year average) (*FoodP116*) *with* per capita food supply variability (kcal/capita/day) (FoodPeCa108), change of irrigated agriculture water use efficiency (2000 = 100) in percent, US$/m3 (IrAgWatUE9), change of total population in percent in 2020, 2000 = 100 in 1000 inhabitants (TotalPo10), consumer prices, food indices in percent, 2000 = 100 (ConPrice11), in 2000-2020.

Analyse correlations of value of food imports over total merchandise exports (%) (3-year average) in percent (*FoodIm097*) *with* per capita food supply variability (kcal/capita/day) (FoodPeCa108) in 2000-2020.

Analyse correlations of per capita food supply variability (kcal/capita/day) (*FoodPeCa108*) *with* change of irrigated agriculture water use efficiency (IrAgWatUE9), change of total population (TotalPo10), consumer prices, food indices in percent (ConPrice11),

Analyse correlations of food price inflation, in percent 2000 = 100 (*FoodPri12*) *with* agricultural water withdrawal as percent of total water resources (AgrWat13) in 2000-2020.

In the further chapters the analysis overviews the correlations among economic variables concerning each important year between 2000-2020, emphasizing the main economic features of the agricultural sector in India. The case study would like to find a response to the main agricultural difficulties for example how food availability *average protein* supply and per capita *food supply variability* (kcal/capita/day) can be affected by the *value of food imports* over total merchandise exports and per capita food supply variability (kcal/capita/day).

2.2. Material and Methods

The analysis is based on the SPSS (statistical program for social sciences) given by authors Horváth-Mitev (2023) (Field, 2020), which emphasized the *correlations* between economic variables and their economic features. In this case study economic variables are AGVAi101, ToCoAcu102, AVA10GDP3, GDPpCap4, HDI5, FoodP116, FoodIm097, FoodPeCa108, IrAgWatUE9, TotalPo10, ConPrice11, FoodPri12, AgrWat13 (see Table 1). These economic variables concern the agricultural gross value-added by irrigated agriculture, total country area cultivated, agriculture value added (in % of GDP), change of GDP per capita, human development index (HDI) [highest = 1], average protein supply, per capita food supply variability, value of food imports over total merchandise exports, change of irrigated agriculture water use efficiency, change of total population, consumer prices in food indices, Food price inflation and agricultural water withdrawal as % of total water resources in the period of 2000-2020. Also, the data-base shows the exact changes of each variable during the researched period in developing trends in the agricultural sector in India (Table 1; Table 2; FAO AQUASTAT, 2023).

Economic variables are logically connected with each others, because analyses focus onÉ food supply and its price changes; production background as average protein supply; per capita food supply variability; consumer prices and food indices; food price inflation; % of agricultural GVA produced by irrigated agriculture; % of total country area cultivated; agriculture value added in % of GDP; change of irrigated agriculture water use efficiency; agricultural water withdrawal as % of total water resources %. Also, the change of GDP per capita in percent and human development index (HDI) are needed for the analysis, because these variables connect with standard of living and power purchase parity as the food demand side of the food market in India. HDI includes standard of living, education level and health care as human power resources. Food import also plays important role in the food supply for the Indian market. The total population determines the size of the domestic food market of India. The size of the study means it cannot contain more variables. Generally, it is well known that weather conditions and the increasing length of drought periods result in more and more natural damage to human society and the economic performance. Such natural damage is a result of global warming, for which human society and human activities are responsible. Naturally these economic variables and their connections and correlations result in structure hypotheses based on objectives and aims of the study. The study overviews the relatively long period of 2000 – 2020 in order to get wider overview of trends in the food supply and food consumption in India. The data base of FAO is set to annual callibration, but average protein supply and value of food import total merchandise export are given by several three-year-periods as critical smaller periods for the whole researched period of 2000-2020. The food and health crisis which started in 2020 because of the Russian-Ukrainian war has given rise to the need for analysis of a new period of food supply in India as elsewhere. Therefore, this study overviews food supply trends of India until 2020.

Additionally, as the main agricultural developing trends, the data-base overviews some aspects of the background of agricultural production changes, like the consumption structure of agricultural

Table 1. Abbreviation of Economic Variables

Economic variables	Mean values of economic variables	Years	Sources
AGVAi101	% of agricultural GVA produced by irrigated agriculture in 2000-2020	2000-2020	FAO AQUASTAT
ToCoAcu102	% of total country area cultivated in 2000-2020	2000-2020	FAO AQUASTAT
AVA10GDP3	Agriculture, value added (in % of GDP) in 2000-2020	2000-2020	FAO AQUASTAT
GDPpCap4	Change of GDP per capita in percent in 2000-2020 (2000 = 100) constant 2011 US$	2000-2020	FAO AQUASTAT
HDI5	Human Development Index (HDI) [highest = 1] in 2000 – 2020	2000-2020	FAO AQUASTAT
FoodP116	Food availability Average protein supply (g/capita/day) (3-year average)	2000-2020	FAOSTAT
FoodIm097	Value of food imports over total merchandise exports (%) (3-year average) in percent.	2000-2020	FAOSTAT
FoodPeCa108	Per capita food supply variability (kcal/capita/day) in 2000-2020	2000-2020	FAO AQUASTAT
IrAgWatUE9	Change of Irrigated Agriculture Water Use Efficiency in 2000-2020 (2000=100) in percent, US$/m3	2000-2020	FAO AQUASTAT
TotalPo10	Change of Total population in percent in 2020, 2000 = 100 in 1000 inhabitants	2000-2020	FAO AQUASTAT
ConPrice11	Consumer prices, food indices in percent in 2000-2020, 2000 = 100	2000-2020	FAOSTAT
FoodPri12	Food price inflation, in percent in 2000-2020, 2000 = 100	2000-2020	FAOSTAT
AgrWat13	Agricultural water withdrawal as % of total water resources % in 2000-2020	2000-2020	FAO – WORLD BANK

Source: FAO AQUASTAT (2023), National statistical books. Rome: Food and Agriculture Organization of the United Nations.
Note: The last one figure or last two figures of the titles belonging to the economic variables in this study are ordering number sof the variables. Before these ordering numbers, years are indicated in short form. The titles of the variables generally use short form names of the economic variables.

and food products, food dependence on the world market, food prices and human power resource and the number of populations classified as domestic consumption market in India.

Table 3 shows the correlation matrix for economic variables in the study, where correlations between the values of variables which are higher than 0.800 (80%), i.e. between 0.800 (80%) and 1.000 (100%) are classified as *very strong*. When the values of correlations between variables are between 0.500 (50%) – 0.800 (80%), in these cases their correlations are only *strong*. But if values of correlations among variables are less than 0.500 (50%), these correlations are not important for analysis. Some economic variables have negative values, because they are inversely proportional to other positive variables. Naturally negative valued variables are directly proportional to other negative ones. The negative valuation of variables means that they decrease, while the positively valued variables increased in the researched period.

The analysis includes the principal component analysis and rotation method: varimax with Kaiser normalization. According to the rotated component matrix (Table 4) each component is consists of different kinds of economic variables, namely the component-1 includes FoodP116, IrAgWatUE9, ConPrice11, FoodPeCa108, HDI5, GDPpCap4, TotalPo10, ToCoAcu102, FoodIm097 and AGVAi101, while the component-2 includes FoodPri12, AVA10GDP3 and AgrWat13. This means that as economic variables of each component are change, so does each component. This means that changes of a component depend on changes in its own variables. Also, in Figure-1 each year emphasized is characterized by all economic variables as economic features of the given year. Economic features, as economic variables of a given year, determine the positions of the year in the coordinate system.

The following chapter shows overview tables and figures for analysing trends in the agricultural sector and its background in India.

3. Statistical Analyses and Graphical Presentation

Table 2. Changes in Agricultural Features of India between 2000-2020

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13
2000	63	52	21	0.1	0.5	55.3	5	50	0.1	0.1	0.1	0.1	91.5
2005	54	52	18	25.5	0.5	54	4	52	-10	9	22	5	90.9
2010	71	52	17	64	0.6	58	5	43	42	17	82	9	90.4
2015	72	52	16	110	0.6	61.7	7	11	95	25	164	6	90.4
2020	72	51	18	138	0.7	65.7	6	11	158	32	223	4	90.4
Average	66.4	51.8	18	67.2	0.58	59	5.4	33.4	57	17	98	5	90.0

Source: FAO AQUASTAT (2023), National statistical books, AQUASTAT Dissemination System. Rome: Food and Agriculture Organization of the United Nations.

Table 3a. Correlation Matrix

	GVAi101	ToCoAcu102	AVA10GDP3	GDPpCap4	HDI5	FoodP116	FoodIm097	FoodPeCa108	IrAgWatUE9	TotalPo10	ConPrice11	FoodPri12	AgrWat13
AGVAi101	1.000	-.397	-.440	.757	.810	.810	.811	-.755	.785	.716	.763	.343	-.647
ToCoAcu102		1.000	0.000	-.689	-.802	-.789	-.294	.604	-.806	-.681	-.739	.142	.367
AVA10GDP3			1.000	-.663	-.479	-.432	-.469	.548	-.442	-.706	-.580	-.855	.906
GDPpCap4				1.000	.940	.957	.757	-.942	.964	.994	.994	.389	-.854
HDI5					1.000	.957	.629	-.831	.960	.935	.947	.344	-.786
FoodP116						1.000	.788	-.943	.999	.928	.981	.163	-.694

Source: SPSS analysis based on data from FAO AQUASTAT (2023), National statistical books, AQUASTAT Dissemination System. Rome: Food and Agriculture Organization of the United Nations.

Table 3b. Correlation Matrix (continued)

	GVAi101	ToCoAcu102	AVA10GDP3	GDPpCap4	HDI5	FoodP116	FoodIm097	FoodPeCa108	IrAgWatUE9	TotalPo10	ConPrice11	FoodPri12	AgrWat13
FoodIm097							1.000	-.908	.764	.690	.773	.092	-.513
FoodPeCa108								1.000	-.939	-.902	-.956	-.160	.683
IrAgWatUE9									1.000	.938	.986	.172	-.705
TotalPo10										1.000	.979	.462	-.894
ConPrice11											1.000	.292	-.795
FoodPri12												1.000	-.810
AgrWat13													1.000

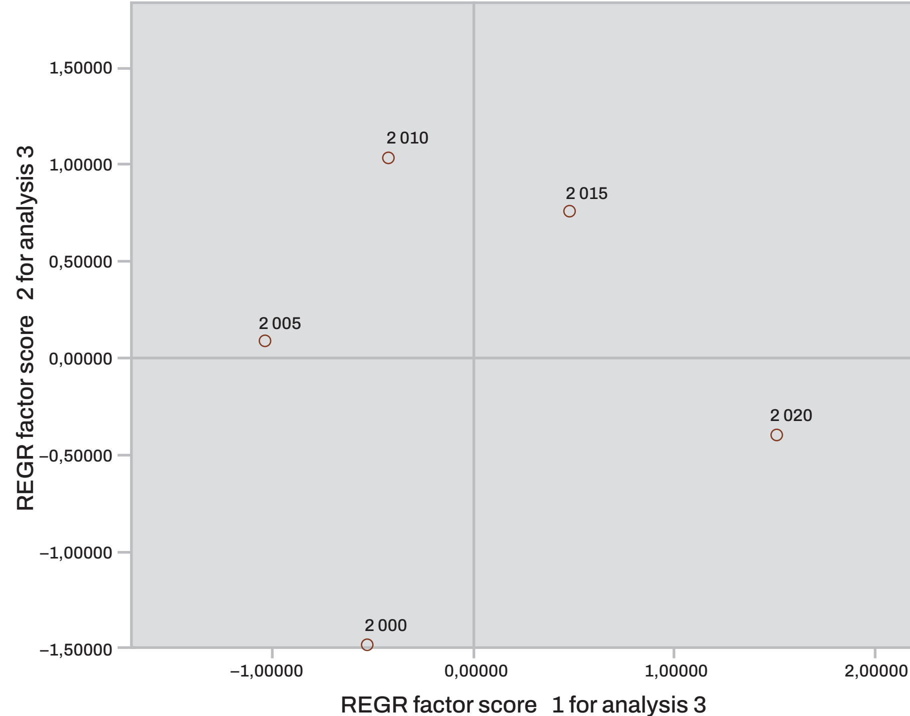
Source: SPSS analysis based on data from FAO AQUASTAT (2023), National statistical books, AQUASTAT Dissemination System. Rome: Food and Agriculture Organization of the United Nations.

Table 3c. Rotated Component Matrix

	Component	
	1	2
FoodP116	.984	
IrAgWatUE9	.982	
ConPrice11	.942	
FoodPeCa108	-.919	
HDI5	.914	
GDPpCap4	.901	
TotalPo10	.860	
ToCoAcu102	-.841	
FoodIm097	.763	
AGVAi101	.750	
FoodPri12		.970
AVA10GDP3		-.933
AgrWat13		-.813

Source: SPSS analysis based on data from FAO AQUASTAT (2023), National statistical books, AQUASTAT Dissemination System. Rome: Food and Agriculture Organization of the United Nations.
Note: Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

Figure 1. Correlations between the economic variables by year, including economic features of economic conditions in India in the period of 2000-2020



Source: SPSS analysis based on data from FAO AQUASTAT (2023), National statistical books, AQUASTAT Dissemination System. Rome: Food and Agriculture Organization of the United Nations.

4. Results and Discussion

India is the world's largest producer of milk, pulses and jute, and ranks as the second largest producer of rice, wheat, sugarcane, groundnuts, vegetables, fruit and cotton. It is also one of the leading producers of spices, fish, poultry, livestock and plantation crops.

India increased *agricultural value added* by 93.4% in 2000-2020, while world agricultural value added increased by 78,3% for the same period in USD million at 2015 Prices (FAO 2022a). But in India *consumer prices according* to food indices increased by 223% for the same period, which shows that high price levels of food products became a considerable burden for food consumers (FAO AQUASTAT, 2023). Naturally, at the same time the high consumer price levels could stimulate the increase of agricultural value added. Per capita food supply variability (kcal/capita/day) decreased by 78% from the level in 2000 to the level in 2020.

Annual freshwater withdrawals in India were very considerable, as proven by statistical data of FAO (2024). India's 647 500 million m3 annual freshwater withdrawals count as 16.6% of the world figure, namely 3 895 525 million m3, and is reckoned as 100% in 2020. Comparably, the share of China was 568 480 million m3 as 14.6% of the world figure, the share of USA was 446 396 million

m3 as 11.4% of the world figure, and the share of the Middle East and North Africa was 307 565 million m3 which was 7.9% of the world figure. While the share of EU-27 was 183 700 million m3 4.7% of the world figure, the share of Russia was 64 820 million m3, 1.7% of the world figure, the share of Brazil was 67 190 million m3, 1,7% of the world figure in 2020. In case of share of Hungary was 4 672 million m3, 0.12% of the world figure in 2020.

This shows that India has considerable freshwater withdrawals compared to the cases of other important countries of the world economy.

The *annual freshwater withdrawals* indicate total water withdrawals, *not counting evaporation losses* from storage basins. *Withdrawals* also include *water from desalination plants* in countries where they are a significant source. Withdrawals can exceed 100 percent of total renewable resources where extraction from *non-renewable aquifers or desalination plants* is considerable or where there is significant *water reuse.* Withdrawals for agriculture are total withdrawals for irrigation and livestock production. Data are for the most recent year available from 1987-2002 (FAO AQUASTAT, 2023).

