

OBIO Book Series – Volume 2.

Futuring Cooperation and Bridging up Relations
between Europe and Asia

Editors:

Pál Koudela

Slobodan Popović

Marianna Kovács-Gergely



Budapest Business University

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Futuring Cooperation and Bridging up Relations
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OBIO Book Series – Volume 4

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AND BRIDGING UP RELATIONS
BETWEEN EUROPE AND ASIA

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Oriental Business
and Innovation Office
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Foreword

The OBIO publishes its Book Series biannually, Volume 4 – Futuring Cooperation and Bridging up Relations between Europe and Asia – comes as the first issue in 2024. Interregional cooperations and their intertwining are determining factors in shaping current and future world order. Hierarchy was a dominant model of interstate relations for centuries and (inter)regional arrangement followed the slowly changing western economic and political core. In that process, East Asia emerged as an independent pole with capacities and abilities not only to reshuffle international trade and economic order, but to become one of the most important grumnets in global production and supply chains. Strengthening (inter)regional cooperation as one of the pillars holding global governance, consequently and expectedly directly affects the trend of globalization and globalizing trends. Thus, it also affects the geopolitical plethora on diverse levels questioning traditional understandings of international relations and actors of international relations. In that context, governments and companies are becoming retracted in a complex system of international relations.

In this volume, our goal is to represent the different dimensions of the new world's adoration. One easily acceptable perspective is the different cultural imagination of future planning. Foresight is deeply embedded in cultural roots determining how leaders are thinking about their companies' or countries' future and driving their decisions towards it. The first study deals with these question from a regional perspective. Shermom O. Cruz and Tamás Gáspár interpret the rapidly changing, consequently uncertain, increasingly complex systems both at micro and macro level. Their temporal approach expands our senses of the different times and helps to understand how empowering individuals shape their lives, how the ongoing adaptation and future-shaping gains evolutionary advantages in our globalizing world, including competitiveness and cooperation at the same time.

While historically developed cultural differences shape the way of thinking, common platforms excessively match very much in regional comparison. The first study revealed nine key essentials that inform Asian futures studies and practices, such as Epistemology and Ontology, Narrative Foresight, Indigeneity, Culture and Heritage, Active Engagement, Community Building, Fringe Thinking, Strategy, Innovation and Design, Anticipatory Governance and Gaming Foresight. The second analysis by M Abdi Dzil Ikhram W focuses on soft skills as assets of economic dynamics and resources of a country. The case study of Indonesia of abundant labor, the country's global integration through competition is approached from a labor market perspective.

Skills for demonstrating hard power are getting aligned with institutions following international trends. Standardization of education systems are essential to compete globally. In contrary, "soft skills refer to personal attributes and interpersonal skills that enable individuals to interact effectively. These skills include communication, teamwork, problem-solving, adaptability, and emotional intelligence." Understanding cultural-historical background is more important this time. Education prepares to enter workforce, working experience further increases abilities to adopt. International corporations' role is essential to bridge regional cultural differences.

The third study examines regional financial markets integration comparing two large regional organizations, the European Union and the ASEAN. Common features of the two regional organizations are well-known, differences are in the focus many times. This writing focuses on lessons learned from global and regional financial crises on both sides, the different roles of delegated powers to a supranational level and the bi- and multilateral integration processes. Katalin Mérő analyses the banking and capital markets integration to answer which type of regional financial integration is more supportive of financial stability. The velocity of adaptation contradicts economic safety issues formulating alternate strategies. The rapid financial integration came with risks on the one hand but enforced developing flexibility in the EU on the other hand.

Results from examining the role of soft skill on global labor markets showed the importance in of formal education in Indonesia. The fourth study scrutinizes the social benefit perception affecting academic benefit perception surveying Indonesian students studying in France and French students studying in Indonesia. Growing interregional education exchange contributes globalization in many ways, results in deeper university collaboration, gains experiences used on the labor markets, accumulates intercultural knowledge, share ideas and creates long-lasting interpersonal networks. Dewi Tamara and Anita Maharani identify the cultural nuances influencing educational exchanges, explore the economic and diplomatic implications of student mobility and educational partnerships between the two regions, explore student exchange contribution to local educational systems' development keeping in mind global citizenship as determining factor in formation of a new world order.

Based on social exchange theory, they developed hypothesis to understand how influencing processes work during student exchange and conclude in stating a complex system of intertwining regional and local subsystems. Education is a social subsystem that imbues almost all other layers of economy and society from below. In contrary, politics typically directs subsystems from above in a top-down character. At a regional level geopolitics determines whole regions' global role in the long run, that is in the focus of Dragan Trailović and Slobodan Popović in the fifth study in this book. They concentrate on the EU's partnerships with Central Asian states aimed for managing geopolitical identity of the Great Game region.

The historical perspective of this analysis about EU's regional policy towards Central Asia gives insight to the innate nature of increasing complexity of systems taking into account both influencing governmental polities from allying nations' sides and the role of different international organizations pointing toward global governance. They conclude that "the presence of major international players such as Russia, China, the United States, and the European Union underscores the geopolitical significance of the Central Asian region." They focus on the EU's growing economic partnership in the region, its increasing investment activity, and strategic goals.

Layers by layers build up the complex view of regional cooperation's role in developing a well-structured and integrated world. Micro decisions in the global MNS arena, the increasing role of soft skill in a global labor market scene and governmental cooperation in interregional education programs add new aspects. In the sixth, closing study Tran Anh Tuan, Nguyen Thi Phi Yen and Nguyen Tu Ha explore the world of GVCs, analyzing Vietnam's role in the globalized economic world. This most macro kind approach starts with the European-Vietnam Free Trade Agreement to interpret the Southeast Asian country's strategy to upgrade in the global value chains. The authors of this case not only account of existing strategies to enhance FDI from the EU side but also consider alternatives to extend investment possibilities to other areas and levels.

Our scope in this book was to unfold the different layers of interregional cooperation between the EU and Southeast Asia. The sequence of included studies followed a micro to macro logic resembling the way students learn economics from the world of companies to the macroeconomic plethora. Analyses are divers in methods from survey to policy study, involves regions apart of Southeast Asia, and country to region partnerships with the EU. However, they are common in the scope to peel off one layer from a complex socioeconomic system to support its recompositing as it happens recently at a global level.

Budapest, August 2024

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Exploring Foresight: The Dynamics of Asian Futures and their European Interactions

Tamás Gáspár and Shermon Cruz¹

Abstract: Foresight is an academic discipline as well as a practice that deals with the futures emerging from the past and present flows and shaped by the visions, expectations, hopes, and fears of people and organizations. The discipline is transdisciplinary and draws insights from philosophy, economics, political science, public administration, environmental and cultural studies, history, management, indigenous, science, and technology systems among others. Foresight has deep roots, but it has been an emerging field in the past decades owing to the increasing complexity and uncertainty of the global world. The field, as a practice, is widely adapted: from global to international institutions and regional organizations (regional foresight), government (public sector foresight) to companies (corporate foresight). The discipline has a widely accepted theoretical and methodological framework, and the concept has some cultural-historical varieties in the different parts of the world.

Today, Asia has emerged as one of the leading centers of futures studies and foresight practice, and possesses, like its Western counterparts, a deep context and has a long historical background. While the methodology and propensity to foresee the future has been sharply determined by the global historic environment, the outlook on futures from Asia always had particular features and style to it. In addition, Asia's flavor of foresight has a distinct variation to it. They are mostly informed by their aesthetics, philosophies, histories, indigeneity's, language, mythologies, metaphors, arts, food, and levels of political engagements and technological advancements. This paper explores and maps the nature and need for foresight today with

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special attention to Asia and its characteristics and for purposes of analysis compares this with the European and American foresight experience. The analysis investigates the leading centers of foresight and futures studies programs in Asia, and further explores it in relation to how it interacts with its Western, mainly European counterparts.

Keywords: Foresight, Asia, History, Special Characteristics, European Relations

JEL: A12, O21, O35, P41, Z18

1. Introduction

Asia is often seen as an engine of ancient, modern, and most recently, contemporary global developments. From innovation to economic performance, demographic, and industry shifts, its dent in shaping global dynamics is profound and multifaceted. Partly because its civilization dates back to the earliest times, thousands of years ago, providing a very deep and sophisticated orientation on societal, cultural, civil, structural, and institutional development. These roots have established some kind of stability and agility to recover from its traumatic colonial past and adapt and innovate in the midst of exponential change. As Asia has emerged as probably the most dynamically emerging region, it has provided new insights, innovation, and pathways for the world. The region, while highly diverse in many senses and levels, articulates some special features and patterns that seem to inspire and serve as futures orientation points for Europe and America too, when searching for potential future scenarios and strategic options.

The success of foresight in Asia is probably caused by its high civilizational and long-term orientation, and this, we assume, has a strong link to its interest in futures studies and foresight and particularly in the context of public policy and governance, technology adoption and innovation, leadership and strategic development and management. Hence, it makes much difference what visions the countries of the region have of the future, as well as what foresight concepts and techniques they create, innovate, and adapt.

The Asia-Pacific Economic Cooperation (APEC), one of the most successful integrations of the region, defines foresight as ‘a dynamic process that continues to look ahead to anticipate the next changes. Foresight does not focus on day-to-day “operational” concerns, although it can provide important insights into how operations can be reformed to manage effectively in a rapidly changing world. It is not based on extrapolation of existing patterns; it explicitly recognizes that the future is uncertain and that seriously disruptive events can and will happen. Most importantly, the goal of foresight is not just to prepare well for the future, but also to take every opportunity to shape and create the future.’ (APEC, n.d.).

However, this definition is orientated towards the technical and the managerial and does not reflect a definition of futures studies that acknowledges the contextual and relational imperatives of futures in Asia. The definition offered above is only a description of what it is and its function as far as enabling institutions and organizations to use the future as an asset or resource in the present is concerned. For the Asian practitioner, Asia's value propositions to foresight includes challenging the dominant and existing materialistic paradigms and creating alternative futures to transform its way forward (Inayatullah, 2007). Asian futures studies and foresight practice is more orientated than the truth is indeterminate, heterogenous, experiential, contextual, processual, and relations-centered (Cruz, Sweeney and Ghahfaroki, 2016).

The South Korean futurist Seongwon Park used a local metaphor to illustrate this point: 'A tangerine becomes hard when it crosses the water. When a tangerine tree from the South is planted in the North, it produces different fruit. The same must be true for Asian futures.' (Cruz et al. 2016). For the Asia Pacific Futures Network, Futures studies from an Asian perspective, emphasizes the integration of local knowledge, philosophies, and experiences to address unique regional challenges. The aim is to co-create diverse, culturally relevant futures that can effectively respond to dynamic global and regional changes. This localized focus aims to enhance the relevance and impact of foresight practices across Asia, fostering sustainable development and transformative policies tailored to the region's specific needs and aspirations (Asia Pacific Futures Network, n.d.). The definition of futures serves not only as a description but also as a contextual and actionable aim for futures studies and foresight in Asia. As such, this paper seeks to explore the following questions: what histories, philosophies, and traditions have informed and nourished Asian foresight? Are there any special characteristics or criteria for dealing with futures in Asia? What organizations and programs provide such experience? This piece does not offer a comprehensive overview or complete analysis of Asian futures studies and practices, given the vast diversity and its varied expressions in the region. The scope of the literature review and analysis covers only the East, South-East, and South Asia respectively.

2. Why foresight?

There is an expanding and reverberating call for a more intensive integration of futures into micro and macro decision making, both in terms of adapting to the changes and shaping the future according to a preferred direction (Raskin, 2002). Behind all this, we can observe the current transformational period in the global economy and societies. This period is generating multiple visions of the future and initiating varied interpretations of both emerging events and feedback data (Vigni, Blanchard and Tasset, 2022). The technological revolution and digitalization invigorate weak signals, accelerate feedback mechanisms, and significantly connect system agents to each other. Consequently, technological, economic, and social networks evolve into highly complex systems that navigate unpredictable futures (Kraeger, 2022).

If so, what are the main characteristics of the world that any development path has to face? Amongst many, the VUCA (Volatility, Uncertainty, Complexity and Ambiguity) approach has become a widely accepted and comprehensive description of the future (Johansen-Euchner, 2013; Sombala, 2019; Hänti, Keinänen, Havia, Al-Bermanei, Ketola and Heikkilä, 2021). From a foresight perspective, the volatile, uncertain, complex, and ambiguous nature of complex adaptive and living systems demands a heightened awareness of the future. Moreover, these features also dismantle past temporal boundaries, expand the plausible scope of the future, and empower individuals to shape their lives through purposeful activities and continuous reflection. The capacity for ongoing adaptation and future-shaping are evolutionary advantages in our global world, which is highly competitive on one hand, yet simultaneously requires extensive cooperation.