In addition to the above-mentioned considerable results of agricultural sector of India, this country has implemented important production volume in the fields of several agricultural food products. Between 2000 and 2020, there was an increase in *milk production*, in India of 104 million tonnes, making India the largest producer with a 21 percent share of the global total in 2020. In Asia milk production went up 120 percent between 2000 and 2020, from 170 million tonnes to 374 million tonnes, mostly due to the increase in India. At the international level, with an 11 percent share, the United States of America was the second largest producer; the other main producers (Pakistan, China, Brazil, Germany, the Russian Federation and France) each accounted for 3 to 7 percent of global production.

In field of *hen egg production,* with 35 percent of the total, China ranked as the largest *hen egg producing country;* the combined output of the other main producers (the United States of America, India, Indonesia, Brazil, Mexico, Japan and the Russian Federation) did not surpass this. Together, the top three producers accounted for nearly half of global hen egg production in 2020. Asia played a major role in the overall growth *of fisheries and aquaculture production* and represented about 70 percent of total production in 2020 compared to 57 percent in 2000. In 2020, the Americas had a share of 12 percent, followed by Europe (10 percent), Africa (7 percent) and Oceania (1 percent). China is by far the main producer for both capture fisheries and aquaculture, with a 36 percent share of the production in 2020, compared to 30 percent in 2000. In 2020, other major producers were Indonesia and India, and these three countries together represented 51 percent of total fisheries and aquaculture production (FAO, 2022b).

Figure 1 shows that how economic variables for each year changed compared to the economic variables of the other years. In the *first session* of the coordinate system, the economic variables on the principal horizontal line "X", the agricultural GVA produced by irrigated agriculture, change of GDP per capita, Human Development Index, the average protein supply (g/capita/day) (3-year average), the per capita food supply variability (kcal/capita/day), the value of food imports over total merchandise exports, change in irrigated agriculture water use efficiency, change in total population in percent, consumer prices, the food indices, and food price inflation in 2000-2020, generally increased from 2000 till the end of 2015.

In the *second session* of coordinate system the economic variables in 2005 and 2010 generally decreased or slightly increased compared to the results in 2000, but little a less than the results of 2020.

Naturally in the *third session* of the coordinate system also, economic variables of line "X" in 2000 were at lower levels, which shows considerable increase in the fields of these economic variables by the end of 2020 in the *fourth session* of the coordinate system, while total country area cultivated, the agriculture value added in % of GDP and agricultural water withdrawal of vertical principal line "Y" decreased only slightly for the period 2000-2020 (Table 2; FAO AQUASTAT 2023). The value of food imports over total merchandise exports, as food dependent on the world market slightly increased by the end of 2015, and the slight decreased of one percent between 2015 and 2020 since 2015 can be seen as a favourable economic feature of India.

In the case of the percentage change of *irrigated agriculture water use efficiency* in US dollars, this economic variable sharply increased by 158%, reflecting a rising trend for agricultural producers in India. This was water efficiency change resulted partly from technical inefficiency in water use in agriculture, and can be addressed by: water productivity increases by increasing yield per plant; supporting farmers to access water; reducing water outflows from drainage, seepage, percolation; the use of rainfall as stored water; water resource management; and finally new agrotechnology use in crop production (see in detailed in Billia et al 2007).

51% of the total area of *India was* cultivated in both 2010 and 2020, which was the top level in the cases of selected countries, for which the average figure was less than 12% of total country area in both years. India had 71% and 72% of agricultural GVA produced by irrigated agriculture in 2010 and in 2020 respectively, an impressive result considering the large size of the country. GDP per capita increased by 138% in India in the period of 2000-2020.

In India the value of *food imports* over total merchandise exports in percent (3-year average) was 5% in 2010 and 6% in 2020, which was a positive result for India signing little food import dependence from abroad. This positive result was accompanied by a 158% increase in the field of irrigated agriculture *water use efficiency* in US$/m3 based on developing water irrigation investment for the period of 2000-2020. In spite of the fact that the *average protein supply* increased from 55,3 g/capita/day in 2000 to 66 g/capita/day in 2020, the *per capita food supply variability* decreased from 50 kcal/capita/day in 2000 to 21 kcal/capita/day in 2020, which shows that food self-sufficiency considerably decreased in India, in spite of the fact that the size of the *population* had only increased by 32% in the same time. This highlights the need for increasing more efficient agricultural food production in India in order to implement balanced food demand-supply market conditions (FAO AQUASTAT 2023).

5. Conclusions and Recommendations

The final results of this study emphasizes correlations between different main economic variables for years in the researched period (2000-2020).

Correlations of share of agricultural gross value added (GVA) produced by irrigated agriculture (*AGVAi101*) were 0.810 (81%) *with* food availability average protein supply (g/capita/day) (3-year average) (FoodP116); and 0.811 (81) with value of food imports over total merchandise exports (3-year average) in percent (FoodIm097) in 2000-2020.

The above-mentioned data shows that in India there was a sharp increase in share of agricultural gross value added (GVA) produced by irrigated agriculture increased, from 63% in 2000 to 72% in 2020, and also a serious increase in average protein supply daily per capita, which rose form 55.3 grams in 2000 to 65.7 grams in 2020. The considerable increase of agricultural irrigation in 2015 was followed by a rise in the protein supply of over 60 grams.

The value of food imports over total merchandise exports in percent – in other words food-dependence on the world market – increased for 5% in 2000 to 7% in 2015, but based on the increasing agricultural irrigation the food dependence of India could have decreased to 6% between 2015-2020. In spite of the fact that global warming and the longer drought period in India negatively impacted agricultural production, food-dependence actually decreased by one percent, which was a considerable achievement in India with its large population. Thus, irrigation in the agricultural sector was seen to contribute to a slight decrease in food-dependence.

Correlations of change of GDP per capita in percent (2000=100), constant 2011 US$ (*GDPpCap4*), were 0.940 (94%) *with* Human Development Index (HDI) [highest=1] (HDI5); and 0.957 (95.7%) food availability average protein supply (g/capita/day) (3-year average) (FoodP116); and -0.942 (-94.2%) in *inverse proportiona to* per capita food supply variability (kcal/capita/day) (FoodPeCa108); and 0.964 %96.4%) with change of irrigated agriculture water use efficiency (2000=100) in percent, US$/m3 (IrAgWatUE9); and 0.994 (99.4%) with a change in total population in percent in 2020, 2000=100 in 1000 inhabitants (TotalPo10); and 0.994 (99.4%) with consumer prices, food indices in percent, 2000 = 100 (ConPrice11); and -0.854 (-85.4%) in *inverse proportion to* agricultural water withdrawal as a percentage of total water resources (AgrWat13) in 2000 – 2020.

Correlations of food availability average protein supply (g/capita/day) (3-year average) (*FoodP116*) were -0.943 (-94.3%) in *inverse proportion to* per capita food supply variability (kcal/capita/day) (FoodPeCa108); were 0.999 (99.9%) with change of irrigated agriculture water use efficiency (2000=100) in percent, US$/m3 (IrAgWatUE9); and 0.928 (92.8%) with change of total population in percent in 2020, 2000= 100 in 1000 inhabitants (TotalPo10); and 0.981 (98.1%) with consumer prices, food indices in percent, 2000 = 100 (ConPrice11), in 2000-2020.

Correlations of value of food imports over total merchandise exports (%) (3-year average) in percent (*FoodIm097*) were -0.908 (-90.8%) in *inverse proportion to* per capita food supply variability (kcal/capita/day) (FoodPeCa108) in 2000-2020.

Correlations of per capita food supply variability (kcal/capita/day) (*FoodPeCa108*) were -0.939 (-93.9%) in *inverse proportion to* change of irrigated agriculture water use efficiency (IrAgWatUE9); and -0.902 (-90.2%) in *inverse proportion to* change in total population (TotalPo10); and -0.959 (-95.9%) in *inversel proportiona to* consumer prices, food indices in percent (ConPrice11) in 2000-2020.

Correlations of food price inflation, in percent 2000 = 100 (*FoodPri12*) were -0.810 (-81%) in *inverse proportion to* agricultural water withdrawal as a percentage of total water resources (AgrWat13) in 2000-2020.

Generally, *food dependence as value of food imports over total merchandise exports* in India increased by one percent from the level of 5% in 2000 to a level of 6% in 2020, therefore food dependence increased slightly. *Food dependence increased* in spite of the fact that the average protein supply in g/capita/day increased by 20% for the same period, while the per capita food supply variability in kcal/capita/day decreased by 78%. The somewhat unfavourable food supply and food consumption figures were mainly the result of an *increasie of 32% of the total population* in India for the period 2000-2020. This last fgure shows that the food consumption decreased in respect of kcal energy, because the *slight increase in protein supply* could not compensate sharply *decreasing food supply variability* in India. Also, food consumption was affected by a *consumer food price indices increase* in the same period. This combination of contrary factors resulted the slight increase in food import dependence. In spite of this slightly negative process, the food self-sufficiency could be at adequate levels compared to general average food supply conditions of developing countries.

According to reports of FAO (2025) the improvements in agriculture performance have weak linkage to improving nutrition, and the agriculture sector can still improve nutrition in multiple ways: increasing incomes of farming households, diversifying production of crops, empowering women, strengthening agricultural diversity and productivity, and designing careful price and subsidy policies that should encourage the production and consumption of nutrient rich crops. Diversification of agricultural livelihoods through *agri-allied sectors* such as animal husbandry, forestry and fisheries has enhanced livelihood opportunities, strengthened resilience and led to a considerable increase in labour force participation in the sector.

For the future in India *green sustainable investment* in agricultural and food production sectors should be realised in order to increase the food supply to keep food consumption at adequate levels for the population, to decrease hunger by innovative mechanization and irrigation systems. The innovative investment should be accompanying by ensuring adequate income conditions for farmers and agricultural producers.

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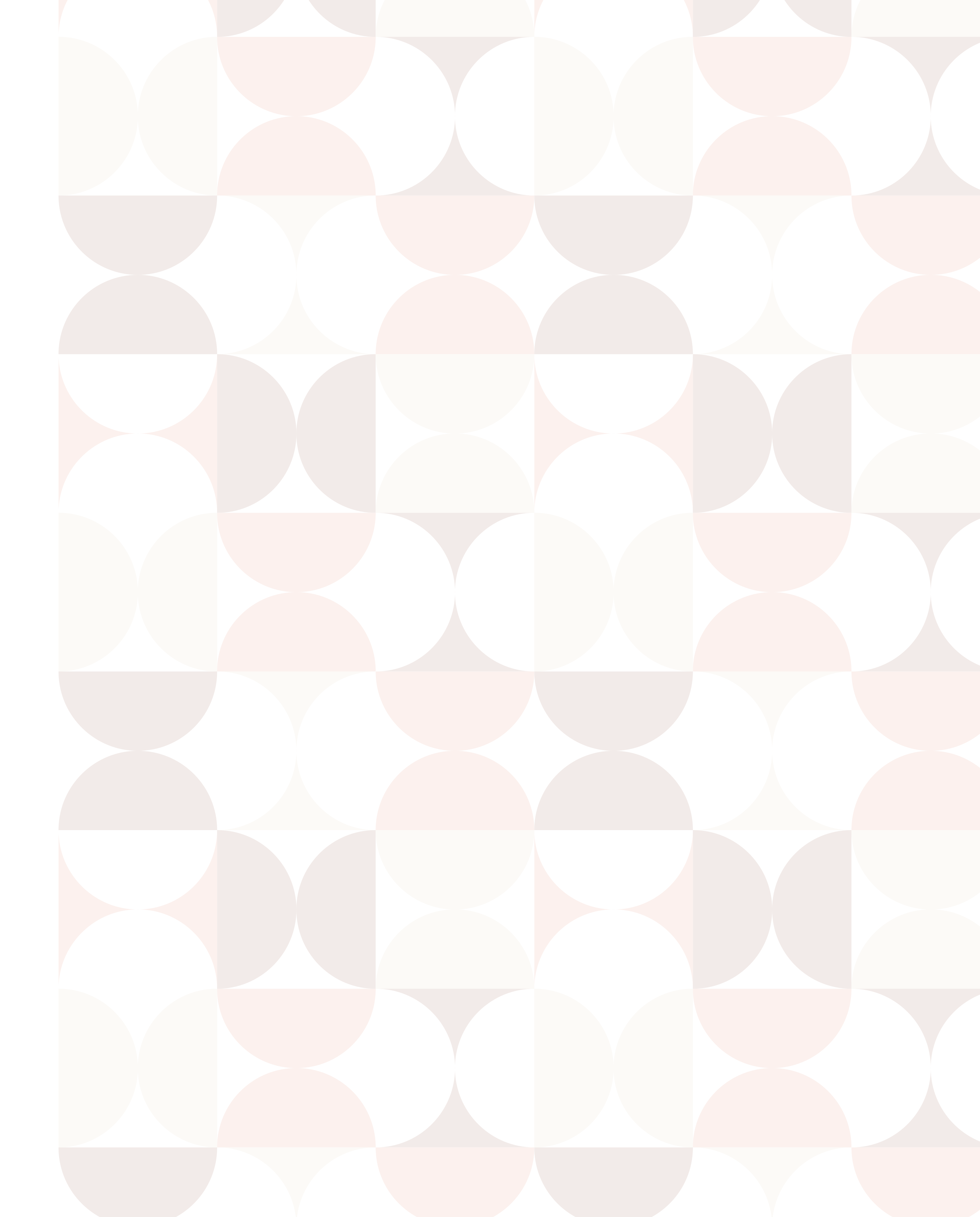
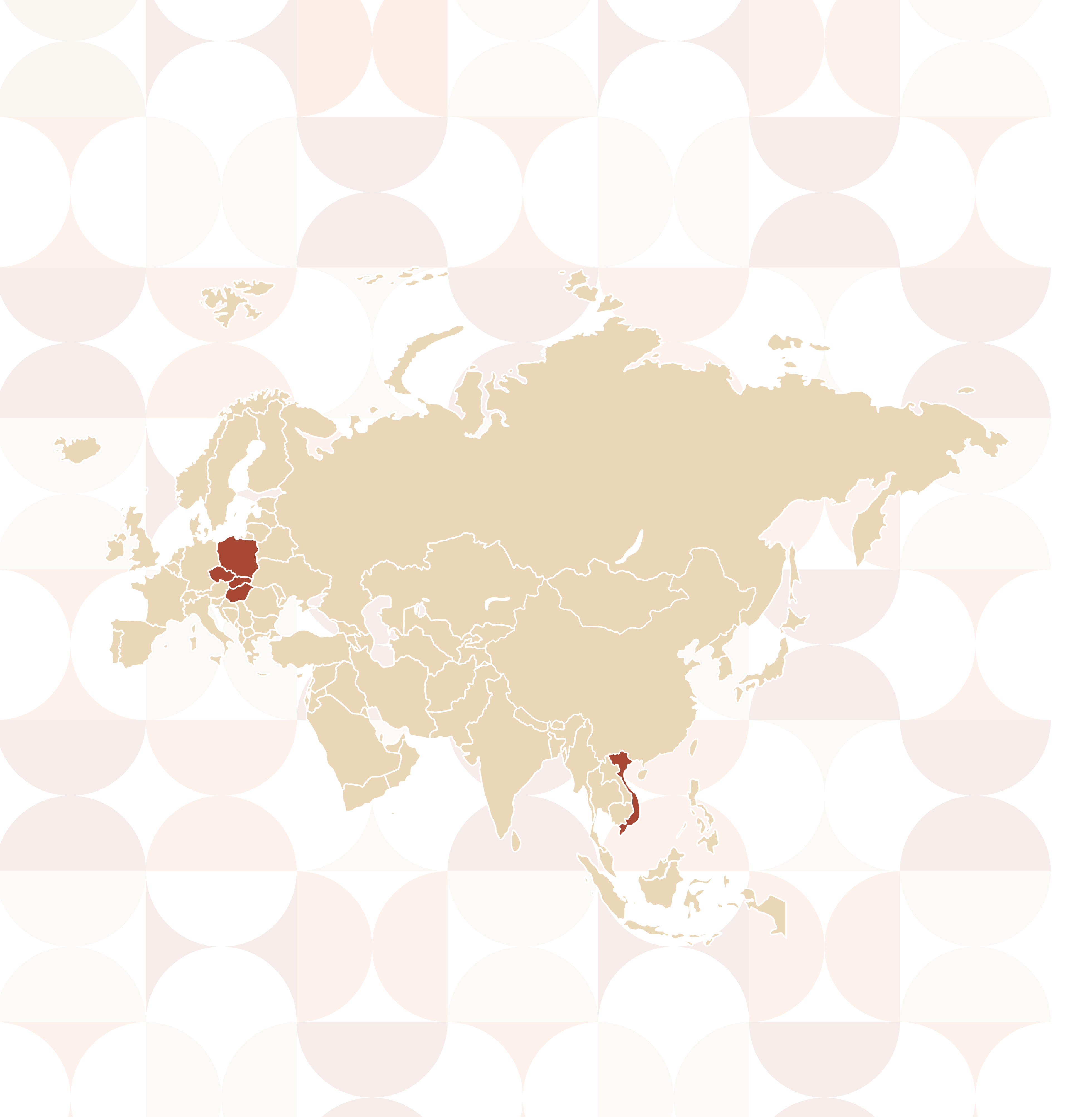
III.

URBAN GOVERNANCE AND REGIONALISM





PHAN THỊ HỒNG XUÂN –
ĐOÀN DIỆP THÙY DƯƠNG

Creative Cities and Urban Diplomacy – Prospects for Cooperation between Ho Chi Minh City and Central European Cities

CREATIVE CITIES AND URBAN DIPLOMACY – PROSPECTS FOR COOPERATION BETWEEN HO CHI MINH CITY AND CENTRAL EUROPEAN CITIES

Phan Thị Hồng Xuân[1] – Đoàn Diệp Thùy Dương[2]

Abstract

In the context of globalization and digital transformation, cities are increasingly emerging as key actors in international relations through the rise of urban diplomacy and strategic efforts to build creative cities. This paper focuses on Ho Chi Minh City (HCMC) as a rising innovation hub in Southeast Asia, highlighting its dynamic startup ecosystem, expanding digital infrastructure, and growing intersection of culture, technology, and urban planning. From both academic and policy perspectives, the paper explores the potential for cooperation between HCMC and Central European cities (Budapest, Brno, Bratislava, Krakow)—urban centers known for their leadership in green transition, digital governance, and innovative education. Drawing on comparative insights from the Brainport Eindhoven model in the Netherlands, the study proposes the institutionalization of inter-city cooperation, particularly through the establishment of a HCMC–Central Europe Cooperation Coordination Office located within the regional innovation linkage area of HCMC – Binh Duong – Ba Ria–Vung Tau. The paper contributes an interdisciplinary approach to urban planning, innovation policy, and international cooperation, offering practical policy recommendations to strengthen the global integration capacity of Vietnamese cities in the emerging Asia–Europe urban space of the 21st century.

Keywords: creative cities, urban diplomacy, inter-city cooperation, Ho Chi Minh City, Central European cities, Brainport Eindhoven.

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1. Introduction

In an era of deep globalization and rapid digital transformation, cities are no longer merely administrative–economic units but have evolved into dynamic political–cultural entities playing an increasingly influential role in shaping regional and global orders. Alongside this transformation, the concepts of the "creative city" and "urban diplomacy" have emerged as new development strategies, reflecting a paradigm shift from traditional governance models to open, multi-sectoral, and human-centered cooperation frameworks.

Ho Chi Minh City—the economic, cultural, and intellectual powerhouse of Vietnam—now faces significant opportunities and challenges in repositioning itself as an innovative and regionally influential metropolis. In a context of intensifying global competition, enhancing innovation capacity, strengthening international linkages, and promoting inter-city cooperation have become imperatives for sustainable, inclusive, and humanistic development.

Within this trajectory, urban diplomacy serves not only as a soft instrument to promote cultural exchange and economic connectivity but also as an effective arena for collaboration among local governments, academia, the private sector, and creative communities. Central European cities such as Budapest, Brno, Bratislava, and Krakow—historic yet technologically dynamic and sustainability-oriented—share with HCMC the aspiration for innovation, governance modernization, and the preservation of urban identity.

Against this backdrop, this article argues that Ho Chi Minh City can strategically combine the creative city model with urban diplomacy to foster international cooperation. In particular, the paper highlights how these frameworks provide a foundation for building effective partnerships with Central European cities, where complementarities in cultural industries, digital governance, and innovation ecosystems offer practical avenues for collaboration (Acuto, 2013; Landry, 2012; Montalto, 2017). This central argument serves as a guiding thread throughout the subsequent analysis.

While related, the notions of creative city, urban diplomacy, smart city, and innovation hub refer to distinct conceptual frameworks. The creative city emphasizes culture, creativity, and symbolic

capital as engines of urban development (Florida, 2002; Landry, 2012). Urban diplomacy highlights how cities engage externally through cultural, economic, and policy networks, positioning themselves as actors in international relations (Acuto, Morissette, & Tsouros, 2017; Curtis, 2011, 2014). By contrast, the smart city framework focuses on digital technologies and data-driven governance (OECD, 2020), while innovation hubs underline the role of localized entrepreneurial ecosystems and knowledge exchange (Morgan, 2017). Clarifying these distinctions helps situate HCMC's case more precisely within the nexus of creativity and diplomacy, rather than conflating it with broader agendas of technological modernization.

2. Methodology

This paper adopts a policy-oriented comparative analysis that integrates insights from academic literature, official reports, and policy documents with empirical observations on city-level governance and innovation. Methodologically, it draws upon the conceptual frameworks of the creative city (Landry, 2012), urban diplomacy (Acuto, 2013; Tavares, 2016), and inter-city cooperation networks (Acuto & Rayner, 2016) to construct an analytical lens for examining Ho Chi Minh City (HCMC) and selected Central European counterparts.

The case of Brainport Eindhoven (Netherlands) is employed as a reference model owing to its internationally recognized success in institutionalizing the "Triple Helix" approach—close cooperation among government, universities, and industry to drive innovation (Brainport Eindhoven, 2020). Its inclusion in this study is guided by both functional similarity (innovation-driven development, regional integration) and its relevance as a benchmark for cities in transition.

For the comparative dimension, four Central European cities—Budapest, Brno, Bratislava, and Krakow—were selected based on three criteria:

Innovation ecosystems: the presence of universities, research centers, startup hubs, and technology transfer mechanisms;

Urban governance and digital transformation: the adoption of smart city frameworks, e-government platforms, and open data initiatives;

Cultural and creative assets: policies and practices fostering creative industries, cultural diplomacy, and heritage-based urban branding.

By applying this comparative lens, the study seeks not only to contextualize HCMC's trajectory but also to identify complementarities with Central European experiences. This methodological orientation underscores the interdisciplinary character of the paper, linking theoretical perspectives with policy-relevant recommendations for Asia–Europe urban cooperation.

3. Creative Cities and the New Role of Urban Diplomacy

In the context of globalization, rapid urbanization, and the transition to a knowledge-based economy, cities are shifting from traditional roles as administrative–productive units to becoming hubs of creativity, innovation, and global connectivity. This shift has given rise to the "creative city" development model, where cultural dynamism, technological advancement, human capital, and institutional adaptability form the core of urban competitiveness.

Charles Landry (2012) defines the creative city as a place that maximizes imagination, innovation, and cultural potential to address complex urban challenges. Beyond the creative industries, the creative city model encompasses innovative governance, sustainable development strategies, and cross-disciplinary knowledge integration (Landry, 2012). Similarly, the European Commission's *Cultural and Creative Cities Monitor* emphasizes that creative cities are idea-production centres at the intersection of culture, technology, and governance, and act as engines for inclusive, sustainable growth (Montalto, 2017).

This model has transformed traditional urban governance approaches from single-sector, centralized systems to polycentric governance frameworks where governments, businesses, civil society, universities, and communities co-create the city (Healey, 2006). Within this evolving landscape, urban diplomacy has emerged as a complementary tool to the creative city paradigm.

Urban diplomacy refers to a range of foreign relations activities initiated or coordinated by city governments to foster international exchange, development cooperation, and the city's global profile (Acuto, 2013; Tavares, 2016). Once the exclusive domain of nation-states, diplomacy is increasingly undertaken by cities—as subnational actors—engaging in global issues such as climate change, migration, sustainable development, and digital transformation. Michele Acuto (2017) describes urban diplomacy as "global politics from below," enabling cities to become hubs of international cooperation through horizontal networks independent of traditional state-to-state channels (Acuto et al., 2017).

Creative cities have proven to be powerful drivers of contemporary urban diplomacy. Leveraging cultural assets, technological innovation, startup ecosystems, and social openness, cities such as Amsterdam, Seoul, Singapore, and Barcelona have not only achieved economic growth but also cultivated positive urban images that attract talent, investment, and global visitors. These cities employ urban diplomacy as soft power to expand influence and promote collaboration in academia, design, arts, technology, and sustainable development.

Cities are also joining global networks such as C40 Cities (climate action), UCLG (United Cities and Local Governments), ICLEI (Local Governments for Sustainability), and the UNESCO Creative Cities Network—not merely to exchange knowledge but to co-create global solutions. Such platforms enable creative cities to set new norms, foster intercultural dialogue, and advance cooperation based on shared values (OECD, 2020; UNESCO, 2019).

The integration of the creative city model with urban diplomacy thus forms a holistic urban development approach: linking internal resources (knowledge, technology, culture) with external networks (international cooperation, global partnerships) to enhance competitiveness and resilience. In this framework, cities emerge as independent political–cultural–economic actors capable of shaping the globalized space in their own distinctive ways.

4. Ho Chi Minh City's Journey in Building a Creative City and Advancing Urban Diplomacy

Ho Chi Minh City (HCMC) is Vietnam's most important socio-economic centre and the driving force in the country's modernization and international integration. According to official data, by the end of 2023, the city's gross regional domestic product (GRDP) reached approximately USD 65.5 billion, accounting for about 15.5% of national GDP (D. B. Le, 2024). In the context of globalization and the shift toward a knowledge-based economy, HCMC has proactively adopted the "creative city" model as a long-term development strategy, aiming to leverage human, technological, and cultural resources to enhance its international competitiveness (People's Committee of Ho Chi Minh City, 2022).

The Organization for Economic Co-operation and Development (OECD) defines a creative city as one that integrates technological innovation, culture, and advanced governance models. HCMC envisions itself not merely as a center of production or commerce but as a nucleus of innovation—generating new knowledge, technologies, and cultural values. This strategy is designed not only to foster sustainable growth but also to reposition HCMC on the global urban map (OECD, 2020).

The city has developed a Master Plan to become the national innovation hub by 2030, with three strategic pillars: developing creative infrastructure, fostering the startup ecosystem, and strengthening international linkages. A flagship initiative within this strategy is the creation of Thu Duc City—an integrated creative urban area in the eastern corridor, comprising three key development poles: the Saigon Hi-Tech Park (SHTP), Vietnam National University–HCMC, and the Rach Chiec Financial–Sports Urban Area (People's Committee of Ho Chi Minh City, 2021. Thu Duc City is not simply a new administrative unit but embodies the "city-within-a-city" model, applying integrated urban planning, innovative governance mechanisms, and experimental policies in education, technology, logistics, and sustainable development. This model bears resemblance to other creative cities such as Songdo (South Korea), Yokohama (Japan), and Amsterdam (the Netherlands), which have implemented integrated urban innovation frameworks combining knowledge, technology, and spatial planning (Giddens & Griffiths, 2006; Montalto, 2017).

Ho Chi Minh City has also implemented multiple initiatives to support its startup ecosystem. Through initiatives such as the SpeedUp program, the Saigon Innovation Hub (SIHUB), and the annual WHISE startup week, HCMC has nurtured hundreds of startups and expanded its international innovation linkages (Department of Science and Technology of Ho Chi Minh City, 2019).

The city established the Saigon Innovation Hub (SIHUB) to promote international cooperation, signing startup exchange agreements with at least four countries (South Korea, Germany, Singapore, Malaysia) and launching the *Runway To The World* program, through which 17 startup teams participated in international exchanges, with 12 securing investment (Department of Science and Technology of Ho Chi Minh City, 2020). Moreover, the annual *Week for Ho Chi Minh City Innovation, Startup and Entrepreneurship* (WHISE), first held in 2017, brings together hundreds of startups, investors, research institutes, and international organizations—serving as a platform to showcase HCMC as an open, innovative, and globally connected metropolis (People's Committee of Ho Chi Minh City, 2017).

Between 2022 and 2023, HCMC accelerated digital transformation through smart city platforms such as the Intelligent Operations Center (IOC), municipal data systems, and open government portals, gradually integrating AI and IoT into public services (Ministry of Home Affairs of Vietnam, 2023; People's Committee of Ho Chi Minh City, 2023).

Alongside building a digital government and urban data systems, HCMC has gradually integrated advanced technologies such as artificial intelligence (AI), big data, and the Internet of Things (IoT) into essential sectors including healthcare, education, and environmental management. These solutions not only improve governance efficiency but also align with sustainable development goals (SDGs) and reinforce the human-centered approach to smart city planning and operations (People's Committee of Ho Chi Minh City, 2024). In addition to technological advancements, the emergence of creative hubs in central districts has further linked artistic communities with startups, reflecting the city's aspiration to join the UNESCO Creative Cities Network (British Council, 2018; UNESCO Institute for Lifelong Learning, 2024).

In the field of education and research, HCMC actively participates in international programs that promote innovation. The *Innovation Partnership Programme* (IPP), funded by the Government of Finland, has supported more than 35 projects to develop Vietnam's startup ecosystem, including research institutes and universities in HCMC (Innovation Partnership Programme 2019). Similarly, *Aus4Innovation*—a collaboration between the Australian Government, CSIRO, and Vietnam's Ministry of Science and Technology under the "Australia–Vietnam Innovation Partnership" since 2018—has advanced innovation in Vietnam's ecosystem through technology transfer and specialized training (CSIRO & Aus4Innovation, 2025). Major institutions such as Vietnam National University–HCMC and Ho Chi Minh City University of Technology have made significant contributions to research output, scientific publications, and entrepreneurial initiatives. According to the *Vietnam Innovation & Tech Investment Report 2023*, HCMC remains the central hub of the national startup ecosystem, leading in both the number of startups and volume of total technology investment (National Innovation Center, 2023).

The balanced integration of technology, culture, and human development forms the foundation of HCMC's creative city identity. This is not merely an economic growth strategy but a humanistic approach to shaping the city of the future—where residents are not only service users but also active agents of innovation. Specifically, HCMC is implementing a "human-centered smart city" model,

placing citizens at the core of innovation policies. This vision is embodied in interactive platforms that allow residents to report urban issues, enabling improvements in public services based on community feedback (World Bank, 2021). Such an approach aligns closely with UN-Habitat's sustainable creative city framework (UN-Habitat, 2021).