From a public sector and macro perspective, the Asian Development Bank (ADB, 2020) highlights the need for futures and foresight in traditional planning techniques as they are no longer adequate given an increasingly volatile, uncertain, complex, and ambiguous environment. There is a strong impetus for governments to adopt foresight activities to achieve resilience, agility, and responsiveness. As foresight allows for the identification and exploration of risks and opportunities by envisioning future scenarios, it enhances public sector organization to upskill and adapts their capacities

to improve the facilitation and impacts of public dialogue. Through broader participation and deep-seated innovation, change management mechanisms could be amplified as institutions become more agile, adaptable, and resilient. Incorporating foresight into decision-making also fosters intergenerational fairness and justice. Notably, the Asian Development Bank plays a crucial role in supporting regional efforts to integrating foresight into the countries planning and policy processes.

In the corporate field, Hines and Bishop (2006) recognized that successful companies do not ignore the future. This acknowledgment highlights the importance of forward-thinking and strategic foresight in business success. In their 2019 research paper, Brown and Barnard concluded that participating firms identified technology and social factors as the most significant influences on the future. In contrast, political factors and competitors were considered to have the least impact. Heger and Rohrbeck (2012) emphasized that the uncertainty surrounding technology leads to uncertain product specifications. This uncertainty often extends to a lack of knowledge about consumer willingness to pay, which in turn affects the financial viability of products.

Not all companies though are actively engaged in future-oriented practices, and many are caught off guard by exponential change. According to the Brown-Barnard (2019) report, many firms still rely on simplistic methods to anticipate future changes, often overlooking the importance of robust future management and innovative strategies. The connection between innovation and foresight is recognized, yet the critical relationship between them often goes unrecognized. Rohrbeck and Kum (2018) demonstrate the value of foresight activities, showing that companies well-prepared for the future—referred to as “vigilant”—tend to perform significantly better, achieving higher profitability by 33 percent and market capitalization growth by 200 percent compared to the sample average. This underscores the crucial role of foresight at both macro and micro levels for successful development.

Foresight is seen as a meta-approach to studying, using, and sensing the future as an asset and as an inspiration to provoke, engage, and inspire personal, organizational, and societal transformation (Inayatullah, 2022; Cruz, 2023). It enables persons and organizations to set priorities, build visions, think out of the box, detect weak signals, prepare for wild cards, explore alternative and preferred futures, and formulate policies and

strategies. The goal in foresight is to make sense of thinking and meaning to question and disturb the way we anticipate the future (Cruz, 2019).

Foresight, being learner and action-driven based, allows participants to create new insights and content —to define and undefine the future — by understanding their own contexts and assumptions of the future at the outset. Leading Asia and the Pacific foresight practitioners such as Sohail Inayatullah, Zia Sardar, Shermon Cruz, Kou Hua Chen, Josh Wagner, Puruesh Chaudhary, Ivana Milojevic, Marcus Bussey, Dada Shambushivananda, and Seong Won Park among others have several interrelated assumptions about foresight. These assumptions about the future however are by no means exhaustive:

- That the future is inherently non-neutral;
- That it is focused more on gaining insights and inspiring actions than on making predictions;
- That it shaped by the values, epistemes, and culture which help describe and create various and preferred realities;
- That it is able to be crafted through meta, critical, post-normal, educational, strategic, and engaged foresight;
- That it is deeply reflective and emphasizes the importance of personal and community values, ethics, ethnicity, culture, and compassion which propel the realization of alternative and preferred futures (Inayatullah, 2015; Cruz, 2022).

In their approach to futures practice, European perspectives often emphasize the functional and methodological aspects of the future. In contrast, Asian perspectives tend to focus on epistemology, meaning-making, care, reciprocity, indigeneity, and relationality in futures thinking and practice.

3. Roots and Development of Foresight in Asia

3.1 Roots of Foresight in Asia

Dealing with the future for a more successful present is certainly not new, mainly not in Asia. Different conceptions of time contribute to the formation of distinct societal structures. For instance, classical Hindu philosophy revolves around million-year cycles, tracing society's decline

from a golden age to an iron age. In the depths of this materialistic iron age, a spiritual leader or avatar emerges to rejuvenate society. Meanwhile, classical Chinese thought is centered around the degeneration and subsequent regeneration of the Tao, facilitated by the sage-king, who is viewed as a wise parental figure in society (Inayatullah, 1996).

The three fundamental metaphors for time—circle, arrow, and spiral—profoundly influence futures thinking and cultural perceptions of the future. Each metaphor shapes how different societies envision and approach the unfolding of time and possibilities (Milojevic, 2002). Geert Hofstede's (2010) analysis of China highlights Long-term Orientation (LTO) as the highest-ranking factor, scoring 114, a trait common across many Asian cultures. This dimension reflects a society's time perspective, emphasizing perseverance—overcoming obstacles over time rather than through immediate will or strength. The first documented military strategy of ancient China (period 722–481 BC) already described the general concept of strategic planning (Kane, 2002). But the emergence of futures studies in the modern 20th century also had Asian contributions.

Many different papers have discussed the history and the driving forces of futures studies, as well as offered possible periods to distinguish (Jemala, 2010; Dreyer-Stang, 2013; Georghiou, 2001; Hawkins, 2005; Kuwahara, 2007, Callahan, 2012), from which the Asian contribution can also be detected. This goes as follows.

3.2 Post-war Foresight

The first generation of foresight (1950–1960s) was born by the problems and failure of the laissez-faire economics in the first half of the 20th century, owing to many factors such as the industrial-technological development and capital concentration, the emergence of monopolies, the Great Depression, and the world wars. Together with the development of the Keynesian economics, mainly its 'strategic' version in the post-war era, econometrics and strategic planning and management, the US launched technology forecasting in the defense sector, Navy and Air Force, and developed methodologies to anticipate possible events, mainly technological, demographic, and political trends. The era is characterized

by mainly data-based, macroeconomic forecasting. Wendell Bell (2015) reminds that after World War II national planning blossomed nearly everywhere.

This trend has been taken over by Japan, which has one of the longest continuous histories of foresight in Asia, as well as worldwide. The reconstruction and the strategic position of Japan contributed to develop the first generation of foresight in Asia with science and technology focus. The tools and methods of foresight spread over many fields in the Japanese society, mainly in the 1960s when a Japanese team studied foresight methodology in the USA. They used the Delphi method including government, corporate, and academic experts to detect technological progress and possible future consequences. Even in 1970 the Science and Technology Agency (STA) developed its first technology forecast for the following 30 years, which was the basis of national science and technology policy and the regular long-term forecasting every five years since then. The results are also always adapted to the business field, and according to the National Institute of Science and Technology Policy report, 60 percent of the foresight topics have been executed over 20 years (Jemala, 2010).

Turning to the future was also a fundamental element in the People's Republic of China, though on a different track. Scientific socialism with special Chinese characteristics is a fundamental principle of the Chinese development including the five-year plans, which determine initiatives for social and economic development. Technology forecast played an initial role, such as in the case of the National Long-range Science and Technology Prospective Program (1956–1967) and the Science and Technology Plan (1963–1972). Though Jemala (2010) states that Science and Technology (S&T) development strategy had many elements of foresight, Callahan (2012) points out that “futurism is better described as Leninist due to its top-down notion of development that relies on a centralized planning of the command economy, which also regulates social and cultural life” (Callahan, 2012, p. 141).

In the Soviet bloc, Igor Bestushev-Lada, the most acknowledged futurist of his time, distinguished bourgeois futurology and socialist prognostics by underlining that future research cannot lack its subject and incited Marxist futurology as long-term planning (Hideg, 2009; Andersson,

2016)). In China the term ‘futurologist’ (未来学者) is also modified as ‘American futurologist’ or ‘Western futurologist’ as Callahan (2012) found through a survey. He also adds that even if later Deng Xiaoping introduced reforms and market elements in China, futures studies remained state and centralization based in terms of modernization and development.

3.3 Foresight in the 1970s–1980s

Since the 1970s the importance of the future has received a new impetus. The oil shocks, the emerging stagflation, youth movements, the increasing demand for social reforms, and later the new cold war all called for enhanced forecasting and strategic business planning. The emerging microelectronic revolution put futures research on a new technology basis and enabled researchers to use computer models for complex problems. Following the USA, in Asia, Japan was the first most successful country adapting the new notions of futures research. No wonder that the 2nd International Futures Research Conference was held in Kyoto, Japan, 1970 in cooperation with the Japanese Society for Future Studies, organized by Hayashi Yujiro and Hidetoshi Kato as executive secretary. This was the direct background of the foundation of the World Futures Studies Federation in Paris the following year.

Japan was the first among the so-called developmental states of East Asia who realized and adapted upgrading technology as the main driver of economic progress. This was not common sense since the neoclassical Solow production model considered technology as a given factor. The Four Tigers/Dragons based their model on an export-oriented progress based on infrastructural and human as well as on technological development. The research and development activities were supported by technology foresight, mainly by the Delphi method (Dreyer-Stang, 2013).

Independent and integral futures activity was implemented in China mainly after the 1979 reforms. The integration of market forces and technological development were supported by the establishment of the Forecasting R&D Association that covered science and technology forecasts and their publishing (Jemala, 2010). Deng Xiaoping stated in his south tour: “Planning and market forces are not the essential difference between

socialism and capitalism. A planned economy is not the definition of socialism, because there is planning under capitalism; the market economy happens under socialism, too. Planning and market forces are both ways of controlling economic activity” (cited by Hanbing, 2010, p.164).

However, beside the single, centralized vision, new voices in terms of possible futures were also emerging. Futurology of the Western world was also popular among the Chinese intellectuals, mainly Toffler’s famous *The Third Wave* (1980) and Naisbitt’s *Megatrends* (1982), though Chinese futurology and futurologists as such were missing (Woodside, 1998).

3.4 Foresight in the post-Transition Period

The 1990s, after the end of the cold war, was a landmark again in foresight, when the military focused forecasts and future images were taken over by practice foresight to help economic competition. In this period foresight was mainly an institutional activity with academics in the core in order to set priorities and create networks. Foresight has become even more science and technology based, but at the same time it has also been interconnected with social development. The worldwide vanguard of the socially contextualized long-run planning efforts were Japan and Korea as well as China, much ahead of Germany, the UK, the USA, Australia and other European countries at that time (Dreyer-Stang, 2013). The Asian economic crisis (1997) also boosted further foresight programs. The one launched by Thailand has become a part of the common APEC foresight activity, the Industrial Science and Technology Working Group (ISTWG) as well as the foundation of the APEC Centre for Technology Foresight in 1998 (APEC, 2022).

In the past two decades, foresight has turned a new era in the world and has become more social and user oriented. Beside academics, many non-governmental and non-profit organizations, and social stakeholders contribute to foresight activity. The so-called participatory foresight puts much emphasis on systemic thinking, joint visioning, shared optional futures, as well as on a wider social, cultural, and sustainable environmental approach. Hence technology management, and research, and development have tight connection with innovation and foresight (Jemala, 2010).

There are an increasing number of networks and research groups who develop and adapt foresight to technological, economic, social-political, and international relations fields both in governmental and non-governmental frameworks. A most important cradle of these processes is the Tamkang University in Taiwan, which introduced futures studies as early as the 1970s, launched *Journal of Futures Studies*, one of the most determining academic papers in the futures field, and finally set up the Graduate Institute of Futures Studies in 2002. The most influential organizations are the Strategic Foresight Group in India as a think-tank (2002), the Center for Engaged Foresight in the Philippines (2012), the Centre for Strategic Futures in Singapore (2009), MIGHT Malaysia (1993) and the Asia Pacific Futures Network (APFN) (2015), which annually collects futurists in Asia to reflect on emerging issues.

In China, the Chinese Society of Futures Studies was formerly very active and even the World Futures Studies Federation held its conference in Beijing in 1987. However, Inayatullah (2007) notes that after the Tienanmen square conflicts in 1989 futures studies as such disappeared. Recently, following the so-called scientific socialism, China also realized that socialist ideology and futures studies overlap, and even the term ‘scientific development outlook’ (科学发展观) by Hu Jintao was included in the constitution of the Chinese Communist Party in 2007 (Callahan, 2012). In addition, Goldman Sachs had a very influential forecast in 2003 stating that the emerging economies, China, India, as well as Brazil and Russia would overcome the performance of the G6 by 2050, which itself had a powerful influence on the creation of the BRICS coalition in 2006/2009 (Dreyer-Stang, 2013). The Philippines had the honor of hosting the Secretariat of the World Futures Studies Federation from 1998 to 2002. During this period, it also hosted the World Futures Studies Conference in 1999. The conference was aptly titled “The Futures of Diversity: Celebrating Life and Complexities in the Next 100 Years.” This event coincided with the release of the publication “Globalization, Diversity, and Questions in Between,” which delved into the intricate dynamics shaping our world (Inayatullah, 2007).