In financial terms, HCMC established the Science and Technology Development Fund in 2007 (Decision No. 76/2007/QĐ-UBND), managed through the Ho Chi Minh City Finance and Investment State-Owned Company (HFIC), with initial capital of VND 50 billion to finance projects in applied science, technology, and technology transfer (People's Committee of Ho Chi Minh City, 2007). In urban management and climate change adaptation, the city has received technical assistance from the World Bank and the Asian Development Bank (ADB) for flood risk management and climate resilience projects, as documented in the *Ho Chi Minh City Adaptation to Climate Change* report (Asian Development Bank, 2010; World Bank, 2021).

Furthermore, HCMC is an active member of the ASEAN Smart Cities Network (ASCN), engaging in peer learning on smart urban development and technology-sharing with fellow member cities (ASEAN Secretariat, 2019; ASEAN Smart Cities Network, 2019). It has sought to learn from ASEAN counterparts such as Singapore, Bangkok, and Jakarta, with expert and startup exchanges increasing in frequency—demonstrating a clear vision to regionalize innovation cooperation.

Beyond city-level initiatives, HCMC has begun encouraging digital applications at the district level through programs such as the "on-site reporting" system and an open data portal. Districts including Thu Duc, District 1, and District 7 have deployed digital platforms for public engagement in infrastructure management, urban order enforcement, and environmental monitoring. Although the city has yet to establish formal "policy laboratories," these local-level initiatives act as practical pilot projects, enabling gradual refinement of the city's human-centred smart city strategy (Le Thoa & Thanh Tuyen, 2023; World Bank, 2021).

At the grassroots level, digitization projects have also been introduced to improve transparency and administrative efficiency. For example, in collaboration with the World Bank, the city piloted flood-monitoring systems that combine real-time field data with decision-support platforms in District 7 and other high-risk flood areas (World Bank, 2021). Local media have reported on the city's efforts to accelerate administrative data digitization, with the aim of establishing an open urban data infrastructure in the near future (Le Thoa & Thanh Tuyen, 2023). These efforts indicate HCMC's gradual transition toward a citizen-oriented data governance model in line with international smart city frameworks.

Innovation education has been integrated across secondary and tertiary levels, with initiatives ranging from STEM curricula in high schools to startup incubation programs at major universities (N. H. M. Le, Dang, Tran, Nguyen, & Nguyen, 2023; University of Economics Ho Chi Minh City, 2023).

Beyond HCMC's trajectory, comparative insights from Central Europe provide useful benchmarks. According to the Cultural and Creative Cities Monitor (Montalto, 2017), Budapest has enhanced its

cultural–creative profile within European networks, reflecting policies that combine heritage with contemporary creative industries. Brno, with its strong university–industry cooperation, illustrates how mid-sized cities leverage higher education and research to foster innovation, a trend consistent with OECD findings on inclusive growth and smart urban development (OECD, 2020). Bratislava has likewise pursued digital governance reforms, aligning with EU-wide e-government and smart city initiatives. Meanwhile, Krakow demonstrates how a historic cultural hub can simultaneously nurture technology-intensive sectors such as IT and gaming, a dynamic also recognized through its membership of the UNESCO Creative Cities Network (UNESCO, 2019).

These experiences reveal complementarities with HCMC: Budapest's cultural diplomacy resonates with HCMC's creative hubs, Brno's R&D collaboration mirrors HCMC's emerging innovation corridors, Bratislava's e-governance offers lessons for HCMC's smart city programs, and Krakow's dual emphasis on heritage and technology parallels HCMC's efforts to integrate tradition with modern innovation.

To summarize these comparative insights, Table 1 presents a cross-city overview of HCMC and four Central European cities. The table highlights their respective strengths in innovation, governance, and cultural–creative assets, while also indicating areas of complementarity that can serve as a foundation for future cooperation.

Table 1. Comparative Overview of HCMC and Central European Cities

City	Innovation Ecosystem	Urban Governance & Digital Transformation	Cultural–Creative Assets	Cooperation Potential with HCMC
HCMC	Startup ecosystem (SIHUB, SpeedUp, WHISE) (Department of Science and Technology of Ho Chi Minh City, 2019, 2020)	Smart city program (IOC, open data) (People's Committee of Ho Chi Minh City, 2023, 2024)	Creative hubs, heritage integration (British Council, 2018; UNESCO Institute for Lifelong Learning, 2024)	ASEAN–EU linkage, policy innovation
Budapest	Creative economy, EU networks (Montalto, 2017)	Urban governance indicators (Montalto, 2017)	Cultural diplomacy, UNESCO heritage (Montalto, 2017)	Creative industries & cultural branding
Brno	Smart city planning, university–industry cooperation (City of Brno, 2024; Fialová, Bamwesigye, Łukaszkiewicz, & Fortuna-Antoszkiewicz, 2021; OECD, 2020)	Smart mobility and governance reforms	Innovation-oriented cultural profile	R&D and higher education exchange
Bratislava	ICT and startup activity linked to city strategy (OECD, 2020, 2021)	Strategic use of e-procurement and governance reforms (OECD, 2020, 2021)	Regional creative identity	E-government and digital governance
Krakow	IT and UNESCO Creative City of Literature (UNESCO, 2019)	Innovation platforms (OECD, 2020)	UNESCO Creative City of Literature (UNESCO, 2019)	Heritage–technology cooperation

Source: Data compiled by the authors.

To complement the detailed case of HCMC, short spotlights on the four Central European cities highlight their distinctive strategies. Budapest has pursued cultural diplomacy and integration into European urban networks, leveraging its heritage and contemporary creative industries to strengthen international visibility (Montalto, 2017). Brno has advanced university–industry cooperation and knowledge transfer, positioning itself as a hub for R&D-driven innovation ecosystems (Fialová et al., 2021). Bratislava has prioritized digital governance and public procurement reforms, aligning local policies with broader European smart city agendas (OECD, 2021). Krakow combines its historical cultural heritage with growing technology-intensive sectors such as IT and gaming, illustrating how tradition and modern innovation can coexist (UNESCO, 2019). These spotlights create a more balanced comparative framework, clarifying why these cities offer meaningful lessons for HCMC and providing the basis for a deeper analysis of complementarities.

For HCMC, these cases suggest different but complementary benchmarks: Budapest's creative industries resonate with its cultural hubs, Brno's higher education–industry linkages mirror HCMC's emerging innovation corridors, Bratislava's e-governance aligns with smart city initiatives, and Krakow's dual emphasis on heritage and digital sectors parallels HCMC's strategy of combining tradition with modern innovation.

5. Prospects for Cooperation between Ho Chi Minh City and Central European Cities

In the era of globalization and digital transformation, inter-city cooperation is increasingly recognized as a strategic approach to sustainable and innovative development. Cities are no longer merely spaces for habitation and production; they are emerging as *global actors*, actively shaping multi-sectoral and cross-border cooperation networks to enhance competitiveness and reposition themselves on the world map (Acuto & Rayner, 2016). Among these, partnerships between cities with strong innovation capacity and shared development visions are gaining prominence as highly effective and scalable models.

As Vietnam's leading economic, cultural, and educational centre, Ho Chi Minh City (HCMC) is steadily asserting its position within the network of innovative cities in Asia. Through international cooperation programs such as the ASEAN Smart Cities Network (ASCN) and proactive urban diplomacy policies, HCMC has demonstrated a strong commitment to expanding city-level foreign relations, particularly toward partners beyond Southeast Asia, such as the European Union (ASEAN Secretariat, 2019).

In this context, Central European cities such as Budapest (Hungary), Brno (Czech Republic), Bratislava (Slovakia), and Krakow (Poland) stand out as dynamic hubs of creativity, supported by robust technological foundations, advanced educational ecosystems, and human-centered urban policies. These cities share multiple similarities with HCMC in their current phase of transformation: each is rich in historical identity while actively seeking sustainable development models grounded in innovation, green urban planning, smart governance, and international connectivity.

From a strategic perspective, HCMC can expand cooperation with Central European cities through the following key pillars:

- *Digital Urban Governance and Open Data:* Sharing best practices in applying artificial intelligence (AI), big data, and the Internet of Things (IoT) to improve public service delivery, monitor environmental quality, enable real-time urban management, and develop transparent digital government platforms.
- *Green Transport Infrastructure and Renewable Energy*: Leveraging Central European expertise in integrated public transport planning, electric mobility, and solar energy—priority areas for HCMC as it develops satellite cities and expands its regional linkage zone.
- *Academic and Creative Collaboration:* Promoting exchanges of students, scholars, and inter-city research programs between institutions such as Vietnam National University–HCMC, Ho Chi Minh City University of Architecture, University of Economics Ho Chi Minh City (UEH), and HUTECH with universities in Budapest, Brno, and Krakow. This could include organizing creativity weeks, Asia–Europe academic forums, and thematic conferences on sustainable urban development.
- *Innovative Startups and High Technology:* Connecting innovation centres such as Saigon Hi-Tech Park (SHTP) with incubators, R&D hubs, and venture capital funds in Central European cities to implement cross-border acceleration programs and support technology commercialization.
- *Cultural Cooperation and Smart Tourism*: Implementing cultural exchange initiatives, smart tourism linkages, and joint urban branding projects to enhance mutual understanding and strengthen city reputations.

To illustrate these pillars more concretely, case-based examples can be highlighted. For digital urban governance, a joint HCMC–Krakow open data platform on air quality monitoring could serve as a pilot initiative to enhance transparency and environmental management. For green transport, Budapest's electric mobility programs provide lessons for integrating e-buses and charging infrastructure into HCMC's upcoming metro expansion. In academic and R&D exchange, Brno's strong university–industry partnerships could be linked with HCMC's innovation corridors through joint research hubs and student mobility schemes. For startup ecosystems, cross-border accelerators could connect Saigon Hi-Tech Park with Central European incubators, creating shared programs for technology commercialization. Finally, in cultural cooperation, Krakow's combination of heritage branding with technology-intensive sectors such as IT and gaming offers a model for HCMC's effort to merge tradition with modern innovation.

To institutionalize such cooperation, a practical proposal is the establishment of the HCMC–Central Europe Cooperation Coordination Office, located within the expanded regional innovation hub of HCMC–Binh Duong–Ba Ria–Vung Tau. This location offers advantages in technology infrastructure, transport connectivity, and a thriving university–industry ecosystem. The office would

serve as an interdisciplinary coordination centre, linking municipal departments, enterprises, research institutes, and international partners to ensure the effective implementation of joint projects.

Beyond these broad pillars, two flagship cases provide deeper insights into how HCMC could operationalize international cooperation. First, Krakow demonstrates how a historic cultural hub can successfully integrate heritage assets with digital industries such as IT and gaming, creating a hybrid model of cultural–technological development (UNESCO, 2019). This trajectory resonates with HCMC's ambition to strengthen its creative hubs while advancing digital innovation. Second, the Eindhoven region offers a strategic model of inter-regional innovation through the "Triple Helix" collaboration between government, universities, and industry, a framework that could inspire HCMC and its Central European partners in building a transnational innovation corridor (Brainport Eindhoven, 2020). The Eindhoven experience also underscores the importance of sustained investment and collaborative governance: the region records one of the EU's highest R&D investment ratios and has built exceptional technological export capacity, further reinforcing its status as a global innovation hub (Brainport Eindhoven, 2020).

Building an "inter-regional innovation corridor" modelled on Eindhoven—with HCMC as the nucleus and Central European cities as partners—would not only disseminate innovation across Vietnam's Southern Key Economic Region but also help shape a multidimensional, flexible, and substantive Asia–Europe cooperation space. In a global context where cities are seeking post-pandemic recovery strategies, climate change adaptation measures, and green–digital transitions, this cooperation model has the potential to become a pioneering example of 21st-century urban diplomacy.

6. Conclusions

This paper has highlighted the strategic link between the creative city and urban diplomacy, emphasizing Ho Chi Minh City's role and prospects for international cooperation. HCMC is evolving into a creative hub that combines a knowledge-based economy, digital technology, cultural innovation, and modern governance.

Urban diplomacy provides a soft-power tool for HCMC to raise its global profile and engage in co-creation networks. Partnerships with Central European cities—Budapest, Brno, Bratislava, and Krakow—offer practical opportunities in digital transformation, green planning, education–research, startups, and cultural exchange.

A key recommendation is the establishment of the HCMC–Central Europe Cooperation Coordination Office in the HCMC–Binh Duong–Ba Ria–Vung Tau hub, ensuring structured collaboration between government, academia, and industry. Drawing on the Brainport Eindhoven model, such an office could anchor a transnational innovation ecosystem.

In conclusion, combining the creative city strategy with urban diplomacy is both a policy pathway and a strategic vision. It positions HCMC more firmly on the Asia–Europe urban map and supports its ambition to become a regional centre of knowledge, culture, and innovation.

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PÁL GYENE –
ZOLTÁN EGERESI

The Different Pathways of Regional Separatism in Indonesia

THE DIFFERENT PATHWAYS OF REGIONAL SEPARATISM IN INDONESIA

Pál Gyene[1] – Zoltán Egeresi[2]

Abstract

Indonesia is the most populous country in Southeast Asia and the most populous Muslim nation in the world. According to our hypothesis, Indonesia, after gaining independence, implemented a relatively successful nation-building project as a whole, especially keeping in mind the country's highly fragmented geographical territory and its enormous linguistic and ethnic diversity. One would be surprised if a certain degree of regional separatism had not reared its head in such a fragmented and diverse society. In our presentation, we examine three regional separatist conflicts within Indonesia in a comparative manner. The three conflicts show completely different courses and dynamics. The case of East Timor exemplifies secession, the province of Aceh exemplifies reconciliation, and the case of Papua exemplifies ongoing low-intensity conflict. Another difference is that in the case of East Timor and Papua, the separatist aspirations have primarily ethnic-linguistic and religious background (namely the separatist in each case are Christian minorities within a Muslim majority nation). While in the case of Aceh, they are driven by economic factors as well as the desire to preserve a distinct religious identity. These above-mentioned regional separatist drift lines, however, play practically no part in Indonesian national politics, where, surprisingly, the main cleavages are not regional ones.

Keywords: regional separatism, Indonesia, East Timor, Aceh, Papua

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1. Introduction

Since its independence in 1945, Indonesia has become one of the world's most populous countries. The Archipelago of nearly two million square kilometers is spread across 17,000 islands, and its approximately 280 million inhabitants belong to hundreds of ethnic groups speaking different languages. The largest of these groups are the Javanese, who make up about 40 percent of the population. In contrast, the country's religious landscape is more homogeneous: 87 percent of the population is Muslim, around 10 percent is Christian (most of whom are Protestant), about two percent are Hindu, while Buddhists and followers of other religions collectively make up less than one percent (Gyene, 2019). This ethnic and religious diversity, combined with the geographical fragmentation of the state, has almost predestined Indonesia to face numerous internal security challenges throughout its history, posing a constant concern for its government (Smith, 2010).

The country typically faces four major security policy challenges (considering a narrower interpretation of security), which vary significantly across space and time: a) cells of international terrorist organizations, b) domestic radical Islamist groups, c) religious and ethnic conflicts, and d) separatist movements (Rabasa & Haseman, 2022). Certainly, these are interconnected and can influence each other, along with geopolitical factors (Ahrari, 2010).

This study primarily focuses on the latter, which - albeit with varying intensity - have been a recurring element in Indonesia's history. Apart from the short-lived Republic of South Maluku (on the island of Ambon), the separatist movements in Aceh, East Timor, and Papua have posed the most serious military and political challenges to the state. Following an outline of the dynamics of Indonesia's security challenges, this study will examine these three conflicts in more detail and explore how successive Indonesian governments have attempted to address them.

2. Armed Conflicts in Indonesia: A Historical Overview

With the end of the War of Independence in 1949, a vast and multiethnic country emerged, founded on the shared desire for freedom among the military, various political parties, and local groups (namely, local armed forces that had fought against the Dutch). The victory of the anti-colonial movement paved the way for the construction of a new, modern state. Although the independence achieved in 1949 initially resulted in a federal state structure based on the colonial predecessor, this was replaced on August 17, 1950, by a unified, centralized Indonesia (Vickers, 2013).

According to the constitution, only monotheistic religions with holy scriptures were recognized as official religions - Buddhists and Hindus had to fight for years to gain official recognition. Although the vast majority of the population was Muslim, the country's leaders placed great emphasis on maintaining a secular state, aiming to prevent the emergence of religious divides between Muslims and Christians. However, not everyone accepted the marginalization of Islam's role. In May 1948, radical Islamist Indonesian soldiers, under the leadership of Sekarmadji Maridjan Kartosuwirjo

(1907–1962), founded the so-called Islamic State (Darul Islam), which sought to establish an Islamic state on Indonesian territory (Balogh, 2018).

Initially, the government of the young Indonesian republic did not take significant action against the movement, as it still considered Dutch colonial ambitions to be the primary threat. However, by 1950, when the entire country had come under the control of the republican government, military action against Darul Islam commenced. The movement established especially strong bases in Central Java, Aceh Province, South Sulawesi, and Borneo. The conflict dragged on for nearly a decade and a half, claiming more than 40,000 lives. In 1962, government forces captured Kartosuwirjo, who was sentenced to death and executed. Subsequently, the remaining Islamist guerrillas also laid down their arms, bringing the uprising to an end.

In the early years, on the small island of Ambon, partially inhabited by Calvinists, a short-lived state was established by opponents of centralization. However, due to swift military intervention by the central government, it did not last long. The declaration of the Republic of South Maluku (RMS, *Republik Maluku Selatan*) in 1950 was more an initiative of the Dutch than of the local population (Webster, 2007). Although the government of the republic still exists in exile, it does not carry out violent actions. Despite the suppression of the separatist movement, Christian-Muslim clashes occurred on Ambon Island in the early 2000s.

The independence achieved after years of war did not bring rapid economic development in Indonesia, and economic hardships persisted. Following the defeat of the Dutch, tensions between various political parties also surfaced, and the state-building process that began after the peace agreement harmed the interests of several local groups. In this context, in 1957, pro-American military leaders attempted a coup, and right-wing groups allied with them launched separatist uprisings in several regions - on Java, Sumatra, Kalimantan, and Sulawesi - against President Sukarno (1901-1970). However, the ground forces remained loyal to the leadership, and by 1959, the separatists were defeated, although the last groups laid down their arms only in 1961 after an amnesty was announced (Balogh, 2018).

In the following years, Sukarno introduced so-called "Guided Democracy" and reached the peak of his popularity. Believing that Indonesia was the rightful heir to the entire Dutch East Indies, Sukarno placed West Papua (Irian Jaya), which was still under Dutch control, at the centre of the foreign policy agenda in the early 1960s. Jakarta's territorial claims were not new - the question of the region's status had been a source of tension between the two countries since 1950. Until 1954, the Indonesian government pursued bilateral negotiations, and until 1958, it sought to obtain the province under the auspices of the United Nations. However, in the early 1960s, Jakarta opted for military pressure.

War was ultimately avoided through U.S. mediation, as the U.S. rejected the idea of an independent Papuan state. In 1962, the UN Security Council passed a resolution under which Indonesia assumed control of the territory - after a transitional UN administration from October 1, 1962, to April 30,

1963 - despite the will of the indigenous population. This led to the birth of an armed separatist movement that continues to this day (Vickers, 2013).

The acquisition of West Papua was a major victory for Indonesian nationalism, but it did not resolve the country's economic problems. The regime also lost popularity due to the slow progress of the promised land reform. It was in this context that the Federation of Malaysia was formed, including not only Malaysia proper but also several state entities on the island of Borneo. Jakarta opposed this development. Although these territories were not part of the former Dutch East Indies, they were considered by some Indonesian nationalists to belong to the concept of "Greater Indonesia." The full acquisition of Borneo or even a merger with Malaysia enjoyed support among certain nationalist circles. While Sukarno did not officially declare war on the Federation (the conflict became known as the "Confrontation," or *Konfrontasi*), armed clashes began in 1963 and, though low in intensity, continued until the fall of 1965 - without any significant outcome (Vickers, 2013).

The end of the *Konfrontasi* was brought about by internal political changes. In the autumn of 1965, the leftist so-called September 30th Movement attempted a coup, but after just one day, the army's right-wing leadership under General Suharto (1927-2008) crushed the movement and took control of the government. In the following months, the Communist Party was banned and completely dismantled through the execution of thousands of people (Tarbai, 2016). In March 1966, Suharto also removed Sukarno from power, thereby becoming the absolute ruler of the country. The new leadership ushered in the "New Order" (*Orde Baru*) (Hannigan, 2015).

Following the "neutralization" of the leftist, communist threat, Suharto aimed to build good relations with Western powers and gained the support of the United States. In the years that followed, the country experienced a degree of economic liberalization and growth; however, the military dictatorship used elections merely as a façade. The authoritarian military regime suppressed Islamist movements (e.g., the crushing of the Tanjung Priok uprising in 1984) and relatively easily dismantled the separatist rebellion that began in 1976 in Aceh, in the country's northwestern corner. Nevertheless, a new wave of the Acehnese rebellion in the early 1990s proved more challenging.

Acehnese independence efforts, however, were overshadowed by the conflict in East Timor, which began in the autumn of 1976 and defined Indonesia's security situation and international reputation for more than two and a half decades. The East Timorese guerrillas required continuous deployment of Indonesian forces, who killed tens of thousands of people during the occupation. A new wave of violence emerged with the fall of the Suharto regime in 1998. Muslim-Christian tensions flared up in several parts of the country, including on the island of Ambon (Vickers, 2013), but these were brought under control relatively quickly. The new heads of state who came to power after the dictatorship launched the *Reformasi* era, a period of reforms aimed at restructuring the previous political system, building a democracy, and changing the approach to separatist movements (Abdulbaki, 2008). Although the democratic transition created more favorable conditions for negotiated solutions, counterinsurgency operations continued—with varying intensity and intermittent pauses (Bertrand, 2003).

The bloodiest clashes occurred in East Timor in 1999, following the referendum in which the population voted for independence. The brutality prompted intervention by the international community, and under pressure from Australia and the United States, the new Indonesian government was forced to back down, ultimately leading to East Timor's independence in 2002. Despite multiple ceasefires, fighting against the Acehnese separatists continued until peace was finally achieved in 2005 under President Susilo Bambang Yudhoyono, with the help of international mediation (Háda, 2014).

By the early 2000s, local clashes, pogroms, and separatist movements (with the exception of West Papua) had largely been brought under control. However, from 1999 onward, radical jihadist groups under the leadership of Abu Bakar Ba'asyir carried out numerous bloody attacks against both foreigners and local civilians over the course of a decade. The campaign began with bombings in Jakarta in 1999 and continued with several deadly attacks on the island of Bali throughout the following decade (Vickers, 2013)

2.1. The Aceh Rebellion

The roots of the conflict between Aceh and the Indonesian central government emerged shortly after the country gained independence. Aceh (covering nearly 60,000 square kilometers and home to over five million people today), which had long existed as an independent political and cultural entity, possessed a strong local identity. Islam also took deeper root in the region than in other parts of Indonesia. Locals felt bitter that, despite the sacrifices they had made for the country's independence, Jakarta failed to grant them autonomy - prompting many to join Darul Islam (Vickers, 2013).

In response to the centralizing policies of the Suharto regime, Hasan di Tiro (1925-2010), descendant of a prominent local family and former adherent of the Darul Islam, founded the Free Aceh Movement (GAM) on December 4, 1976, and declared Aceh's independence. Several factors lay behind this move: locals viewed Jakarta as a form of "neo-colonial" government, they rejected the growing number of migrants arriving from Java—whom they saw as a threat to the region's religious and cultural distinctiveness—and they were angered by the unfair distribution of revenues from natural resources. It was no coincidence that GAM's first attack in 1977 targeted Mobil Oil Indonesia (Brown, 2005).

Initially, only a few dozen people joined di Tiro, who formed his first government mainly with veterans of the earlier Darul Islam rebellion. However, their experience proved insufficient against the Indonesian military: by the end of 1979, GAM had been dismantled, its members arrested or executed, and many of its leaders had fled abroad. It seemed Jakarta had permanently crushed the separatist ambitions on Sumatra.

Nevertheless, in exile, di Tiro secured support from Libya in 1985. Muammar Gaddafi provided refuge and military training for members of the movement, and between 1,000 and 2,000 fighters received training in North Africa during the second half of the 1980s (Brown, 2005).

The fighting resumed in 1989, when GAM fighters returned to Indonesia and launched attacks primarily against police, military, and government targets. In response, the Indonesian army established a "Military Operations Area" (DOM) and took harsh measures against the guerrillas. Although GAM's activity was pushed back, the army's abuses further deepened public resentment toward the central government.

Following the political shift of 1999, GAM grew stronger and gained control over about 70% of Aceh's rural areas. The movement demanded a referendum on independence, which was also supported by mass demonstrations. Peace talks began that same year between the weakened central government and GAM, mediated by the Centre for Humanitarian Dialogue (HD). Two ceasefires were reached, in 2000 and 2002, but neither lasted: in May 2003, the government declared a state of emergency and launched another military intervention.

These renewed clashes led to the displacement of nearly 100,000 people, with half of GAM's fighters and several leaders killed or captured. Ultimately, a natural disaster interrupted the conflict: the tsunami of December 2004 claimed tens of thousands of lives and devastated large parts of northern Sumatra (News, 2014). GAM declared a unilateral ceasefire, and international attention turned to Aceh. Although fighting continued, the Indonesian military could not defeat GAM by force (Miller, 2010).

The peace process was also aided by Indonesia's reform path after the fall of Suharto. The new president, Susilo Bambang Yudhoyono, committed himself to a peaceful resolution of the conflict. Recognizing the failure of decades of warfare, GAM abandoned its demand for full independence (Susan, 2023).

The peace talks were facilitated by the Crisis Management Initiative (CMI), led by Finnish diplomat Martti Ahtisaari. The agreement was signed on August 15, 2005, in Helsinki. According to the deal, Aceh was granted special autonomy within Indonesia, non-Acehnese state forces were withdrawn from the province—leaving only 25,000 troops—and GAM agreed to disarm. The implementation of the agreement was monitored by a 300-person EU observer mission, which concluded its work on December 15, 2006, following local elections (Miller, 2015).

The Law on the Governance of Aceh provided the province with broader autonomy, including the right to establish local political parties. However, several human rights organizations noted that the abuses of the past still awaited investigation.

In the provincial elections of December 2006, both former GAM members and national parties fielded candidates. The victory went to Irwandi Yusuf, whose support base primarily consisted of former GAM fighters.

2.2. East Timor

The situation in East Timor differed significantly from that of Aceh: the roughly 14,000 km^2 territory had been colonized not by the Dutch but by the Portuguese. The borders between the two parts of Timor were agreed upon as early as 1915. While Indonesia fought for its independence, East Timor remained under Portuguese rule after World War II. And while bloody independence

struggles broke out in some colonies (such as Angola and Mozambique) from the 1960s, East Timor remained an island of peace.

This situation changed drastically in 1974, when the Carnation Revolution in Lisbon overthrew the Salazar-Caetano regime, which had represented a neo-colonial policy. The new Portuguese government was committed to decolonization, and so a political transition began in East Timor as well. Between 1974 and 1975, several parties were formed representing different visions for the future: the conservative Timorese Democratic Union (UDT) supported autonomy under continued Portuguese authority; the FRETILIN (Revolutionary Front for an Independent East Timor) advocated a more radical, social democratic national independence program. A third pole also emerged: the Timorese Popular Democratic Association (APODETI), which pushed for integration with Indonesia—although this was rejected by most of the population (Fibiger, 2023).

The political instability soon escalated into armed conflict. In August 1975, the UDT attempted a coup against FRETILIN, which led to civil war. FRETILIN emerged victorious, and the Portuguese administration withdrew from Dili, the capital of East Timor, and never returned. The resulting power vacuum and the strengthening of leftist ideology raised concerns in Indonesia, where Suharto's military regime had already been violently suppressing any movement associated with communism for years. The memory of the mass anti-communist purges of 1965–66, as well as instability in the border region near Papua New Guinea, contributed to Indonesia's strategic considerations for intervention.

With the tacit approval of Australia and the United States (Fibiger, 2021), the Indonesian government launched a military invasion of East Timor in December 1975. The official justification for the intervention was to "restore political order" and fulfill the "will of the Timorese people"—a claim based on APODETI's position. The invasion, known as Operation Komodo, proved to be far more brutal and extensive than expected: it is estimated that between 60,000 and 100,000 civilians died in the first few years due to fighting, reprisals, famine, and disease (Igaz, 2004).

FRETILIN's military wing, the FALINTIL (Armed Forces for the National Liberation of East Timor), launched a guerrilla war, primarily in the mountainous regions. Although the organization had suffered heavy losses by 1978, a significant portion of the population continued to support the struggle for independence. FRETILIN's leader, Xanana Gusmão (1946-), recognizing the limits of armed resistance, restructured the movement: he made it ideologically more inclusive, forged alliances with other political factions, and founded the National Council of Maubere Resistance (CNRM), which no longer acted solely in the name of FRETILIN but represented the entire Timorese people (Igaz, 2004).

Meanwhile, East Timor became the target of the Indonesian government's assimilation policy: the occupation was marked by the introduction of the Indonesian curriculum, population resettlements, and religious pressure. A significant portion of the Animist community converted to Roman Catholicism, which became one of the pillars of independence identity. The Archdiocese of Dili and Bishop Carlos Filipe Ximenes Belo became key actors in communicating the resistance's message to the international community.

The turning point came in the 1990s. The end of the Cold War and the 1991 Santa Cruz massacre—during which the Indonesian army killed nearly 250 peaceful demonstrators—sparked significant international outcry. Amnesty International, the United Nations, and various civil organizations turned their attention to East Timor. In 1996, José Ramos-Horta and Carlos Belo were jointly awarded the Nobel Peace Prize, signalling the internationalization of the Timorese separatist cause (Igaz, 2004).

The final impetus came with the 1997–98 Southeast Asian financial crisis, which undermined Suharto's grip on power. During the Reformasi period, in the spirit of political openness, President Habibie's administration agreed to hold an UN-supervised referendum. In the vote on August 30, 1999, over 78% of voters chose independence. The subsequent wave of violence was orchestrated by pro-Indonesian militias, during which much of Dili and other cities was destroyed in retaliation against the "ungrateful" entity (Vickers, 2013).

The UN Security Council responded swiftly: a multinational peacekeeping force known as INTERFET—led primarily by Australia—was deployed to East Timor, stabilizing the situation. This was followed by UNTAET (United Nations Transitional Administration in East Timor), which was responsible for building the institutions of the independent state. East Timor gained full sovereignty on May 20, 2002, and joined the United Nations as well as other international organizations (Soares, 2012).