3.5 Recent Emergencies

In the present, several significant futures initiatives and foresight institutions have emerged in Asia. These include the outreach of global foresight institutions such as the UNESCO Chair Network, The Millennium Project, the World Futures Studies Federation, OECD, and the Association of Professional Futurists, which have notably deepened their engagements in Asia.

Today, the landscape of foresight in the region has expanded and is predominantly involved in collaborations across areas such as public policy and governance, technology forecasting and analysis, planning, strategy, innovation, culture and heritage, environment, and disaster resilience. Foresight networks have evolved into collaborative platforms for communities of practice that shape and anticipate emerging trends and alternative visions of the future. These networks typically comprise foresight professionals from a diverse range of disciplines, including academia, political science, sociology, religious studies, artificial intelligence, engineering, neuroscience, cybernetics, biology, public administration, and business administration, among others. These communities foster environments conducive to knowledge sharing, idea exchange, and collaboration. Together, they work to anticipate potential disruptions and identify opportunities, enhancing their collective ability to shape the future. While their initiatives vary, most of their activities and events include knowledge creation and exchange, networking and collaboration, capacity building, scenario development, advocacy and awareness, awards and conferences, futures research, reports and publications, membership, and policy development (Cruz and Moura, 2023).

Among the organizations deeply engaged with and interested in Asia, the Asia Pacific Futures Network stands out as the only futures organization that originated from Asia itself. The Asia-Pacific Futures Network (APFN) is a collaborative community of foresight practitioners geared towards the practice and study of futures thinking in the region. It was established in 2015 at the Graduate Institute of Futures Studies at Tamkang University in Taiwan, in partnership with the Science and Technology Policy Institute (Cruz et al. 2016).

Today, Asia hosts several UNESCO Chairs in futures, foresight, and anticipation at institutions like Northwestern University in the Philippines, International Islamic University Malaysia, and Chulalongkorn University in Thailand (UNESCO, 2023). The Asian Development Bank has also played a huge and impactful role in building knowledge and capacities in futures thinking and foresight in the Asia-Pacific and other developing economies. It has provided significant support to governments in the Philippines, Indonesia, Cambodia, Mongolia, China, Timor Leste, and Kazakhstan, among others (Asian Development Bank, 2020).

4. Are there Any Special Characteristics of Asian Foresight?

Foresight is a globally developing discipline, with a continuous reaction to the ontological and epistemological attitudes and debates of science (Hideg, 2009). The following section detects the nature of foresight in Asia by some institutional discussion, surveys, and interviews.

The APEC Centre for Technology Foresight defines five key features of foresight as follows (APEC CTFb, n.d.).

1. Structure, Rigor, and Creativity. Foresight activity both involves unfolding trends and possible futures, which demands diverging thinking, as well as defining specific ways to execute the preferred option(s) which need a converging mind. In addition, the diverging phase is more than just imagination; this should follow exact data of the past and of the emerging issues to detect future paths and reliable methodology to do so. These methods, however, involve tools that aim at thinking out of the box.
2. Participation. Reliable foresight calls for extending the sources of input information to all people involved. Stakeholder mapping is a fundamental part of foresight, which contributes with more relevant and wide range of data. The Japanese or Thai national projects collected several thousands of experts and people with relevant expertise in order to set up a reliable and executable vision and project.
3. Focus on the medium to longer term. For a short timeframe (1–5 years) strategic planning tools are sufficient to make decisions. However, foresight seeks to explore futures in a range where present emerging

issues have enough time to evolve and make new trends (10–50 years). These activities help decision-making of the present to get a good position in the future. Moreover, scanning the horizon and systemic thinking can trace the following decades ahead for possible events and evolving processes to watch out and prepare for.

4. Interest in the interactions between science, technology, economy, society, and environment. Foresight is complex not only in time but also in the space of fields: the driving forces of issues and events are manifold, hence demand a wide range of the environment to scan. In addition, and as a result, many foresight projects seek to draft the ‘big picture’.
5. Intention to lead to action. As mentioned above, foresight integrates diverting and converting thinking and activity. While traditional futures studies aim at discovering and outlining different futures, foresight puts much emphasis on action to achieve the preferred and/or to evade the unaccepted futures. Therefore, in most of the cases foresight projects need the involvement or the support of local or central governments.

These key features are clearly defined; however, they follow a standard approach to foresight, and could be articulated at any part of the world. A science base (mainly if it is post-normal science), complexity, long term timeframe, participation, and action orientation are also all key features of most European, American, or Australian foresight programs and curricula.

In their analysis of global foresight activities, Dreyer and Stang (2013) highlighted certain distinct factors that are applicable to Asia as well. They noted that less developed and emerging nations generally participate less in foresight activities, especially within the corporate sector, and tend to exhibit a more prescriptive approach in governmental planning. In contrast to Western countries, which typically adopt an adaptive approach focused on resilience to external changes, emerging Asian economies often engage in aspirational planning, aiming to actively shape the future, which leads to a more optimistic perspective. Additionally, they observed that robust foresight practices are often found in countries that allocate a significant portion of their budget to military expenditures. However, as of this writing it is no longer the case in Asia.

In 2015, the inaugural meeting of the Asia Pacific Futures Network in Taiwan focused on how Asian perspectives and traditions—when critically understood—can inform Futures Studies. Cruz et al. (2016) reference Sohail Inayatullah and Seongwon Park in identifying an “Asian flavor” characterized by distinctive philosophies, socio-cultural traditions, and aesthetic preferences that diverge from Western norms. They describe Asian perspectives on truth as indeterminate, processual, contextual, and relationship centered. Asian futures emphasized the significance of spirituality and community, underscoring the role of wisdom, traditional practices, mental balance, sustainability, creativity, and social innovation. Furthermore, Asian foresight aims to challenge the prevailing industrial and materialistic paradigms, seeking to create alternative futures that transform both the individual and their socio-economic environment. The overall mantra was to keep it heterogenous, contextually diverse, weird, strange but impactful.

5. Essentials of Futures Studies and Practices in Asia

The Center for Engaged Foresight, leveraging its fifteen years of experience in initiating and supporting futures and foresight practices across Asia, has outlined nine key essentials that inform Asian futures studies and practices. These essentials serve as a foundation for understanding and shaping the region’s approach to foresight and future studies:

- 1. Epistemology and Ontology:** This refers to the ways of knowing and the nature of reality that are embraced within Asian futures studies. Epistemology in foresight pertains to understanding how knowledge about the future is generated, including the methods and theories used. Ontology deals with the assumptions about what ‘the future’ constitutes. This dual focus helps in crafting approaches that are culturally and contextually relevant to Asian settings.
- 2. Narrative Foresight:** This involves the use of storytelling and narrative techniques to envision and communicate possible futures. In Asia, where storytelling is deeply embedded in the cultural fabric, narrative foresight can be particularly effective. This approach allows for a more inclusive and engaging method of exploring future scenarios, making it accessible to a broader audience beyond traditional experts.

3. **Indigeneity, Culture and Heritage:** This aspect focuses on incorporating local, indigenous knowledge and practices into futures studies. It respects and utilizes the rich histories, cultures, and wisdom of Asian indigenous communities in crafting future scenarios. This approach ensures that the futures envisioned are deeply rooted in local realities, cultural traditions, heritage, and sustainable practices.
4. **Active Engagement:** Active engagement emphasizes the participation of a wide range of stakeholders in the foresight process. This is crucial in ensuring that diverse perspectives are considered in future-making activities. In Asian contexts, this might involve community workshops, public consultations, and the integration of feedback mechanisms to ensure that the foresight activities are participatory and democratic.
5. **Community Building:** Foresight activities often aim to build and strengthen communities by fostering a shared vision of the future. This is especially important in Asia, where community-oriented values are prominent. By engaging multiple community stakeholders, foresight practices can enhance social cohesion and collective resilience.
6. **Fringe Thinking:** This essential encourages exploring the peripheries of conventional thinking and challenging the status quo. Fringe thinking involves looking at radical, unconventional, or marginalized ideas that might provide groundbreaking insights into future challenges and opportunities. This is particularly relevant in a rapidly changing region like Asia, where traditional approaches may not be sufficient to address new or emerging issues.
7. **Strategy, Innovation, and Design:** Integrating foresight with strategy and innovation helps organizations and societies not only anticipate the future but also create it. This involves using insights from foresight activities to drive strategic decisions and foster innovation. In Asia, where dynamic economic growth is often a priority, linking foresight to innovation can propel development and competitive advantage.
8. **Anticipatory Governance:** In Asia, where government institutions often play a central role in national development, incorporating foresight into governance can help in crafting long-term, sustainable policies that address both current and future challenges. Governance in foresight also involves accountability, ensuring that the foresight processes are transparent, and their outcomes are regularly evaluated against set objectives and societal needs. This fosters a trust-based relationship between foresight practitioners and stakeholders, which

is crucial for the successful adoption and implementation of foresight outcomes. This essential focuses on the structures, policies, and processes used to guide and manage the implementation of foresight activities within public and private sectors. Effective governance in foresight ensures that the insights and scenarios developed through various foresight methods are translated into actionable strategies and policies.

- 9. Gaming Foresight:** The use of game elements in foresight processes makes the exploration of futures more interactive and engaging. Gamification can help simplify complex future scenarios and make the foresight process more appealing and understandable to a wider audience, including the younger generation. This is particularly useful in educational settings or in public engagement initiatives where maintaining interest and participation is crucial.

Together, these nine essentials form a comprehensive framework that guides the practice of futures studies in Asia, ensuring that it is both culturally relevant and forward-thinking.

6. Key Features of Foresight in Selected Asian Countries

The European Foresight Monitoring Network has prepared a worldwide survey on foresight activities (Popper, 2010). With more than 2000 records it has also mapped regional differences by participants, target groups, methods, industries, and some other aspects. Digging into the database we can also find some specific characteristics of the Asian foresight with a comparison to European features.

The survey defines that foresight is mainly funded by governments all over the world; however, in Asia the role of the research and the non-state actors is much stronger than in Europe, where the governments—or in North America, where the business sector—are relatively more influential. Their target groups of foresight are generally government agencies, departments, or research and business, whereas in Asia non-governmental organizations (NGOs) and intermediary organizations order or prepare relatively many foresight projects. In comparison with the 10–20 years of time horizon overall, in Asia the longer prospect is stronger, the 20–30-year horizon

is relatively the most powerful (the majority of the European figures fall beyond 10 years). It is also important to note that the participation rate is far the highest in Asia: many projects involve more than 200 participants (the overall numbers are below 50), and in the 500+ projects Asia is the leader.

In terms of methods, modelling, and simulation as well as technological roadmapping are relatively stronger in Asia than in other parts of the world. While the Delphi method is most used, just the opposite to North America, future workshops are relatively less used according to the survey. The output of the foresight projects regularly concludes policy recommendations, mainly in terms of key technologies and forecasts, while in Europe trend, driver analysis, and scenarios provide relative many results. Foresight is relatively stronger in Asia in different types of engineering as well as education, and public healthcare. It is very interesting to find that foresight in humanities is almost a unique feature of Asian futures studies. Another difference is that while a wider range of the European foresight projects deal with public administration and defense, the Asian projects are relatively stronger in the fields of manufacturing and infrastructure.

Dreyer and Stung's report (2013), though focused on government foresight of the world particularly, also offers the possibility to articulate some differences within some Asian countries (Table 1). The overlapping feature is that dealing with futures is a regular and established activity in all countries, though in different ways.

On first sight, China, India, and partly Indonesia show a similar pattern, determined by visioning, planning, and established programs. A prescribed vision for the future is regularly created in accordance with government goals. In India, planning agencies, such as the Planning Commission, are assisted by think tanks to give external help to the governmental processes to handle the future. Kapoor (2021) characterizes foresight in India, and highlights that policies and initiatives emerge from political-social engagement, having mainly short-term focus, and being often a delayed response to crisis.

Table 1: Key features of foresight activities in selected Asian countries

Country	Foresight is well-resourced and widely used	In-house or arms-length implementation	Central government foresight agency	Foresight in multiple departments	Established regularity of programs/ reports	Predominantly 'vision' planners
China		x			x	x
India					x	x
Indonesia						x
Japan	x	x		x	x	
Singapore	x	x	x	x	x	
South Korea	x	x			x	

Source: Excerpt from Dreyer-Stang, 2013, p. 24.