2.3. West Papua: The Never-Ending Conflict

The region of approximately 400,000 km² accounts for nearly one-fifth of Indonesia's land territory. Its population exceeds five million, the majority of whom are Christian; according to the 2010 census, nearly seventy percent identified as Protestant. Unlike the rest of Indonesia, the population is predominantly Austronesian, with a smaller Melanesian segment. Although there are significant numbers of migrants from other parts of Indonesia, the native population is culturally and linguistically distinct from the Indonesians, despite the fact that Dutch colonizers had incorporated the area into the Dutch East Indies.

Following Indonesia's independence, President Sukarno viewed the region as an integral part of the country, and the leadership did everything possible to acquire it - framed as a "return to the Motherland" (*kembali ke Ibu Pertiwi*). After nearly a decade of failed diplomatic efforts, the 1962 New York Agreement (also known as the Bunker Agreement, after the American diplomat involved) was concluded thanks to Indonesian military pressure (Operation Mandala) (Timmer, 2007) and U.S. mediation. Under this agreement, the region - still under Dutch rule at the time - was temporarily placed under the administration of the United Nations. The UN Temporary Executive Authority (UNTEA) governed the area until May 1963, at which point it officially transferred sovereignty to

Indonesia. A key clause in the agreement obligated the Indonesian government to allow the local population to determine their future political status via a free referendum in 1969.

The so-called *Act of Free Choice* held in 1969 entered the region's history as a procedure marred by serious legitimacy issues. Instead of allowing the entire indigenous Papuan population -estimated at around 800,000 at the time - to vote, Indonesian authorities selected only 1,025 tribal representatives to participate. Under military pressure, they unanimously expressed support for integration with the Indonesian state (Singh, 2015). Numerous independent sources - including UN observers, journalists, and diplomats—questioned the voluntary nature and transparency of the vote. Nevertheless, due to geopolitical interests, the United States and Australia backed Indonesia at the UN General Assembly, which ultimately recognized the result with 84 votes in favour and 30 abstentions (Chauvel, 2005). Following the referendum, West Papua was officially integrated into the Republic of Indonesia. However, a large portion of the Papuan population never considered the decision legitimate. This political and social frustration directly contributed to the strengthening of local separatist movements.

Over the nearly six decades that have passed since, the indigenous population has experienced the Indonesian presence as a form of colonial occupation. The Jakarta government treats them as second-class citizens, disregards their demands for self-determination, threatens their culture through resettlement policies, and devastates the environment through the ruthless exploitation of local resources—while the revenues generated are not reinvested in the region (Singh, 2015). West Papua remains the most underdeveloped region of Indonesia. A symbolic representation of this subjugated status is the American mining company Freeport, one of the country's largest taxpayers.

The clearest expression of resistance was the establishment of the Free Papua Movement (Organisasi Papua Merdeka – OPM) in December 1963. The movement's goal has been to end the Indonesian occupation and to create an independent Papuan state. Among the first leaders of the OPM was Aser Demotekay, who originally aimed to achieve independence through spiritual and nonviolent means. However, the movement gradually became more radical: under the leadership of Jacob Hendrik Prai and Seth Roemkorem, it increasingly shifted toward armed resistance (Chauvel & Bhakti, 2004).

The OPM is composed of three main components: first, decentralized armed units operating in limited areas (including the National Liberation Army, TPN); second, local social and civil groups that organize demonstrations and resistance actions; and third, a political leadership based abroad that seeks to raise awareness of the Papuan people's plight in the international diplomatic arena. The movement's symbols - such as the "Morning Star Flag" (Bintang Kejora), the national anthem *Hai Tanahku Papua*, and the pro-independence coat of arms - have become key markers of ethnic and national identity. Public display of these symbols is considered a criminal offence in Indonesia and often leads to accusations of treason.

During the 1970s, the activities of the OPM (Free Papua Movement) gained an international dimension. On July 1, 1971, the movement's leaders - Nicolaas Jouwe, Roemkorem, and Prai - proclaimed the "Republic of West Papua" and adopted its constitution at a base known as Victoria.

However, the movement was not free from internal contradictions: in 1976, strategic and ideological differences among the leaders led to a major split. Jacob Prai established a faction called the "Defenders of Truth," while Roemkorem remained at the head of the TPN (National Liberation Army). This fragmentation significantly weakened the movement's centralized military capacity, yet the idea of a "Free Papua" remained a central theme in the discourse of resistance.

The Indonesian state has consistently viewed the OPM and other separatist groups as security threats. From the 1980s onwards, military presence in the region increased, and a transmigration program was launched, bringing a large number of non-Papuan settlers to West Papua. Over time, this process has led to a demographic transformation, shifting the ethnic balance of the population: the proportion of indigenous Papuans has been steadily decreasing, while the share of migrants and youth with mixed identities has risen.

The power transition following the fall of the Suharto regime (and, notably, the example of East Timor) also suggested the possibility of change for the Papuan people. In 1999, President Habibie met with 100 Papuan leaders. The First Papua Congress was held in 2000, followed by a second congress in 2001, both of which endorsed the cause of independence. The Jakarta government adopted a dual strategy of "carrot and stick": on the one hand, it promised autonomy; on the other, it maintained a strong military presence to secure the region. Involving a group of local intellectuals under the leadership of Agus Sumule, a law granting special autonomous status was passed in 2001, although it ignored most of the Papuans' demands. The special status officially came into force in 2005, but it fell far short of meeting the needs of the indigenous population.

The conflict with Jakarta, which eventually reverted to repressive methods, persisited. In 2011, the 3rd Papua Congress was violently dispersed by security forces after participants declared West Papua's independence (Blades, 2011). In 2014, West Papuan leaders established the United Liberation Movement for West Papua (ULMWP) in Vanuatu (United Liberation Movement for West Papua (ULMWP), 2025).

President Joko Widodo (2014-2024) made several gestures toward the indigenous population—halting the transmigration program, releasing a few political prisoners, and even visiting the region. However, the military occupation has remained unchanged (with 37,000 soldiers stationed in the area as of 2013), and aspirations for self-determination continue to be suppressed. The persistent military presence, repression, and atrocities—alongside the absence of a political solution that would meet Papuan demands—have led to further radicalization and renewed armed conflict. In early 2018, the OPM declared a new war, and later that year, it killed 21 Indonesian construction workers in Nduga (Lamb, 2023).

Since 2021, Indonesia has officially labeled the OPM and its affiliated groups as a "terrorist and separatist organization" (Kelompok Teroris dan Separatis), providing additional legal justification for security crackdowns (Pan & Xiao, 2023). This designation creates a particularly dangerous precedent, as it criminalizes all forms of resistance - including peaceful protests - and further narrows the space for political dialogue in the region.

Clashes between the OPM and Indonesian security forces continue to this day. Over the course of the decades-long conflict, more than 4,000 Indonesian soldiers and approximately 100,000 indigenous Papuans have lost their lives.

Unlike East Timor, the Papuans have not been able to meaningfully internationalize their cause. Apart from a few NGOs and human rights activists, only a handful of Oceanian states—Papua New Guinea, Fiji, Vanuatu, the Solomon Islands, Tonga—as well as the UK, Saint Vincent and the Grenadines, made statements in support of indigenous self-determination during the 2010s, but these did not lead to substantial change (Szakáli, 2019).

The Papuan struggle for independence encompasses complex geopolitical, ethnic, historical, and cultural dimensions. The conflict has long since transcended the framework of a classic state–separatist confrontation: questions of self-determination, protection of indigenous identity, control over natural resources, and the dilemmas of postcolonialism all play a central role in shaping the region's future. The international community pays only limited attention to West Papua, and as a result, strong diplomatic pressure remains absent. All of this contributes to West Papua remaining one of the forgotten yet highly consequential conflicts of the 21st century.

3. Government Responses

The Indonesian state's political approach to internal armed or separatist movements - particularly in East Timor, West Papua, Aceh, and the Maluku Islands - has historically been shaped by the tension between preserving national unity and addressing the distinct identities and grievances of peripheral regions. The ideological stance of individual presidents, the role of the military, and shifts in the international environment have all significantly influenced whether the central government resorted to military force, political compromise, or economic integration (see Table 1).

During President Sukarno's rule (1945–1967), Indonesian nationalism, the Pancasila ideology, and the principle of "unity in diversity" guided state policy. While these principles proclaimed respect for ethnic and religious diversity, in practice, Sukarno rejected political autonomy for the regions. After independence, Aceh demanded Islamic-based autonomy in the 1950s and even sought to establish an Islamic state under the Darul Islam movement. The central government responded with a harsh military crackdown while granting certain religious and cultural concessions. A similar approach was taken in the Maluku region: in 1950, a Christian-dominated part of the southern Moluccas declared the independent Republic of South Maluku, which the military quickly suppressed, forcing the movement into exile. Sukarno's integrationist policies also extended to West Papua, which was annexed by military and diplomatic means in 1961 after previously being under Dutch administration.

Under Suharto (1967–1998), state policy was dominated by centralization and the mantra of "order and stability." The military played a prominent role not only in defence but also in internal political affairs, particularly in quelling separatist movements. East Timor was invaded by Indonesia in 1975,

leading to widespread human rights abuses during the occupation. In Aceh, the Free Aceh Movement (GAM) emerged in 1976, demanding independence based on Islamic identity. The province was designated a military operations zone, granting the army sweeping powers that resulted in serious abuses against civilians. In West Papua, the state's response to the Free Papua Movement (OPM), active since 1965, was also primarily military suppression. While some development funding was allocated to the regions, these investments often served the interests of the central elite rather than local populations.

After the fall of the Suharto regime, President Habibie's short tenure (1998–1999) marked the beginning of political liberalization. He initiated a referendum in East Timor, which led to independence, although the military and pro-Indonesian militias carried out widespread destruction before withdrawal. In Papua, he made symbolic gestures such as opening the region to international observers, but deeper reforms were absent. In Aceh, he ended the military operations zone but failed to engage in meaningful dialogue with the GAM.

Under President Abdurrahman Wahid (1999–2001), the state appeared more open to dialogue. He allowed the use of the name "Papua" and showed openness towards cultural autonomy. In Aceh, he initiated formal negotiations with the GAM and rejected a solely military solution. However, in the Maluku Islands, severe clashes erupted in 1999 between Christian and Muslim communities, lasting until 2002 and resulting in thousands of deaths. The central government failed to intervene effectively, and the military's role often exacerbated the conflict.

During President Megawati Sukarnoputri's term (2001–2004), centralization returned. Military operations resumed in Aceh, which was once again declared a military operations zone in 2003. A full-scale war was launched against the GAM, with civilians collectively treated as suspects. Papua's aspirations for autonomy were also rejected, and control continued to be maintained by military means. Although the unrest in Ambon formally ended, the central government did not initiate any deep reconciliation or decentralization process.

President Susilo Bambang Yudhoyono (2004–2014) pursued a mixed approach, combining security policy with economic development. The most significant breakthrough occurred in Aceh: in 2005, a peace agreement was signed with the GAM in Helsinki, granting the province extensive autonomy, including special financial powers, a separate party system, and partial implementation of Sharia law. In contrast, despite infrastructure and education investments in Papua, political autonomy was not expanded, and the military presence remained unchanged.

Under President Joko Widodo, the focus shifted to economic integration and regional development. Jokowi prioritized the modernization and infrastructure development of West Papua. However, these efforts were often not accompanied by political inclusion, and local communities felt displaced from their own lands. With the 2019 Papuan unrest, long-standing feelings of oppression and marginalization resurfaced. Although Aceh retained formal autonomy, the central government frequently bypassed or ignored local decision-making. In Ambon and the wider Maluku region, physical peace

persisted, but autonomous institutions remained weak, and community-level trust-building was only partially realized (Háda, 2023).

At the beginning of President Prabowo Subianto's term (2024–), many fear a return to the authoritarian and security-centered policies of the Suharto era. His military background—especially in relation to East Timor and Papua—raises concerns that he may favour a heavy-handed approach as president. While concrete measures have yet to materialize, it is likely that the military presence in Papua will continue, Aceh's autonomy will remain mostly symbolic, and despite stability, the Maluku Islands will receive little political weight in central decision-making.

Table 1. Presidents and Separatist Movements

PRESIDENT	PERIOD	ACEH	EAST TIMOR	WEST PAPUA	GENERAL APPROACH
Sukarno	1945–1967	Militarization, counterinsurgency operations against Darul Islam	–	1963 annexation, military occupation	Nation-building, border expansion, repressive centralization
Suharto	1967–1998	Prolonged repression, military campaigns against GAM	1975 annexation, repression, violent integration	Militarization, assimilation, development propaganda	Repressive, centralizing, forced national unity
Habibie	1998–1999	Easing tensions, but no substantive peace process initiated	Referendum allowed → independence	Few changes, but reformist atmosphere	Pragmatic opening, transitional period during regime change
Abdurrahman Wahid	1999–2001	Willingness to negotiate, political openness	Recognition of independence	Cultural autonomy, permission to use the name "Papua"	Decentralization, dialogue-oriented policy
Megawati Sukarnoputri	2001–2004	Increased military presence, harsh crackdown on GAM	Acceptance of independence	Limitation of autonomy, military action	Centralized power, rollback of decentralization
Susilo Bambang Yudhoyono	2004–2014	2005: Peace agreement signed in Helsinki, autonomous status	–	Maintenance of autonomy, but military dominance	Dual strategy: dialogue + military control
Joko Widodo	2014–2024	Autonomy formally maintained, but declining attention	–	Infrastructure development + increasing repression	Development-focused rhetoric, but repressive measures remain active
Prabowo Subianto	2024–	Autonomy maintained	–	Intensifying repression	So far, continuation of previous dual policy

Source: Adapted from Fujikawa (2017) and the authors' own research.

4. Conclusions

Throughout its postcolonial history, Indonesia has faced persistent challenges in building a unified nation-state, particularly in light of separatist movements stemming from the country's ethnic, religious, and geographic diversity. Despite their differing historical and social roots, the independence movements in East Timor, Aceh, and West Papua all responded in similar ways to the Indonesian central government's homogenizing and centralizing policies. Studying these various separatist movements highlights how the contradictions between the ideal of national unity and the reality of a multiethnic state contribute to the emergence and persistence of conflict.

While the state has often relied on military means in the name of preserving security and sovereignty, such approaches have rarely led to lasting solutions. The path to East Timor's independence, for instance, illustrates how international attention and political willingness to compromise can overcome state resistance. In contrast, the cases of Aceh and especially West Papua serve as warnings that military repression and economic exploitation only deepen social tensions over the long term.

Separatist movements should not be viewed merely as security challenges, but rather as complex social and political issues that can only be resolved through dialogue, decentralization, and respect for ethnic and cultural identities. Indonesia's future largely depends on whether it can evolve into a truly inclusive nation-state—one that accommodates the self-determination aspirations of its diverse communities without undermining the foundations of state integrity.

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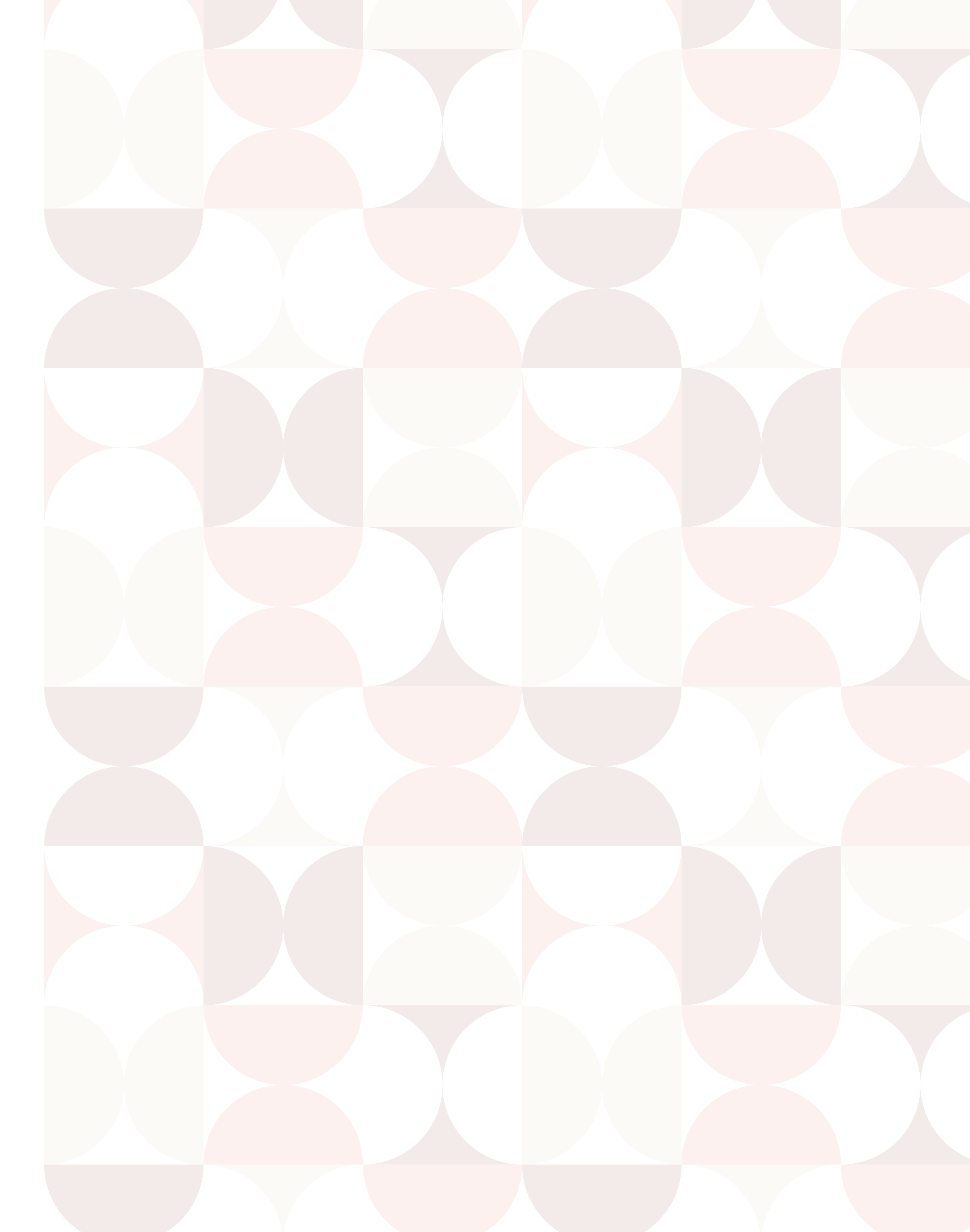
BOOK REVIEWS



GÉZA GECSE: OROSZ NAGYHATALMI POLITIKA 1905-2021 [RUSSIAN IMPERIAL POLITICS 1905–2021]

Dávid Ligeti[1]

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As a recognized researcher of Russian studies in Hungary, Géza Gecse (Assistant Professor, Ludovika University of Public Service, István Nemeskürty Faculty of Teacher Training) is committed to surveying the main characteristics of the hegemonic policies pursued by the Eurasian empire over the past 120 years. After the completion of the manuscript, the onset of the Russo–Ukrainian War in 2022 sadly lent the volume additional relevance. The author extended the original chronological time span (2001) of his research to the present day (p. 10.), i.e., to 2021. Gecse took this decision at the advice of his scholarly advisor, Géza Jeszenszky (former Hungarian foreign minister). In my review, I primarily intend to present the book's ideas concerning Russian geopolitical strategy.

The book consists of twelve parts. In the first chapter, the author writes about the current relevance and lessons of debates on the concept of imperialism. Following an in-depth analysis of theories of imperialism, we may explore the question of whether the Soviet Union can be considered an imperialist state. The author argues that the Bolshevik state "could at most be described as imperialist at the time of its formation in terms of its intentions, since although its goals aimed to achieve world revolution, it initially lacked the strength to do so." (p. 35.) Gecse, in addition to providing an extensive analysis of the relationship between nationalism and imperialism, also presents Lenin's and Stalin's related views.

The second section is entitled *Russian Imperial Messianism (1905–1917)*. The author observes that political pressure on the empire's nationalities eased following the defeat in the Russo-Japanese War because of the reforms that were introduced (p. 47.). We can read a detailed depiction of the internal challenges arising from the Tsardom's ethnic composition. St. Petersburg often responded to these difficulties with Russification initiatives, although these achieved only limited success, particularly in Muslim-populated regions (pp. 48–49.).

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The author rightly notes that while Russian imperial expansion in Europe operated under the aegis of Pan-Slavism, in Asia it assumed the character of a distinct Eurasian imperialism (p. 50.). In the wake of the lost war with Japan, the foreign policy doctrine of Pan-Slavism gained renewed strength, placing the Austro-Hungarian Monarchy among the principal targets of Russian imperial ambitions. This shift contributed significantly to the ability of Russian liberals to mobilize popular support for war, which became an important factor in the Great War.

During the First World War, alongside their traditional Pan-Slavic aims, the Russians also sought to seize Istanbul; however, despite early successes, Russia ultimately collapsed under the strain of the conflict (pp. 57–60). Gecse analyzes the policies of the 1917 Provisional Government and the Bolsheviks in light of Russian imperial objectives and provides a detailed account of the Treaty of Brest-Litovsk. He rightly emphasizes that the treaty played a decisive role in the emergence of independent statehood in territories lost by Russia (i. e., Finland, the Baltic states, Poland and Ukraine p. 69.).

The author also offers a complex overview of the Bolsheviks' foreign-policy dilemmas during this period. He concludes that Lenin and his comrades rejected the traditional imperial policies of the Tsarist regime during the Russian Civil War. For this reason, even for Hungary, Bolshevik Russia appeared to be the only viable partner. This circumstance explains the ease with which the declaration of the Hungarian Soviet Republic in 1919 occurred (p. 77.).

Part III of the book bears the title *Soviet Revolutionary Messianism (1917–1930)*. The author analyzes the political developments of the period through the lens of how they were shaped by the idea of Russian imperialism. He rightly points out that the Soviet Union pursued a Janus-faced foreign policy: alongside the public policy of the People's Commissariat for Foreign Affairs, a clandestine course operated through the Comintern (p. 89.). Particularly compelling is the analysis of Moscow's policy in Turkestan, where by 1929 the Soviets had succeeded in dividing the population of the Muslim villages, thereby consolidating the authority of the Russian center of power. The author then proceeds to outline the creation of the GULAG system (pp. 98–99.).

The fourth section bears the title *Soviet Consolidation (1930–1945)*. During this period, the Bolshevik state faced numerous foreign-policy challenges, most notably from Nazi Germany. Consequently, the goal of world revolution had to be temporarily set aside and superseded by the proclaimed mission of "defending parliamentary democracies" (p. 105.). The era was again marked by a peculiar duality: while the Bolsheviks projected the image of a humane state to the outside world, a wave of terror unfolded domestically in which, out of roughly 1.5 million convicted persons, 681,000 were executed (p. 108.).

A lesser-known fact is that during the *chistka* ("Great Purge"), "repression on a national basis became widespread" (p. 110.). As part of this policy, German, Polish, Estonian and Latvian workers were removed from the Soviet military industry, and the national units of the Red Army were dismissed. As a result, the proportion of (ethnic) Russians within the Soviet Union rose from 53% to 58%. Géza Gecse provides a detailed analysis of the 1939 Ribbentrop–Molotov Pact. He cites, for example,

Stalin's speech of 19 August 1939—delivered four days before the agreement was signed—in which the dictator argued that socialism could not triumph under peaceful conditions and that a war was necessary to take power (p. 114).

Particularly compelling is the demonstration of how the Soviets, motivated by their own interests in power, effectively handed over the Western Slavs to the Germans (p. 117.). During the Second World War, a renewed and aggressive policy of Russification took shape, reinforced by the fact that nationalist considerations of homeland defense overshadowed communist slogans. It is also little known that Stalin planned the collective punishment of the Ukrainians (potentially through deportations), but since they constituted 18% of the entire population of the Soviet Union, their relocation to other regions of the Bolshevik state proved essentially impossible (p. 123.). Paradoxically, the war brought fulfilment of long-standing Pan-Slavic aims—as the Slavic peoples of Europe came under Soviet influence—and using the reviewer's phrasing, enabled the achievement of Bolshevik revisionist objectives in both Europe and Asia.

In the fifth section, the author surveys the activities of the Russian émigré community between 1917 and 1946. He points out that Soviet victory in the Second World War triggered broad recognition among Russian émigrés (pp. 133–134.). The volume acquaints the reader with various groups of contemporary Russian emigrants and their leading figures. Gecse provides a detailed account of Russian fascist and National Socialist politicians—constituting an important novelty.

The sixth section discusses the emergence of the bipolar international system (1945–1949). The author offers a comprehensive analysis of the diplomatic negotiations of the period. In relation to Yalta, he rightly emphasizes that the agreement originally served only as a temporary arrangement. However, because a peace treaty with Germany was not signed until 1990, "Yalta was 're-evaluated' as a consequence," meaning that it was often attributed far greater significance than its architects had originally envisaged (p. 149.).

This chapter also examines the establishment and application of the principle of collective guilt, as well as the geostrategic considerations guiding the Soviet Union during this period. Géza Gecse argues that the re-annexation of Northern Transylvania by Romania became possible partly because the long-term Soviet military presence in Hungary was not yet assured in 1945–46—unlike in Romania and Bulgaria (p. 156.). Particularly interesting and valuable are the sections discussing the Pan-Slav Congress held in Belgrade in 1946 and the analysis of the main characteristics of the early years of the Cold War. The author convincingly demonstrates that Pan-Slavic objectives receded into the background due to the heterogeneous nature of the Eastern Bloc, the internal social structure of the Soviet Union and the distancing of Yugoslavia.

The seventh chapter examines the global role of the Soviet Union between 1949 and 1953. During this period, the Bolshevik state managed to keep pace with the Western powers, a fact demonstrated most clearly by its acquisition of nuclear weapons. The death of Stalin fundamentally transformed Soviet foreign policy as well.

The eighth section, entitled *From Totalitarianism to Authoritarianism (1953–1964)*, explores the changes in Soviet foreign-policy principles during the period of de-Stalinization. The author offers detailed analysis of the main features of the Khrushchev era and concludes that through the doctrine of "peaceful coexistence," the Soviet leader "creatively" moved Leninism in a direction in which this category had previously not existed (p. 180.). Nonetheless, the 1956 Hungarian Revolution demonstrated that the principle proclaimed at the 20th Congress of the CPSU—namely, the recognition of "different roads to socialism"—did not imply acceptance of a multiparty system or the possibility of independence from the Soviet Union (p. 184.). Gecse also outlines the foreign-policy repercussions of 1956, highlighting the reputational losses suffered by the Soviet state.

A noteworthy development was Khrushchev's increasing reliance, even in diplomacy, on individuals of non-Russian, i.e., Central Asian origin, thereby projecting the multiethnic character of the Soviet state—one that possessed both a European and an Asian elite (p. 187).

The author titles the ninth chapter *The Specific Features of Soviet Expansion (1964–1983)*, offering a detailed analysis of the Brezhnev Doctrine. In Gecse's view, the Soviet dictator revived Lenin's theses when he asserted that "there are no different paths or forms for the construction of socialism" (p. 198.). As in earlier periods, Soviet foreign policy retained a Janus-faced character: it was marked simultaneously by expansionism (e.g., in Afghanistan and/or through pro-Arab steps in the Middle East) and by the application of the doctrine of peaceful coexistence (e.g., the signing of the SALT agreements with the United States).

In the tenth section, the author analyses the continuation of the Cold War "with new tools" from 1983 until the dissolution of the Soviet Union. He concludes that Gorbachev's slogans of *uskorenie* (acceleration), *glasnost* (openness) and *perestroika* (reform) had no connection whatsoever to the Bolshevik tradition (p. 210.). Particularly innovative is the examination of the Gorbachev era from the perspective of nationalities policy, which ultimately led to the federalization of the CPSU. Several of the opposition movements that became legal at this time argued that "during the seventy years of the Soviet Union's existence, Russians had been oppressed: Zionists and Freemasons had deliberately led the country to the state in which it found itself by the mid-1980s" (p. 220.). Under the banner of *glasnost*, the ethnic tensions of the vast Eurasian empire quickly resurfaced. The irreconcilable contradictions of Soviet domestic politics, combined with the arms race dictated by the United States, led to the collapse of the Soviet Union.

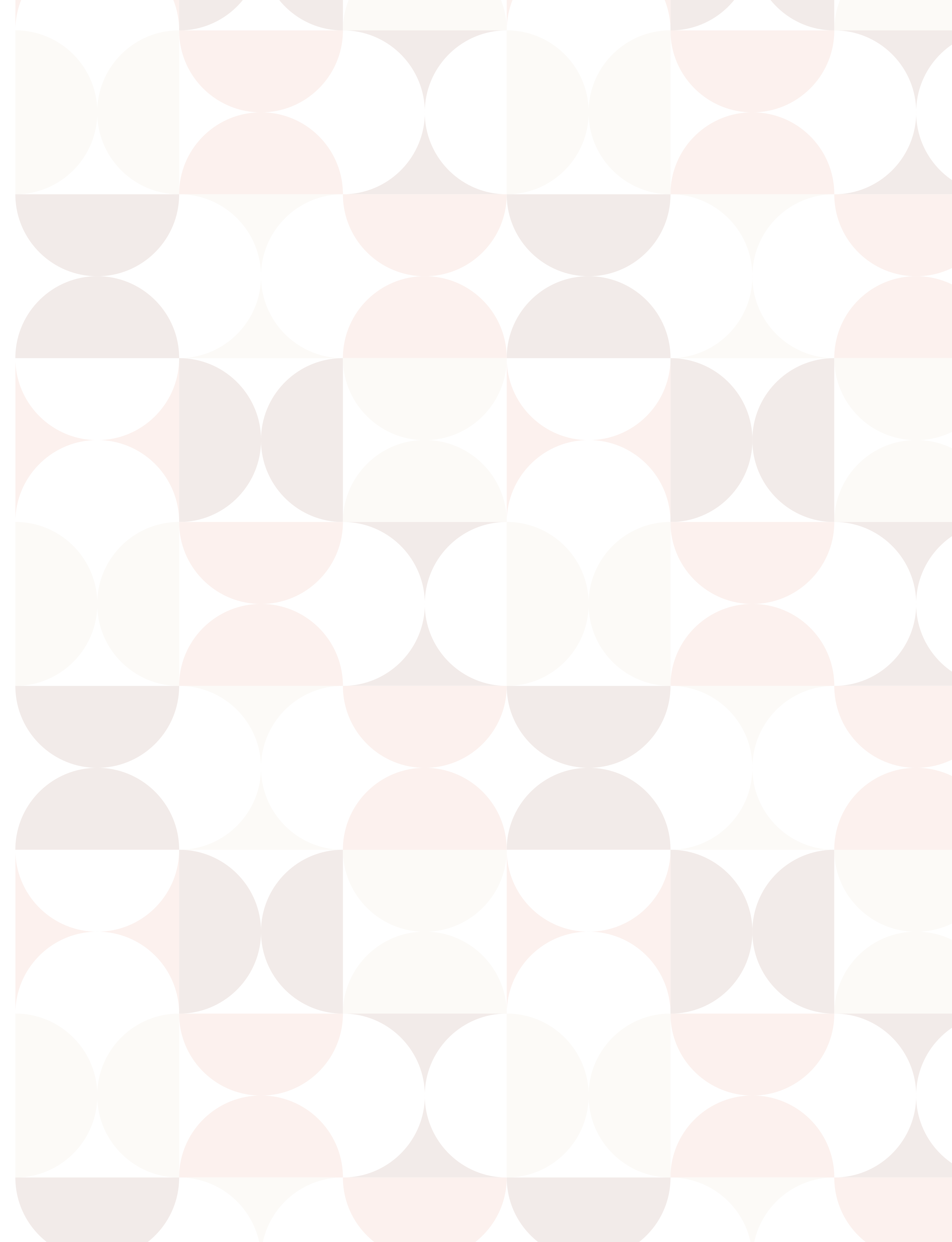
In Part XI, Géza Gecse examines the period between 1992 and 2001. He outlines the ethnic tensions of a drastically reduced Russia—paying particular attention to the First Chechen War of 1994–1996. The author notes that in mid-1992 a new term emerged, "near abroad," which referred to the non-Russian parts of the former Soviet Union (p. 241.). During 1992–93, the possibility seemed quite real that Russia might revise its existing borders and unite the Russian populations living along them. These intensions were based on a national ideology. By this time, the idea had also emerged of annexing the Crimean Peninsula as well as the eastern, southern and southwestern regions of Ukraine, which were predominantly Russian speaking (p. 245.).