In China there are also semi-autonomous think tanks, none are truly independent, who, together with internal departments, create a complex planning environment. The Chinese Academy of Sciences and the National Research Center for Science and Technology for Development prepare technology foresight surveys. The China Institute of Contemporary International Relations make research on strategic political, economic and security issues. Other futures work is pursued by the Centre for Technology Innovation and Strategy Studies in the Chinese Academy of Social Sciences. Indonesia is engaged in similar planning-forecasting exercises. The roots are, for instance, discussed by Simandan (2018) who talks about the duality of the Chinese perspective to futures in terms of impending futures rather than distant futures, as also contents of wisdom. This contains awareness of the moment to participate in the becoming and hence highlights ‘short-term futures’². The ‘distant future’ cannot be predicted but can be created as a concept to begin with.

Foresight in Indonesia is applied across various sectors, including government planning, business strategy, and academic research. The Indonesian government, particularly through its ministries and agencies, uses foresight methods to anticipate future challenges and opportunities, helping shape policies and development strategies. For instance, the Ministry of Planning (Bappenas) and the West Java Provincial Government often engages in long-term planning exercises that incorporate elements of foresight to better align national development plans with future societal needs. These were conducted in partnership with the UN Global Pulse, the Center for Engaged Foresight, and the East-West Center Leadership Academy.

In academia, universities and research institutions in Indonesia are increasingly incorporating futures studies into their programs, focusing on areas like technology forecasting, environmental planning, and social change. This academic involvement helps cultivate a new generation of thinkers who are skilled in foresight methodologies. In the business sector, corporate foresight is becoming more prevalent, with companies utilizing these techniques to navigate complex and rapidly changing global markets. This includes trend analysis, scenario planning, and strategic foresight to

² As we see, the future ontologically has completely different meaning in the Chinese sense of temporality, hence should be put in quotation marks.

ensure resilience and adaptability. Overall, while foresight in Indonesia is still developing, its application is growing in sophistication and influence, contributing to more proactive and strategic decision-making across various domains.

Japan and Korea are a different pattern. While governments still stand in the core of the futures work, instead of a wide-range planning, well-resourced foresight work one can detect by exploring optional future paths and becoming proactive to the expected changes. Further, instead of external experts, they rely more on in-house capacities in terms of arms-length research agencies with government connections. The mainstream of foresight here is science and technological change, where these countries also have special institutes, such as the Korean Institute for Science and Technology Evaluation and Planning Institute, the National Assembly Futures, the world first futures research institute enacted and built by the formal legislative body (Heo and Seo, 2018) or Japan's National Institute of Science and Technology Policy. Recently, it is also an emerging issue to address the social context, in which the science and technology changes will take place. All these are not taken for granted. Wright (2010) dedicated his doctoral thesis to unfold the roots of heavy reluctance to change in Japan, while also having deep cultural inheritance for different future images and behavior.

The social context is one of the main features where Singapore as well as Malaysia and the Philippines differ from the above patterns. They also make very successful government foresight—in Singapore almost all government units have their own foresight unit—mainly by scenario planning and alternative futures, even since the 1980s (Cruz et al., 2016). Moreover, one of the worldwide strongest features is that they invite and focus on the local interests and perspectives, which creates both commitment and effective policy making, for instance in the case of the Centre for Strategic Futures, the Foresight Week in Singapore, or in the Malaysian Foresight Institute (myForesight). Hence, these countries have long experience in participative foresight, that is how to involve voices of citizens which are many times absent or marginalized in expert-based policy making. Even in 2012 the Singapore Conversation brought in 47 thousand participants at 75 locations and in seven languages to articulate hopes, fears, and aspirations of their future (Glanday, 2021).

In the Philippines, there has been a nation and department-wide effort to build capacities, knowledge and institutionalize foresight. The National Academy of Science and Technology's Pagtanaw 2050 National Technology Foresight Project, the Department of Health's National Futures Thinking Program, the Department of Science and Technology's Foresight Initiatives, the National Economic Development Authority's Strategic Foresight to Strategy and Innovation Development Projects, the Center for Strategic Futures at the Development Academy of the Philippines, the Development Academy of the Philippines in Mindanao, the Asian Institute of Management, the Technical Education and Skills Development Authority, the Philippine Reclamation Authority, the National Academy of Science and Technology to name a few. Most of the State Universities nationwide have started their futures thinking and futures research initiatives and programs. The Philippine Senate, the upper legislative body in the Philippines, has a Committee on Sustainable Development Goals, Futures Thinking, and Innovation that provides policy support to all government futures thinking and promotes futures research initiatives in the country.

These initiatives reflect a comprehensive commitment to integrate foresight into various departments, sectors, and academic disciplines across the country. Futures and foresight in the Philippines are particularly strong and orientated towards an Engaged Foresight driven approach which is heavily action-learning based. This highlights the value of questioning (sensing emergent futures and opportunity hunting), futuring (creating alternative futures and innovating strategies), designing (building prototypes to gain further clarity), and weaving insights, and taking action (reflecting and executing the most compelling action) as an approach to anticipatory governance and regenerative development (Cruz and Kahn, 2023). No wonder, that futures skills, foresight capability development are core parts of the South-East Asian foresight practice, even among young people (UN, 2021), and the emerging futures literacy course uses much of the experience of these countries.

7. Main Organizations and Programs of Asian Foresight and their European Relations

Asian foresight organizations and programs are diverse, reflecting the region's varied cultural, economic, and technological landscapes. Many of these organizations collaborate with European counterparts, benefiting from the exchange of ideas, methodologies, and best practices. Below is an overview of some main organizations and programs in Asian foresight and their relationships with European entities. These lists are by no means exhaustive:

1. **Centre for Strategic Futures (CSF):** Based in Singapore, CSF is part of the Singaporean government's effort to integrate foresight into governance. CSF collaborates with the European Union's Horizon Scanning and Foresight programs, sharing insights and exploring joint studies on global and regional trends that could impact policy decisions.
2. **Korea Institute for Future Strategies (KIFS):** KIFS conducts extensive research on future scenarios for Korea and the broader Asian region. It has established relationships with European think tanks and participates in collaborative projects focused on technology foresight and innovation strategies.
3. **India's Technology Information, Forecasting, and Assessment Council (TIFAC):** An autonomous body under the Department of Science & Technology, TIFAC engages in technology foresight. It has collaborated with European organizations like the European Patent Office to enhance its technological assessments and innovation forecasts.
4. **UNESCO Bangkok—Asia and Pacific Regional Bureau for Education:** While not exclusively a foresight organization, UNESCO Bangkok engages in foresight-related activities concerning education and cultural development. It often works with European UNESCO offices to share foresight practices and educational strategies that anticipate future educational needs.
5. **Japan Science and Technology Agency (JST):** JST is pivotal in Japan's science and technology foresight activities, often focusing on predicting and analyzing future technological trends. JST collaborates with European institutions such as the Fraunhofer Society in Germany

to compare foresight methodologies and share findings on emerging technologies.

6. **Graduate Institute of Futures Studies at Tamkang University, Taiwan:** This institute is a leader in academic foresight in Taiwan and has a robust program that includes futures studies as part of its curriculum. The institute often partners with European academic institutions, such as Finland's Futures Research Centre at the University of Turku, to facilitate student exchanges and joint research projects.
7. **Center for Engaged Foresight (CEF):** Based in the Philippines, CEF is dedicated to advancing the practice of foresight in both public and private sectors across the region. It focuses on innovative and participatory approaches to foresight, aiming to engage communities, policymakers, and organizations in meaningful conversations about their futures. CEF has established connections with various European foresight networks and institutions, collaborating with UNESCO Paris, the OECD, Foresight European Research Network, School of International Futures, World Futures Studies Federation, and Finland Futures Academy, among others. These collaborations typically involve knowledge exchange, joint research, and capacity-building initiatives.
8. **The Asia-Pacific Futures Network (APFN):** APFN connects foresight practitioners across the region and enhances the capacity of futures thinking in Asia. It engages with European foresight networks by participating in global foresight forums and contributing to publications that are shared with European foresight organizations like the European Network of Foresight Academies.
9. **Malaysia's National Foresight Institute:** This institute focuses on generating foresight to inform national development strategies, particularly in technology and innovation. It often collaborates with European innovation agencies and participates in bilateral workshops on topics such as smart cities and digital economy, facilitated by partnerships with entities such as Sweden's Vinnova or the UK's Innovation Foundation.
10. **Asian Development Bank (ADB):** ADB incorporates foresight and futures thinking into its broader agenda to ensure that its development projects are sustainable and responsive to future challenges and opportunities. The ADB collaborates with European organizations and governments on several fronts, including foresight. These

collaborations often involve sharing knowledge and best practices, joint research on global and regional trends, and co-financing projects that address common developmental challenges.

11. **Strategic Foresight Group (SFG), India:** SFG is known for its work on global strategic issues, including water diplomacy and peace initiatives. SFG collaborates with European policy think tanks and participates in EU-funded projects to bring Asian perspectives into global policy discussions.
12. **The United Nations Development Programme (UNDP):** With its regional hub in Bangkok, Thailand, UNDP Asia integrates foresight and futures thinking into its development strategies to better anticipate and respond to dynamic changes within the region. This forward-looking approach helps in shaping policies and programs that are robust against future uncertainties, particularly those related to climate change, economic shifts, technological advancements, and social transformations. UNDP Asia often collaborates with European partners to enhance its foresight and development efforts. These collaborations include partnerships with European governments, NGOs, research institutions, and international organizations.

8. Conclusions

In our era of intricate transitions and heightened instability, the realm of foresight garners unprecedented attention and significance. Across both the Asia and the Western sphere, numerous international endeavors enrich its theory and application. Notably, the presence of Asian studies within European institutions, such as the Oriental Business and Innovation Office at Budapest Business University, provides a unique opportunity to delve into and exchange profound insights regarding Asian perspectives on foresight vis-à-vis their European or Western counterparts.

Asia's future(s) endeavors unfold dynamically, with a multitude of organizations and programs dedicated to foresight. While diverse in nature, these initiatives invariably engage a broad spectrum of stakeholders, particularly focusing on the prospective landscapes of the Asian-Pacific region. Nonetheless, they maintain significant ties with European counterparts and initiatives.

Asia's rich tapestry of ancient cultures, spanning vast geographical and temporal dimensions, remains remarkably intact. These cultural legacies shape beliefs, attitudes, and perspectives, extending to considerations of the future. Yet, amidst the global interconnectivity fostering cultural exchange, delineating regional distinctiveness becomes increasingly challenging. Thus, there arises a pressing need to discern and articulate an "Asian flavor" of foresight—one that challenges prevailing materialistic-individualistic-linear paradigms of development and foregrounds a reflective and active approach to envisioning futures. Clarity in identifying these unique foresight characteristics is pivotal amid the ongoing transformation of our world.

However, this quest for distinctiveness does not imply a dichotomy in foresight interpretations. European traditions also harbor non-materialist-individualist underpinnings, alongside pluralistic and socially participative attitudes. Elements, such as central planning, expert-based perspectives, and technology determination are equally prevalent in Asia. The overarching lesson underscores the value of dialogue and mutual understanding across cultural boundaries—a collaborative endeavor aimed at advancing foresight for a collective betterment. Herein lies the essence: not merely comparative studies, but sustained discourse, activity, and empathetic engagement, serve as the bedrock for fostering a shared vision of a more enlightened future.

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Study on Soft Skills in Indonesia Amid Uncertainty and Unemployment

M. Abdi Dzil Ikhram W.

Abstract: Indonesia's large population and low dependency ratio produce abundant labor. Human resources play an essential role in improving a country's competitiveness. Indonesia's population is the largest in ASEAN and needs skilled human resources to compete globally. Soft skills allow business graduates to use their technical aptitudes and theoretical knowledge effectively in their place of work. The graduate perception of the soft skills students are capable of has become an important issue in recent workplace competitiveness. As this research focuses on the perceptions and aspirations of both students and users, we relied on descriptive quantitative research as the chosen method for this study. This quantitative research was conducted by collecting data from university graduates in Indonesia to understand the current status of soft skills needs in Indonesia. This quantitative data collection was conducted in 2023 to obtain information from graduating students in Indonesia regarding their current soft skills and other skills they need when looking for a job, to find out what soft skills are essential for today's students, how lecturers on campus can ensure their students acquire adequate soft skills in several ways, and the need for soft skills to be implemented into the current curriculum so that graduates are equipped with various soft skills. This research can provide information on what soft skills are possessed by students who have graduated from universities in Indonesia and can be used by universities to design curricula and training their graduates need.

Keywords: soft skills, human resources, graduates, workplace competitiveness

JEL: J53, J24, J58, J61, I21

1. Introduction and Literature Review

Human resources are essential in improving a country's competitiveness (Bangun, 2014). Work requires skilled human resources to enhance efficiency in winning global competition (Bangun, 2016). The era of the Industrial Revolution opened the traffic of qualified human resources; thus, Indonesian human resources demanded to compete globally (Bangun, *ibid*). Indonesia's large population and low dependency ratio result in an abundant supply of labor (Purnagunawan and Shasta, 2017). The Indonesian population is the largest in ASEAN, thus having great potential to win the competition in the global market. However, with the number of human resources amounting to 67 percent of Indonesia's population, competitiveness is low compared to Singapore, Malaysia, and Thailand, or on a par with the Philippines and Vietnam (Bangun, 2016). Indonesian human resources will be competitive with skilled human resources from neighboring countries. Under these conditions, Indonesia is required to improve human resource quality to win the competition in the ASEAN region. Human resource development needs to be managed effectively and efficiently in terms of quantity and quality (Suratini, 2017). Optimal human resource development can encourage a country to compete globally (Afandi, 2017).

Figure 1: Research Framework



Source: Authors (2024).

Employees must be invited to think about and handle strategic issues as critical organizational assets, even when assigning responsibilities to achieve organizational goals (Tampi et al., 2022). From here, it is hoped that imagination, ingenuity, initiative, and creativity will emerge, which

are beneficial for improving each employee's quality and the organization's progress. In today's competitive job market, job-related expertise (soft or non-technical skills) apart from academic knowledge (technical skill) is generating considerable interest among recruiters (Mansour and Dean, 2016). Universities and higher education institutions are also considering the demand seriously and trying to discover new ways to increase the employability of their graduates. Secondary school is also the best phase in education for learning soft skills to prepare for a future career (Horváthová et al., 2022). Soft skills are considered career attributes challenging to master and measure, such as the capacity to communicate, solve problems, work under pressure, and demonstrate teamwork, leadership, and time management skills with solid ethics. Wheeler (2016) opines that those soft skills allow business graduates to use their technical aptitudes and theoretical knowledge effectively in their workplace. The user's perception of the graduate's quality has become an important issue in recent workplace competitiveness.

Thus, we propose that:

H0. There are no significant differences in the users' perceptions of the importance of soft skills between senior high school graduates and university graduates in Indonesia.

H1. Significant differences exist in the users' perceptions of the importance of soft skills between senior high school graduates and university graduates in Indonesia.

2. Research Methodology

The research used is classified as quantitative descriptive research, which describes, researches, and explains what is being studied and draws conclusions from phenomena that can be observed using numbers (Kim et al., 2023). Its goal is to offer a comprehensive picture of a social context or to investigate and clarify phenomena or social reality by presenting numerous characteristics connected to the problem and the unit under research (Pasinringi et al., 2020). Descriptive research is characterized by its descriptive nature, presenting information about the subject of study without manipulating the variable (Lubis et al., 2022).

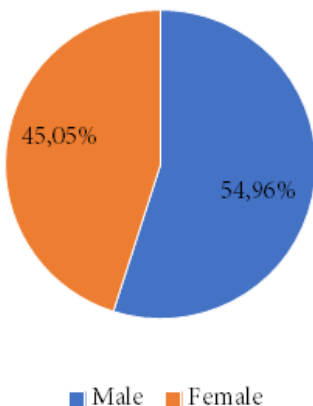
Our study used various papers as standards for developing the questionnaire. In this research, we used Field (Teng et al., 2019) to investigate graduate job market preparation. We collected students' opinions of the talents they build at university, emphasizing the relevance of soft skills for future employment. Similarly, Yong and Ling (2023) examine how employers and graduates perceive soft skills to uncover possible gaps between the two groups.

A purposive sampling approach was applied in this study. This research used a digital questionnaire for secondary school and undergraduate students in Indonesia, with 512 respondents who completed the digital questionnaire. Validity and reliability tests were applied in this study to check the appropriate instrument used to measure each indicator and construct. These online surveys allowed the researcher to gain insight into students' perspectives on their school and university experience. In this research, the sampling is sent to users to ensure the company's needs in the job market. In the study, we hope to answer the job market needs of second and undergraduate high school students. In our study, participants completed a detailed questionnaire covering several topics, including their demographic information and attitudes toward technology. The complete questionnaire is available in Appendix A.

3. Results and Discussion

3.1. Characteristics of Respondent Based on Gender

Figure 2: Characteristics of Respondent Based on Gender.

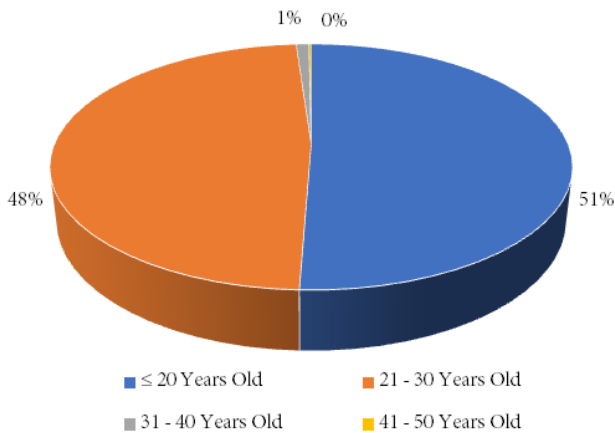


Source: Proceed Statistical Data (2024).

Based on the recapitulation results obtained by the researcher, it can be explained that most respondents who contributed to this study were male, as many as 54.96 percent. However, this is similar to female individuals, as many as 45.04 percent. This data confirms that the distribution of research instruments has been carried out evenly and does not favor a particular gender category.

3.2. Characteristics of Respondents Based on Age

Figure 3: Characteristics of Respondent Based on Age.

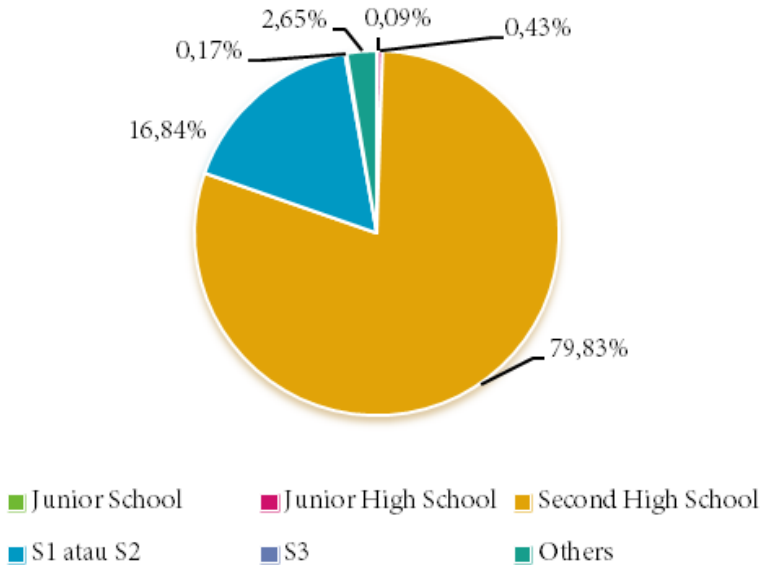


Source: Proceed Statistical Data (2024).

Referring to the purpose of this research, which is focused on receiving responses from students or college graduates in Indonesia on user perceptions of secondary school and higher education graduates, the recapitulation results on the age of respondents show corresponding results. The data explains that 51 percent of respondents aged less than or equal to 20 years, followed by the second dominance, individuals aged between 21 to 30 years, as much as 48 percent. The remaining respondents who filled in were 31–40 years old, totaling 1 percent.

3.3. Characteristics of Respondents Based on Education

Figure 4: Characteristics of Respondent Based on Education

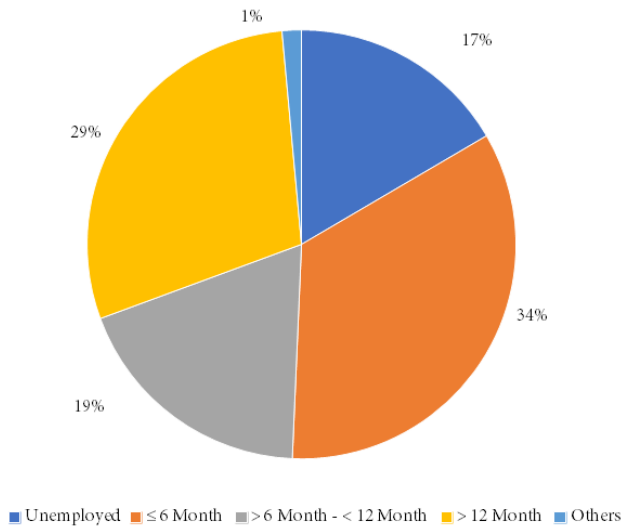


Source: Proceed Statistical Data (2024).

Figure 4 represents respondents based on education. 79.83 percent are secondary high school students; thus, 16.84 percent of respondents are bachelor's and master's degree students. The rest are from secondary schools and higher education levels.

3.4. Characteristics of Respondents Based on Working Experience

Figure 5: Characteristics of Respondent Based on Working Experience

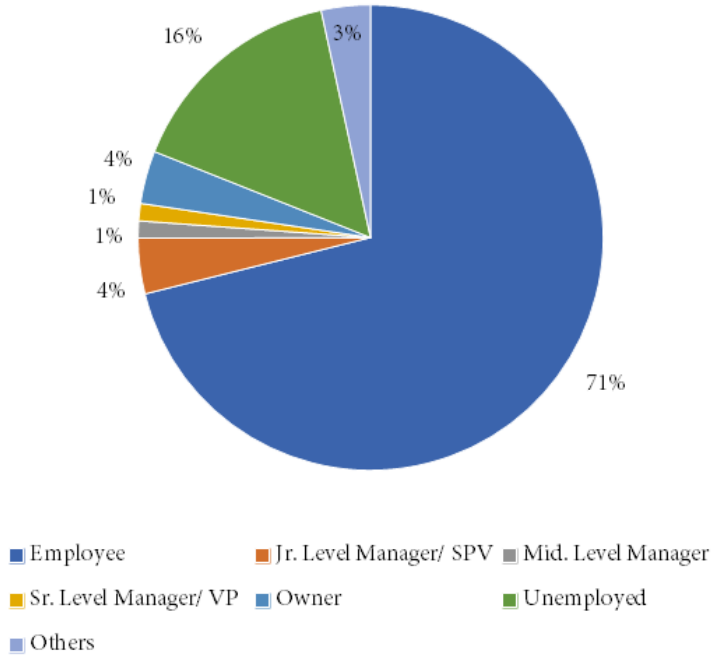


Source: Proceed Statistical Data (2024).

According to the research data, 34 percent of respondents have had work experience of less than six months. Concurrently, 29 percent of individuals have work experience exceeding 12 months, equivalent to one year. Conversely, 17 percent of participants indicated they needed more prior work experience. Consequently, most of the participants possess fewer than six months of professional experience and, on the whole, have already been employed.

3.5. Characteristics of Respondents Based on Position

Figure 6: Characteristics of Respondent Based on Position.



Source: Proceed Statistical Data (2024).

Based on the data recapitulation that has been carried out, it can be seen that most respondents have at least held functional positions as employees during their work experience. At least 71 percent of respondents answered that the functional position they had held was as an employee in a company. However, there were also 4 percent of respondents at the time of this research, as the company's owner or as an SPV. Some respondents did not have a job at the time of this research, namely 16 percent, the rest followed by 4 percent who were already at the junior SPV level. This proves that most of the respondents in this study are already working even though most of them are in the position of workers.

3.6. Validity and Reliability Test Result

Table 1: Validity and Reliability Results.