The book offers a detailed account of the “Partnership for Peace” programme, which successfully mitigated earlier tensions between Russia and NATO in the first half of the 1990s (pp. 252–256.). Gecse provides a meticulous overview of the domestic political changes and economic crises that weakened Russia. Nevertheless, efforts to approach the Western states came to a halt during NATO’s 1998 bombing of Yugoslavia.

The twelfth and final chapter are titled *Russian–American Role Reversal (2001–2021).* During this period, Putin’s Russia gradually regained the influence it had lost in the post-Soviet era. One leading intellectual, Mikhail Smolin, even declared that “the future of Russia will lie in imperial rebirth” (p. 284.). The book essentially traces this process, for example, through the experiences of the 2008 Russo-Georgian War, as well as through the analysis of the 2014 aggression against Ukraine.

In preparing his work, the author surveyed an impressive range of domestic and international bibliographical sources. His 1,208 footnotes go far beyond the mere citation of sources, as they enrich the main text with additional observations and insights. Nevertheless, in a work of such grand scale, certain redundancies are inevitable. A second edition would justifiably need to incorporate the events that have taken place since 2022, as the Russo-Ukrainian War may well cast earlier chapters in a new light. A good example is the author’s statement—based on extensive literature—that “from a military standpoint it would not pose a problem for [Russia] to occupy Novorossiya, that is, the territory stretching from the Donbas to Transnistria, yet it refrains from taking such a step” (p. 314).

Géza Gecse’s work is essential reading for anyone interested in the 20th–21st century history of Eastern Europe. An extended version of the monograph, which emphasizes the events of the Russo–Ukrainian war, would be worth publishing in English as well.



ARMIDA SALSIAH ALISJAHBANA, KUNAL SEN, ANDY SUMNER, ARIEF ANSHORY YUSUF (EDS.): THE DEVELOPER'S DILEMMA - STRUCTURAL TRANSFORMATION, INEQUALITY DYNAMICS, AND INCLUSIVE GROWTH

Máté Szakáli[1]

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***The Developer's Dilemma* is the outcome of a multi-year UNU-WIDER programme examining the relationships between structural transformation (ST), inequality, and long-term development. The editors—Armida Salsiah Alisjahbana (UNESCAP), Kunal Sen (UNU-WIDER), Andy Sumner (King's College London), and Arief Anshory Yusuf (Universitas Padjadjaran)—represent a combination of global policy experience and academic expertise. Their collaboration reflects a shared observation: across many developing regions, structural shifts were not producing the inclusive outcomes described in classical development theory. The book thus investigates when and why structural change contributes to inequality, and under what conditions it may support more equitable paths to growth.**

Conceptual Foundations: Structural Change and Inequality Reconsidered

The introductory chapter anchors the volume in two concepts. First, structural transformation is defined as labour shifting from low-productivity sectors toward higher-productivity segments, particularly out of agriculture into manufacturing and certain modern services (p. 3). This definition aligns with the classical literature but is operationalized in a disciplined empirical framework using inter-sectoral reallocation as the primary metric. The editors note that this focus necessarily leaves intra-sectoral variation aside—a choice made for analytical clarity rather than theoretical completeness.

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Second, the book reinterprets the Kuznets hypothesis through a decomposition-based lens: using between-sector and within-sector inequality components (pp. 5–6), the editors argue that the distributional consequences of structural change depend not on a predetermined curve but on the magnitude and direction of labour flows. This leads to a typology of four "Kuznetsian tensions" (p. 8), which classify economies according to whether their structural transformation is strong or weak, and whether inequality trends move upward or downward.

A parallel typology—the "varieties of structural transformation" (Fig. 1.2, p. 7)—identifies pathways ranging from upgrading industrialisation to secular deindustrialisation. These conceptual tools give the book a cohesive structure and provide a common language for the country studies.

Data, Methodology, and Comparative Strategy

The empirical core of the volume is based on a consistent set of data sources: the Groningen Growth and Development Centre (GGDC) 10-Sector Database, PovcalNet (World Bank), and the World Income Inequality Database (UNU-WIDER). By using these sources across all nine countries, the editors achieve a level of comparability rarely seen in edited volumes. Chapter 2 outlines how growth can be decomposed into within-sector and between-sector contributions (pp. 9–10). This approach allows readers to distinguish between economies driven by genuine reallocation effects and those relying on productivity improvements within sectors alone.

The survey chapter provides regional context. For example, Figure 2.3 on p. 23 illustrates how manufacturing value-added shares have diverged sharply in East and Southeast Asia since the 1980s, with Southeast Asia's transformations being simultaneously less pronounced and more cyclical. These patterns situate the Southeast Asian cases — Indonesia and Thailand — within broader regional dynamics.

Country Studies: Patterns, Contrasts, and a Southeast Asian Comparison

The nine country chapters — focusing on East Asia, South Asia, Sub-Saharan Africa and Latin America — follow a shared structure, enabling the reader to compare cases without the usual constraints of heterogeneous data or methodologies. For this review, two Southeast Asian cases — Indonesia and Thailand — serve as a useful entry point for a comparative reading.

Indonesia and Thailand: Two Southeast Asian Pathways

Indonesia represents an episodic pattern of transformation. Between 1970 and 1990, manufacturing's employment share rose from about 8 to 13 percent (Fig. 3.2, p. 46), supported by policy-led industrial expansion. The Asian Financial Crisis disrupted this trajectory, and the post-1998 period saw slower reallocation and rising inequality. The Gini coefficient increased sharply from the early 2000s, peaking above 0.40 around 2015 (Fig. 3.2, p. 46). Structural change accelerated in some periods but was repeatedly interrupted by shocks and political realignments. Indonesia thus exemplifies a stop–start transformation pattern, in which reallocation and inequality closely track economic cycles.

Thailand presents a more stable transformation. Manufacturing value-added rose steadily, reaching over 30 percent of GDP by the early 1990s (Fig. 5.3, p. 94). Labour shifted out of agriculture at a consistent pace, and while inequality increased around the Asian crisis, it subsequently reversed (Fig. 5.7, p. 100). Here, structural change aligned with improvements in household welfare. Thailand therefore offers an example of benign structural transformation, where reallocation supports inclusive gains despite intermittent crises.

Comparing these two cases highlights the analytical value of the editors' typologies. Both countries underwent significant transformation, yet their inequality trajectories differed because their structural changes followed distinct patterns—one cyclical, the other gradual and sustained.

China and India: Contrasting Giants

China is the textbook case of strong Kuznetsian tension. The agricultural share of employment fell from 70 percent in 1978 to below 30 percent by 2010 (Fig. 4.1, p. 69). Manufacturing and services absorbed large numbers of workers, and productivity gaps across sectors narrowed. Inequality rose in parallel: the Gini coefficient surpassed 0.40 by the early 2000s (Fig. 4.7, p. 78). Rapid transformation and rising inequality thus moved together.

India followed a markedly different route. The share of employment in services rose from 17 to 26 percent between 1983 and 2010 (Fig. 6.3, p. 121). Manufacturing's employment share remained low, reflecting limited job creation in industry (Fig. 6.5, p. 124). Inequality increased gradually from the early 1990s (Fig. 6.7, p. 125). India's case demonstrates how service-led transformation, though growth-enhancing, may not produce inclusive outcomes when manufacturing fails to absorb surplus labour.

Bangladesh: Export-Led Gains with Narrow Diversification

Bangladesh represents a clear example of labour-intensive structural transformation within the context of a narrow but highly dynamic export sector. The chapter shows how the expansion of the ready-made garment (RMG) industry from the 1980s onwards reshaped the country's employment structure. Manufacturing employment increased steadily, while agriculture continued to lose labour at a gradual pace. Although the chapter does not provide specific poverty or inequality statistics, it notes that improvements in living standards and rapid job creation in export-oriented manufacturing contributed to wider welfare gains during the 2000s. Figure 7.4 (p. 144) situates Bangladesh within the book's typology of structural transformation, indicating a pattern consistent with primary and early-stage upgrading industrialisation. At the same time, the authors highlight the structural limitations of relying on a single export engine and argue that long-term resilience will require technological upgrading and broader diversification beyond the RMG sector.

Ghana and South Africa: Institutional Constraints and Dualistic Structures

Ghana's chapter examines how partial transformation, modest manufacturing growth, and a politically constrained reform environment shape inequality outcomes (Fig. 8.8, p. 171). South Africa embodies a more dramatic pattern: manufacturing employment fell from 27 percent in 1970 to below

20 percent by the 2010s (Fig. 9.4, p. 185), while the Gini coefficient remained above 0.60. These cases illustrate how political settlements constrain the redistributional capacity of the state.

Brazil and Chile: Latin American Divergences

Brazil's poverty reduction in the 2000s occurred despite deindustrialisation (Fig. 10.1, p. 207). Chile achieved high-income status but remained marked by persistent inequality. These chapters underline that structural transformation alone does not dictate inequality outcomes; social policy and institutional context are decisive.

How the Nine Cases Illustrate the Typology

The nine cases taken together demonstrate the full range of Kuznetsian tensions and varieties of structural transformation. China and Thailand show how strong transformation can produce diverging inequality outcomes. Indonesia and Brazil reveal how growth shocks and sectoral shifts interact with political factors. India and South Africa illustrate how weak or stalled transformation can coincide with rising inequality. Bangladesh provides a case where labour-intensive exports deliver inclusive results despite limited diversification. Across these patterns, the book's typologies help the reader understand not only the direction of change, but the underlying structure that shapes each country's trajectory.

Technology, Future Constraints, and the Changing Global Context

Chapter 12 examines how digitalization and automation may shape future development strategies. The chapter's "technology–development constellation" (Table 12.1, p. 255) outlines scenarios where manufacturing loses its traditional role as an absorber of low-skilled labour. The authors argue that many late-developing economies face a "narrowing window" for industrialization. This perspective supports the concluding chapter, which synthesises the nine cases (Figs. 13.1–13.2, pp. 285–286) and emphasizes that institutions and policy choices strongly condition the inequality impacts of structural change.

Contribution to Hungarian and Central European Policy Debates

The book's conceptual tools apply well to European and Asian middle-income economies, many of which face challenges associated with commodity dependence, partial industrialisation, and labour-market dualism. The experiences of China, Indonesia, and India are instructive for Asian states seeking to integrate into continental production networks or diversify their economies beyond resource sectors. In a world where regional value chains are becoming more prominent, the framework presented in *The Developer's Dilemma* provides analytical guidance for evaluating which pathways are likely to generate inclusive long-term growth.

Although Hungary and Central Europe are structurally different from the countries analysed in the book, several themes resonate with the region's current development challenges.

First, Central European economies exhibit a degree of dualism similar to that described in the Southeast Asian chapters. Foreign-owned manufacturing clusters generate high productivity and export performance, while domestic services and SMEs remain less dynamic. Indonesia's episodic upgrading and Thailand's more stable transformation offer relevant comparisons—particularly regarding how policy consistency affects inclusive outcomes.

Second, the region faces rising regional inequality. While absolute poverty is low, disparities between metropolitan and rural regions remain persistent. The book's analyses of China's coastal–inland divide and Brazil's spatial heterogeneity offer parallels that can inform regional policy design in Central Europe.

Third, the chapters highlight how industrial upgrading requires sustained investment in skills, technological adoption, and supply-chain integration. These insights align closely with Hungary's current focus on electric vehicle production, battery supply chains, and digitalization. Understanding Thailand's experience with industrial policy or Bangladesh's upgrading challenges can offer practical lessons.

Finally, the volume's emphasis on policy coherence—the alignment of industrial strategy, social policy, and inequality mitigation—is directly relevant. Thailand's post-crisis inequality moderation and Brazil's early-2000s social programmes show that targeted redistribution can cushion the inequality effects of structural change.

Conclusion

In my view, *The Developer's Dilemma* is an analytically robust volume that offers a clear framework for understanding how structural transformation interacts with inequality. Its strengths lie in its consistent methodology, detailed country analyses, and cautious but insightful comparative synthesis. The book will be particularly valuable for researchers working in development economics, comparative political economy, and policy analysis. It also offers useful perspectives for decision-makers concerned with industrial policy, regional development, and inequality management in middle-income economies.

At the same time, the book leaves room for further exploration. By design, the analytical focus rests on inter-sectoral labour reallocation, with considerably less attention given to within-sector dynamics, firm-level upgrading, or the role of technological change in reshaping productivity gaps. These omissions do not undermine the core argument, but they suggest that structural transformation may be more complex than the dataset allows. In some chapters, the treatment of political economy factors is comparatively thin, offering limited explanation for why certain countries maintain coherent industrial strategies while others experience policy fragmentation. A few data inconsistencies also stem from the GGDC 10-sector structure, which does not fully capture informal employment or the heterogeneity of modern services — an issue that becomes increasingly important for economies where services, rather than manufacturing, drive job creation. Finally, the range of country cases,

while diverse, excludes several instructive experiences — such as Vietnam, or post-socialist economies in Europe and Asia — that could have enriched the comparative perspective.

These gaps nevertheless point to promising directions for future research. Analysing structural transformation with micro-level data, incorporating technological adoption patterns, or comparing the political coalitions that shape industrial policy would deepen the framework introduced here. Similarly, applying the typologies to middle-income countries in Central and Eastern Europe or Central Asia could help illuminate how dualistic economies navigate the pressures of global value chains and regional inequalities. Such extensions would not only refine the conceptual tools developed in this volume but also help explain why structural transformation succeeds in some contexts and stalls in others.

At a moment when technological change, shifting value chains, and geopolitical realignment are reshaping development opportunities, the questions posed by this book are highly relevant. Its empirical grounding and comparative perspective make it a solid contribution to ongoing debates on how countries can pursue structural transformation while maintaining social cohesion. I consider it a useful reference point for scholars and policymakers seeking to understand the long-term interplay between economic change and inequality, particularly in regions where development strategies must balance structural transformation that benefits a broader share of society.

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