User Expectation Toward High School Graduated					
No	Notation	Item	Validity	Judgment	Reliability
1	UE-HSG.1	Professional Skill	0.560	Fairly High Validity	0.926
2	UE-HSG.2	Language Skill	0.393	Low Validity	
3	UE-HSG.3	IT Skill	0.525	Fairly High Validity	
4	UE-HSG.4	Appearance Skill	0.389	Low Validity	
5	UE-HSG.5	Good Communication Skill	0.606	High Validity	
6	UE-HSG.6	Critical Thinking Skill	0.693	High Validity	
7	UE-HSG.7	Leadership Skill	0.749	High Validity	
8	UE-HSG.8	Entrepreneur Skill	0.704	High Validity	
9	UE-HSG.9	Teamwork Skill	0.550	Fairly High Validity	
10	UE-HSG.10	Ethics and Moral Skill	0.638	High Validity	
11	UE-HSG.11	Strategic Thinking Skill	0.764	High Validity	
12	UE-HSG.12	Time Management Skill	0.700	High Validity	
13	UE-HSG.13	Organization Skill	0.722	High Validity	
14	UE-HSG.14	Communication Skill	0.630	High Validity	
15	UE-HSG.15	Presentation Skill	0.725	High Validity	
16	UE-HSG.16	Self-awareness Skill	0.676	High Validity	
17	UE-HSG.17	Problem Solving Skill	0.595	Fairly High Validity	
18	UE-HSG.18	Empathy Skill	0.648	High Validity	
19	UE-HSG.19	Creativity Skill	0.688	High Validity	
20	UE-HSG.20	Flexibility Skill	0.456	Fairly High Validity	
21	UE-HSG.21	Stress Management Skill	0.580	Fairly High Validity	
22	UE-HSG.22	Emotional Intelligence Skill	0.707	High Validity	

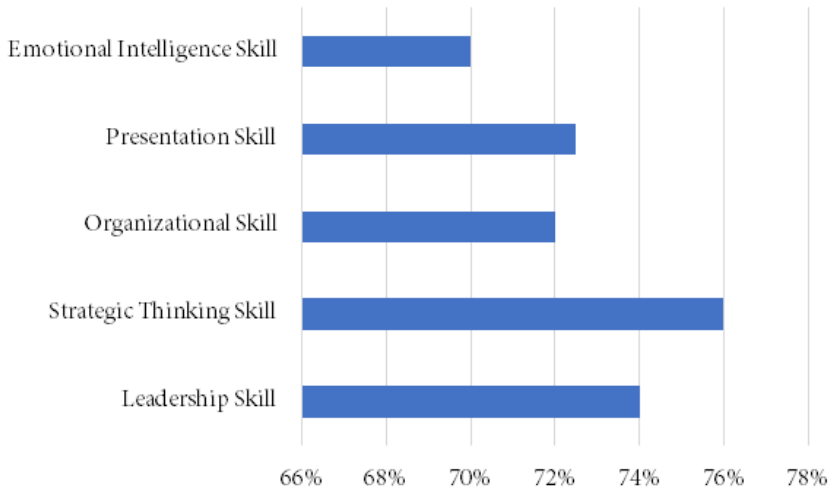
Source: Proceed Statistical Data (2024).

Validity and reliability tests were applied in this study to check the appropriate instrument used to measure each indicator and construct. This study used Cronbach's alpha, which is more than 0.8 means reliable. The summary of validity and reliability results is shown in the table above. The results show that several items have high validity, such as good communication skills, critical thinking skills, leadership skills, entrepreneur skills, ethics and morals skills, strategic thinking skills, time management skills, organizational skills, communication skills, presentation skills, self-awareness skills, empathy skills, creativity skills, and emotional intelligence skills. Moreover, the reliability test shows that the value of Cronbach's alpha is 0.926, which is reliable.

4. Soft Skill Expectations of Secondary School Graduates

Based on the results of instrument testing that has been carried out, it can be concluded that in the *User Expectation Towards High School Graduates* variable, all 22 items used have met the requirements of validity and reliability. However, five items have the most robust validity value among all items used. This confirms that the five items proved to be able to explain the variables concerned well. The five items include leadership, strategic thinking, organizational, presentation, and emotional management skills. These results show that these five items are the items most expected by a *user* in the world of work to individuals who graduate from secondary school. In line with research conducted by Jaworski and Kohli (1993), companies certainly think about how the company can survive as long as possible and get as much profit as possible. Based on this research, it can be proven by the study results that companies tend to think more about business orientation and performance in the company. This is supported by the results that the expectations desired by the company are strategic thinking skills needed by prospective employees.

Figure 7: User Expectations Toward Secondary School.



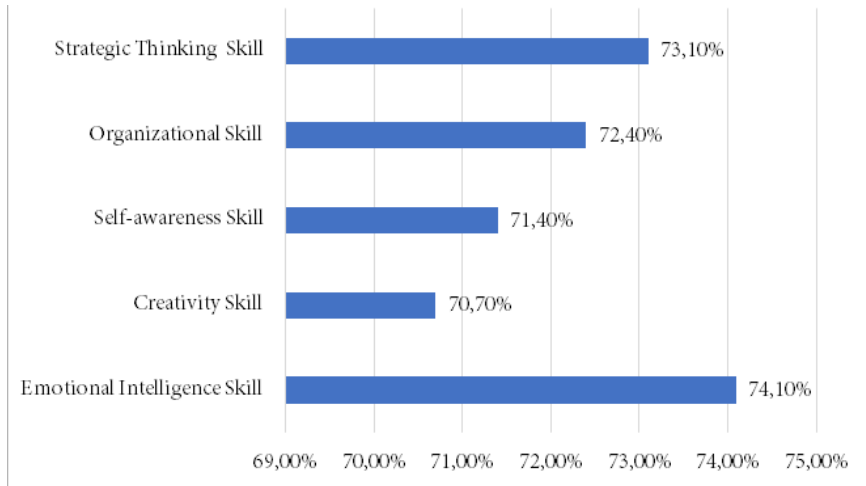
Source: Proceed Statistical Data (2024)

5. Expectations of Soft Skills for College Graduates

The results show slightly different things for the *User Expectation towards Bachelor Graduates* variable. Researchers tested this variable using the same 22 items to get respondents' responses. Overall, all items met the validity and reliability requirements in the tests. However, five of the 22 items used have the highest validity, indicating they are good at explaining these variables. The five items include strategic thinking skills, organizational skills, reflective skills, creative thinking skills, and emotional management skills. The results of this study are supported by research conducted (Wang, 2012) in exploring user expectations of undergraduate graduates; it is essential to consider the factors that influence these expectations; the expectations referred to here are the soft skills they will get when studying and after getting a bachelor's degree. This aligns with the research conducted (Hasanah and Ratnaningsih, 2021). Users prioritize several things, such as problem-solving ability, idea generation, and presentation skills of graduates, to meet expectations according to their expectations. The results obtained by the study also stated that emotional

intelligence skills were one of the greatest expectations desired by users for their workers who graduated from college. The results of this study align with the two previous opinions that the ability to think strategically and emotional intelligence are some of the expectations that users want in their employees who have graduated.

Figure 8: User Expectations Toward Bachelor Graduated



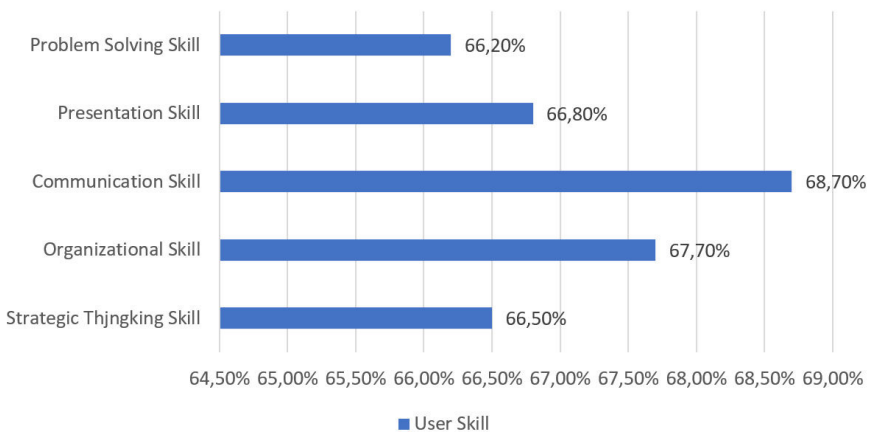
Source: Proceed Statistical Data (2024)

6. Soft Skills Possessed by Respondents

Meanwhile, researchers also used the same 22 items in the User Skill variable. Based on the test results, researchers can conclude that each item tested has met the validity and reliability requirements. However, five of these five items can explain the variable well. The results show that communication skills are indeed the most expected to be owned by users; this is supported by research conducted by (McMurray et al., 2016). Education and Training provide insight into the critical transferable skills employers prioritize when recruiting graduates. The study emphasizes that trustworthiness, dependability, motivation, communication skills, and willingness to learn are essential skills employers seek. Understanding

these demands is crucial for individuals seeking employment and educational institutions preparing students to enter the workforce. This study highlights that aligning one's skill set with industry needs can increase employability in a competitive job market. Therefore, McMurray et al. (2016) underlines the importance of trustworthiness, reliability, motivation, communication skills, and willingness to learn as essential attributes for success in the workplace.

Figure 9: Soft skills possessed by respondents



Source: Proceed Statistical Data (2024)

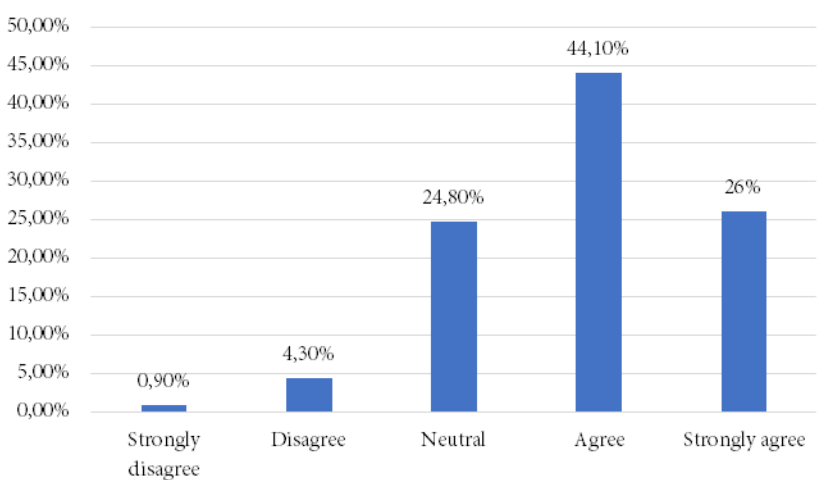
7. Results and Discussion

7.1. Soft skills are More Important than Hard Skills

This research discusses how finding candidates with the right hard skills is essential. We recently published a list of the most in-demand skills. However, employers want something equally—or even more important—in their next employee: the right soft skills. A survey of users and employees in Indonesia revealed that users expect several skills from their workforce. There is much supply and demand for soft skills, which are needed and

most sought after among employers. The ongoing research successfully identified the extent of the importance of soft skills in the world of work. This is shown in the following graph:

Figure 10: Soft Skills More Important Than Hard Skill



Source: Proceed Statistical Data (2024)

According to users, soft skills are critical, also reflected in the research. Soft skills can be explained as follows: Soft skills refer to personal attributes and interpersonal skills that enable individuals to interact effectively. These skills include communication, teamwork, problem-solving, adaptability, and emotional intelligence. On the other hand, hard skills are specific abilities or knowledge that can be taught, measured, and quantified, such as technical skills, computer programming, or proficiency in a foreign language.

Some research also supports the results of this study, one of which has been submitted by Smith and Johnson (2021) and Brown and Lee (2019). It highlights the importance of soft skills in improving employee performance and overall job satisfaction. Employees view soft skills as necessary for building solid relationships with colleagues, clients, and stakeholders, ultimately contributing to a positive work environment.

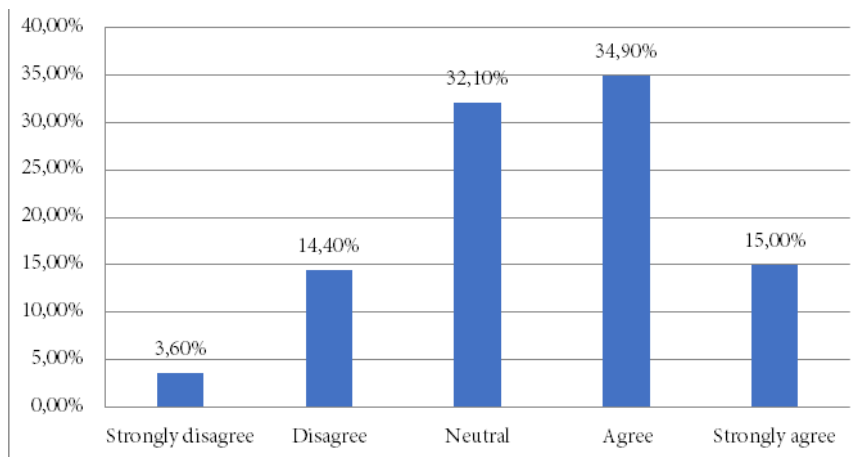
For example, Williams and Davis (2018) found that soft skills are essential to career success in a technology-based company. Employees in this sector value communication, creativity, and adaptability, which are necessary for innovation and collaboration. Similarly, Garcia and Patel (2017) researched the service industry and emphasized the impact of soft skills on customer satisfaction and employee engagement.

In the financial sector, Nguyen and Kim (2016) explored employee preferences regarding soft and hard skills. Their research showed that while hard skills are required for technical roles, soft skills are increasingly valued for leadership and client-facing roles. Employees in the finance sector view soft skills as necessary for building trust, managing conflict, and driving business growth.

Research and journals show that employees across industries highly value soft skills. These skills are essential for fostering effective communication, teamwork, and problem-solving abilities, which are crucial to success in the modern workplace. Individuals can improve their employability, career advancement, and job satisfaction by developing soft skills.

7.2. Soft Skills can be Learned at School

Figure 11: Soft Skills can be learned at school.

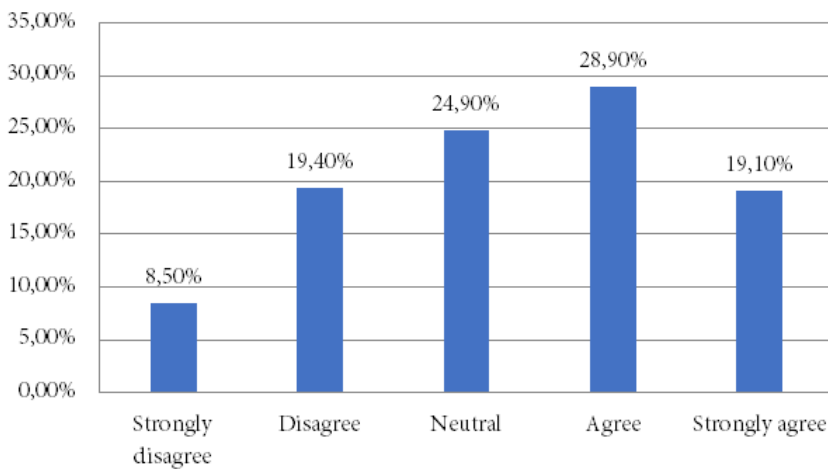


Source: Proceed Statistical Data (2024)

The study results show that most support the idea that soft skills must be taught at school, with 34.9 percent and a percentage of Strongly Agree 15 percent. This is based on research conducted by Aryani et al. (2021), which states that developing soft skills at a young age can positively impact career engagement and success.

7.3. Education Prepares

Figure 12: Education Process



Source: Proceed Statistical Data (2024)

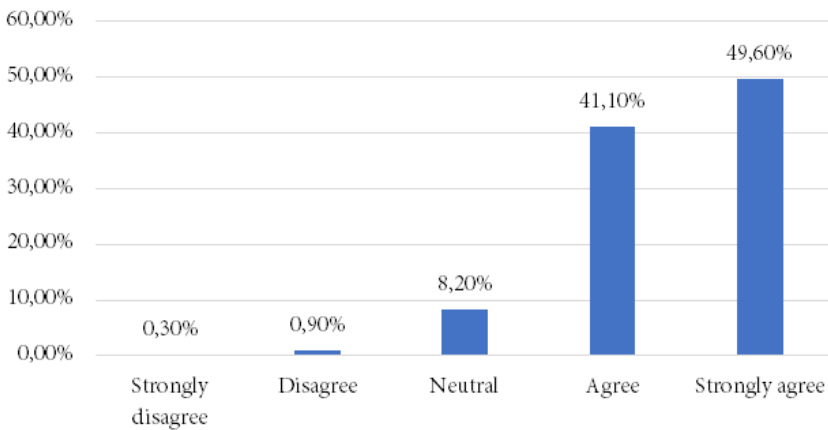
According to the questionnaire results, most business owners agree that education must prepare them to answer market challenges. 28.90 percent of respondents agreed, and 19.10 percent gave very agreeable answers. This indicates that education is vital in answering the needed market challenges.

This is in line with what Behluli et al. (2022) conveyed. Preparing graduates to face employment challenges is an essential focus in an ever-evolving education and labor market landscape. Research studies such as Schueller (2023) highlight the impact of graduate skills in navigating the complexities of the labor market. These studies emphasize the importance of aligning

educational curricula with the demands of the world of work to improve graduates' employability and success in their careers.

7.4. In job Interviews, Measuring Soft Skills and Assessing a Professional's Knowledge are Essential

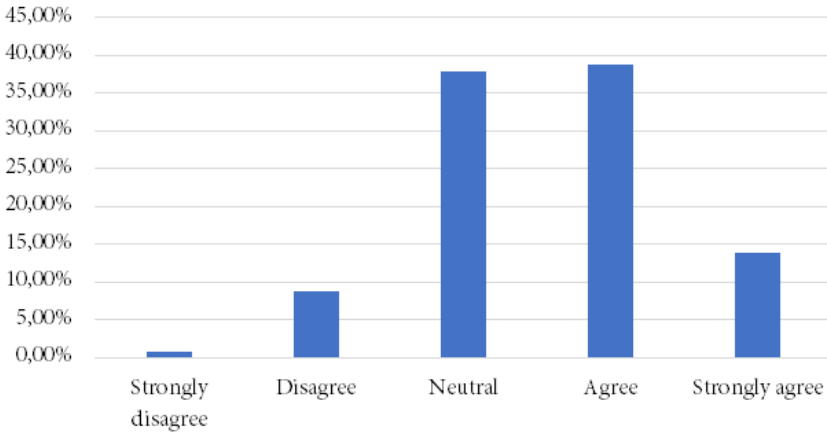
Figure 13: Soft Skills to Assess Professional Knowledge.



Source: Proceed Statistical Data (2024)

The results of the research questionnaire above relate to the extent of the importance of interviews in finding out soft skills and the professional abilities needed. It was stated that the majority answered strongly agree, namely 49.60 percent. This aligns with research conducted by Smith and Johnson (2021) and Brown and Lee (2019), emphasizing the importance of interpersonal skills in encouraging effective collaboration, communication, and overall work performance. By assessing technical knowledge and soft skills during interviews, employers can better understand candidates' potential to excel in the role and positively contribute to the organization.

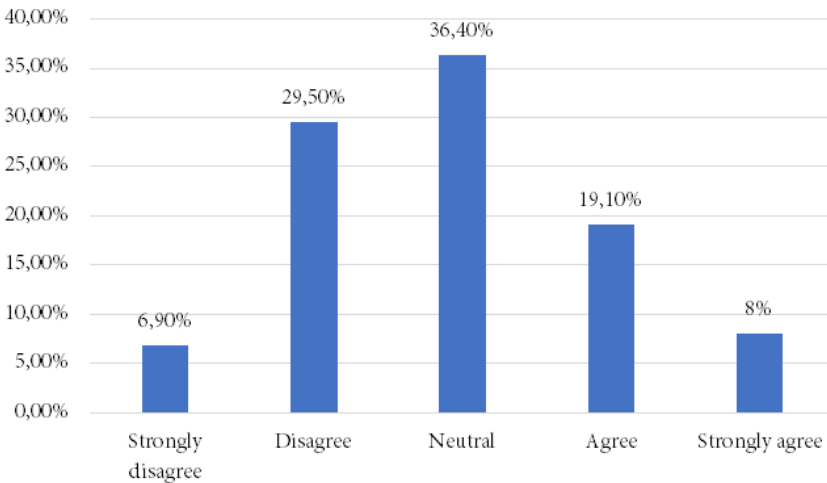
Figure 14: Ability to communicate with people from various backgrounds.



Source: Proceed Statistical Data (2024)

The questionnaire results show that the ability to communicate with various backgrounds is essential, and the majority (almost 55 percent) of the respondents agreed. This indicates that communication is one of the crucial things companies must prioritize, as Robles (2012) stated.

Figure 15: Able to solve complex problems.



Source: Proceed Statistical Data (2024)

The results of the questionnaire, which asked about the extent of the ability to solve problems, showed quite surprising results where most of the respondents answered neutral at 36.40 percent, which shows that workers still do not pay attention to thinking solutions or critical thinking, which contradicts with what was conveyed by (Henry and Mohamad, 2021), that critical thinking skills are precious in the 21st century due to the many changes in the world of work and the current environment.

The data collected using questionnaires show that it occurs when users enter the labor market to find employees for their company who have a bachelor's degree. This is evidenced by the results described above, which are also supported by research conducted by (Kavanagh and Drennan, 2008). The expectations desired by the company are very high for the prospective employees it recruits, as the study mentioned that basic skills and initial abilities would impact labor market demand when met.

This is also reinforced by research conducted by Aryanti and Adhariani (2020), who mentioned that users have higher expectations of the ability of an employee with a bachelor's education background because they hope that with the essential skills that the user already has, there is no need to spend much money on retraining. These skills are related to those needed later in work.

Research conducted by Nilsson, S. and Ellström, P. (2012) states that retaining employees with the appropriate skills for a particular job is essential for all types of organizations. This leads to overall organizational success and employee performance. This proves that a good classification of the prospective workforce impacts the company's existence.

Based on Figure 8 and Figure 9 of Bucăța et al. (2017), all educational sectors need to consider emphasizing the development of a soft skills-based curriculum, specifically on communication skills. This can reduce the risk of misunderstandings that can hinder projects, waste time, or create conflict. The ability to convey information clearly and effectively can help minimize such risks.

8. Conclusion

The research has underscored the critical importance of soft skills in enhancing the employability of graduates in Indonesia. The findings show that both secondary school and university graduates need to develop a strong set of soft skills to meet employers' expectations. The study revealed that communication skills, critical thinking, leadership, and emotional intelligence are highly valued by employers, aligning with previous research emphasizing the necessity of these competencies in the modern workplace.

Furthermore, the study highlights the gap between the current soft skills possessed by graduates and employers' expectations. This gap signifies a pressing need for educational institutions to integrate comprehensive soft skills training into their curricula. By doing so, they can better prepare students to navigate the complexities of the job market and fulfill employers' demands.

In conclusion, the findings of this research advocate for a balanced approach to education that equally prioritizes hard and soft skills. This dual focus will improve the overall competitiveness of Indonesian graduates and contribute to the country's economic growth by producing a workforce that is well-equipped to tackle the challenges of a dynamic global market. Continued efforts to enhance students' soft skills through targeted educational programs and practical experiences are essential for fostering a competent and adaptable workforce.

9. Implications, Limitation, and Future Research

9.1. Implications

The findings of this research have significant implications for educational institutions, policymakers, and employers in Indonesia. The study highlights the urgent need to revamp curricula to include comprehensive soft skills training for educational institutions. This integration will help bridge the gap between graduates' current competencies and employers' expectations, enhancing employability. Policymakers can use these

insights to formulate education policies emphasizing developing soft skills alongside traditional academic skills, ensuring the future workforce is well-rounded and competitive globally. Employers, on the other hand, can benefit from understanding the specific soft skills that are most valued and can develop targeted training programs to nurture these competencies among their employees.

9.2. Limitation of this study

The limitations of this study remain primarily descriptive and broad in scope, necessitating additional research. Further investigations should focus on more specific variables and potential factors that may have been overlooked in the current study. The research is primarily descriptive and focuses on graduates' perceptions and self-reported data, which may be subject to bias. The sample size, although significant, may only partially represent the diverse demographic and socio-economic backgrounds of all Indonesian graduates. Additionally, the study should have delved deeper into the qualitative aspects of why specific soft skills are more valued or how they directly impact job performance and satisfaction. The reliance on a digital questionnaire also excludes individuals who need access to digital devices or the internet, potentially skewing the results.

9.3. Future Research

Longitudinal studies could provide deeper insights into how soft skills development evolves and its long-term impact on career success. Qualitative research methods, such as interviews and focus groups, could complement quantitative data to explore the underlying reasons behind the importance of specific soft skills and how they are applied in the workplace. Additionally, comparative studies across different regions or countries could offer a broader perspective on the global relevance of soft skills in various cultural and economic contexts. Future studies might also explore the effectiveness of specific educational interventions designed to enhance soft skills and assess their impact on academic and professional outcomes.

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Appendix A includes the complete questionnaire used in this study to provide full transparency and a comprehensive understanding of the data collection process. This includes all the questions and topics addressed beyond the demographic information collected.

Appendix A: Data Collection Instrument

*Choose one of the answers that suits your condition

Gender
Man
Women
Age
Less than 20 years old or 20 years old now
Between 21-30 years
Between 31-40 years
Between 41-50 years
Over 51 years old
Last education
Elementary school
Junior high school
Secondary*equivalent
Bachelor and Master
Doctoral
Other
Work experience
Never worked
Half a year or less than half a year
More than half a year, but less than a year
More than one year
Other

Which highest position have you ever held in the organization/company where you work?

Employees

Junior level manager (Junior level manager/SPV)

Middle level manager (manager)

Senior level manager (Senior level manager/VP)

Owner (Owner/Director)

Never worked

Other

What do you think entrepreneurs/companies in Indonesia expect from young people today? What skills should a young person who has completed secondary/high school education have?

Likert Scale	1	2	3	4	5
	Bad	Insufficient	Neutral	Good	Very good

Professional skills

Language Skills

IT Skills

Appearance

Good communication

Critical thinking

Leadership

Entrepreneurship Skills

Teamwork

Ethics and Morals

Strategic Thinking

Time Management

Planning and Organization

Communication Skills

Presentation Skills

Self-awareness

Problem Solving

Empathy

Creativity

Flexibility

Stress and Conflict
Management

Emotional Intelligence

**In your opinion, what do entrepreneurs in Indonesia expect from today's youth?
What skills should a young person have when graduating from higher education/
university? Check your answers based on the skills below:**

Professional skills

Language Skills

IT Skills

Appearance

Good communication

Critical thinking

Leadership

Entrepreneurship Skills

Teamwork

Ethics and Morals

Strategic Thinking

Time Management

Planning and Organization

Communication Skills

Presentation Skills

Self-awareness

Problem Solving (problem
solving)

Empathy

Creativity

Flexibility

Stress and Conflict
Management

Emotional Intelligence

Do you agree with following statement?					
Likert Scale	1	2	3	4	5
	Strongly Disagree	Don't agree	Neutral	Agree	Strongly agree
Soft skills, such as communication skills, problem solving, leadership, and teamwork, are more important in today's labor market than technical skills.					
Soft skills can be learned at school.					
Education prepares pupils/ students to face labor market challenges.					
In job interviews, it is important to measure soft skills in addition to assessing a professional's knowledge.					
The key to success in leadership is having and applying soft skills.					
The ongoing assessment and development of soft skills is an important training function in some jobs, as is professional training.					

A Comparative Review of Regional Financial Markets Integration in the European Union and ASEAN

Katalin Mériő

Abstract: This article analyses and compares the regional financial markets integration within the European Union (EU) and the Association of Southeast Asian Nations (ASEAN). A common feature of the two regions' financial markets integration is that lessons learned from global and regional financial crises have significantly influenced their evolution. Nevertheless, the financial markets integration followed different paths in the two regions. While in the EU integration means delegating some power to supranational institutions, in the ASEAN bilateral and, to a lesser extent, multilateral agreements are the main tools for the regional financial markets' integration, without establishing supranational regional institutions. The aim of this comparative analysis of two main financial market segments' integration—the banking and capital markets—is to try to answer which type of regional financial integration is more supportive of financial stability? Results show that depending on political will, both can be sufficiently supportive. The faster and deeper European financial integration could manage several financial risks and vulnerabilities better on a supranational level. The slower and less deep Southeast Asian financial integration follows a safer path, as it does not make further integration steps unless they seem to be mutually beneficial and not risky. However, its mutual support mechanisms are correspondingly weaker.

Keywords: financial market integration, banking integration, capital market integration, EU, ASEAN

JEL: F30, F55, G15, G21, G23

1. Introduction

The article analyses and compares the regional financial markets integration of the European Union and the Association of Southeast Asian Nations. According to the definition of Baele et al. (2004) financial markets are fully integrated when, for given financial instruments and/or market, the following three things are simultaneously true: 1) the same rules apply to the transactions within it; 2) market participants have equal access to it; and 3) they are equally treated when they active in the market. If these conditions are fully met, then the law of one price applies in financial markets, as meeting these conditions effectively eliminates the possibility of arbitrage. Overall, integrated markets have lower transaction costs, i.e., deeper integration makes markets more competitive, which improves the efficiency of capital allocation and supports economic growth. Therefore, a key issue for regional integration is how to support and deepen the integration of financial markets.

In Europe, the European Union (EU) established the European Monetary Union well before the harmonization of its banking and capital markets. Despite many efforts to integrate the EU's financial markets, only modest progress had been made by 2008. The Global Financial Crisis (GFC) of 2008 and the subsequent eurozone crisis made the EU reconsider its strategy. The evolution of banking integration ranges from mutual recognition of licenses to common banking supervision and resolution, while the capital markets integration is more about the market efficiency through the increased scale efficiency and lower transaction costs on larger, integrated markets. In Asia, the Association of Southeast Asian Nations (ASEAN) has also started to make some effort for higher financial integration after the GFC. However, this was very different from the European path to integration. Firstly, the ASEAN' financial integration goals do not include the creation of a monetary union, even in the longer term. Secondly, it builds more on bilateral and multilateral financial agreements and develops a framework for integrated banking and capital markets without imposing multilateral integration on all Member States.

In this paper for comparative analysis of the two regional financial integrations an institutional approach is used, that is the focus of the analysis is the comparison of the different role and developmental paths of the institutional frameworks.

The structure of the paper is as follows: The next section gives some stylized facts about the state of the EU's and ASEAN's financial development and integration. The third section analyses and compares regional financial integration of the European Union and ASEAN with reference to the banking system. The fourth section does so in the context of regional capital market integration. The last section compares and concludes the path and developments of the two integrations.

2. Some Stylized Facts about Financial Development and Integration in the EU and ASEAN

According to World Bank data, all but one EU country is in the high-income category, with only Bulgaria in the upper middle-income category. In contrast, the ASEAN show a more diverse picture. The 10 Member States include two high-income countries (Singapore and Brunei), two upper middle-income countries (Thailand and Malaysia) and six countries in the lower middle-income category. There are also considerable differences in the degree of globalization of the two regions. Measuring by the KOF Index of Globalization³, in 2023, all EU Member States were highly globalized. On the list of the most globalized countries, all EU Member States are in the top 50. Of the 10 most globalized countries there are 7 EU Member States (Belgium, the Netherlands, Ireland, Luxembourg, Estonia, Malta, and Denmark) and even the least globalized Romania and Italy are ranked 47–48.

The ASEAN present a much more diverse picture in this respect. While Singapore was the most globalized country in 2023, there are five ASEAN Member States (Indonesia, Laos, Myanmar, the Philippines and Vietnam) that have very little involvement in globalization and are not among the 100 most globalized countries in the world. Of the other four countries, Malaysia falls within the range covered by EU Member States, while Thailand, Brunei and Cambodia are in the 61st to 83rd band. It should also be noted that the high globalization index of EU Member States is largely due to integration within the EU.

³ The index developed by ETH Zürich to measure the economic, social, and political dimensions of globalization. See: <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>

As regards the domestic financial depth of the regions' Member States, there are significant differences in both regions. According to the World Bank's Global Financial Development Database⁴, in 2020, the depth of banking intermediation, measured by the private credit to GDP was above 100 percent in several EU countries and ASEAN. However, there are several countries in both regions where this indicator is below 50 percent. In the EU, these are typically the Central and Eastern European countries that joined after 2004. In the ASEAN, the depth of banking intermediation is not related to the economic development: of the two high income countries, Singapore falls in the above 100 percent category, while Brunei falls in the below 40 percent category. Lower-middle-income countries are also found at both ends of the scale, with Vietnam above 100 percent and Indonesia below 40 percent. The depth of capital markets is similarly dispersed across the two regions, although we do not have data on this for several lower middle-income ASEAN Member States. For example, stock market capitalization is particularly high in Singapore and Malaysia, below, but also high in several EU countries (Luxembourg, France, Germany) and in Thailand and Philippines, but significantly lower in Central and Eastern Europe. Unfortunately, for foreign banking the World Bank dataset contains only older data and only for 6 out of the 10 ASEAN Member States. Based on this data it seems, that in the ASEAN, with the exception of Singapore, the banking systems are majority domestically owned, while in Europe the role of foreign banks is much higher. On the extreme one can find Slovakia, where in 2016, the foreign bank assets among total banks assets represented 99 percent.

All-in-all, looking at the level of development, globalization and financial structures of the two regional integration, the EU, as a region is more homogenous, while the ASEAN is more diverse. The summary of the stylized facts about the two regional integrations can be found in Table 1.

⁴ It contains a range of data for the financial development worldwide. The latest data is from 2021, but for many countries, the 2020 figures are the most recent. See: <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>

Table 1: Summary of stylized facts

	The ASEAN	The EU
income level of participating countries	mixed: two high-income; two upper middle-income and six lower middle-income	homogenous: 27 high-income and one upper middle-income
level of globalization	mixed: from very high to very low	homogenous and high for all Member States
domestic depth of financial intermediation: banks	mixed: from very low to very high	mixed: from very low to very high
domestic depth of financial intermediation: capital markets	mixed: from very low to very high	mixed: from very low to very high, but less differences than in the ASEAN
role of foreign banks	dominantly domestic owned banks	higher role of foreign bank ownership

Source: compiled by the author.

3. Banking Integration in the EU and ASEAN

3.1. Banking Integration in the EU

The first step in harmonizing the EU Member States banking industry was the adoption of the First Banking Directive in 1977⁵, which laid down the principle of freedom of establishment of services within the EU and the main driving principle of bank supervision, the home country control⁶. The next step, the adoption of the Second Banking Directive⁷ in 1989, aimed to apply the Single European Act of 1986 to the banking sector. It introduced the single licensing procedure, which have meant that all the credit institutions, licensed in any Member State of the Community, automatically have a 'single passport'. This license allows banks to operate

⁵ Council Directive 77/780/EEC

⁶ The home country control means that the main responsibility for the supervision of a banking entity is taken by the supervisory authority of the country, where the headquarter of the bank is registered (the home country).

⁷ Council Directive 89/646/EEC

in all the Member States without applying for licenses from the host country's supervisory authority. That is, it was just the codification of the freedom of capital movements within the EU.

The harmonization of the banks' prudential regulations within the European Community also started in 1989. Preparing for the enforcement of the Basel capital requirements (now called Basel I) from 1992, the introduction of the European version of the Basel Accord, the Own Funds Directive⁸ and the Solvency Ratio Directive⁹ were adopted. These items were formulated in a form of directives of minimum harmonization, which means that member states should adopt them at least as strict regulation, as it is stated in the given directive. However, it was up to the member states to apply stricter rules. Later, as the Basel Accords and other prudential regulatory items evolved, several EU directives were adopted, however, it did not mean a higher level of integration.

Around the turn of the century, there were two important parallel attempts to enhance the EU's financial integration. The first was the Financial Sector Action Plan (FSAP) of 1999¹⁰ that aimed to build a single market for financial services by 2005. The FSAP contained 42 actions for eliminating market fragmentations both for banking and for capital markets. Most of the actions were about regulatory harmonization, i.e., replacing the then solely national rules with EU directives for financial market segments, which are important for market harmonization. The second was the establishment of The Committee of the Wise Men (named after its president Lamfalussy Committee), which issued its report in 2001 for reforming the European securities markets' regulation. However, the so called Lamfalussy Report (Committee of Wise Man 2001) has become a blueprint not only for securities markets' regulation, but for the whole financial system (Lastra 2003).

Based on the Lamfalussy Report a four-level financial regulatory and supervisory process was implemented for banks, for capital markets and for the insurance and occupational pension sector¹¹. The new system was

8 Council Directive 89/299/EEC

9 Council Directive 89/647/EEC

10 Communication from the Commission COM(1999)232 final

11 14368/02 (Presse 361) on 2471 Council meeting , Economic and Financial affairs, available: <https://data.consilium.europa.eu/doc/document/ST-14368-2002-INIT/en/pdf>

called the Lamfalussy framework. Level 1 covered the EU level decisions on high level regulatory principles and directives. Level 2 was about the technical implementation of level 1 decision. The implementation remained in national hands, however, for the EU level harmonization so-called level 2 committees were established for three financial subsectors from the representatives of national regulatory agencies. The level 3 committees were for supervisory convergence, where representatives of national financial supervisory authorities of the three financial subsectors exchanged views and worked out common policies within these committees. The level 2 and 3 committees could made decisions only with full consensus, which means, that despite the regular consultations, decision-making remained at a national level. The fourth level related to the enforcement, which remained entirely within national competence. The FSAP and Lamfalussy framework resulted in a higher level of harmonization, but the increase of a general level of integration was limited, as different implementation of directives preserved national differences.

The main lesson of the GFC was that the solely microprudential approach to bank regulation failed; there was a need for an integrated macroprudential approach to the regulatory and supervisory practice (Borio, 2011; Baker, 2013; Mérő, 2017). Just after the collapse of Lehmann Brothers in September 2008, the European Commission established a high-level committee, led by Jacques de Larosière (the de Larosière Committee) to give advice on reforming the European financial regulatory and supervisory framework. Based on the de Larosière Report (2009) the European Systemic Risk Board was set up as a macroprudential regulator for European financial system, and the former level 3 committees of the Lamfalussy framework were transformed to European Supervisory Agencies with enhanced competencies in 2010. Among them, the European Banking Authority, the EBA, become responsible for working out single rules for banking supervision, called the Single Rulebook. However, the main responsibility for financial stability remained in national hands, as all the EU member states were obliged to designate an authority responsible for financial stability (Montanaro, 2016).

The GFC-induced European sovereign debt crisis and the related vicious circle between banks and their sovereigns created the political will for the establishment of the European Banking Union (BU)¹². The aim of

12 COM(2012)510 final

the BU is to break the vicious circle and to enhance stability and crisis resilience of European banking industry, as well as to share the burden of the resolution of the bank failures. That is, change the previous situation, when large European banks acted internationally and become too-big-to-save (Demirgüç-Kunt and Huizinga, 2013) for their sovereigns to resolve.

The BU is a new and much more advanced level of financial integration. However, to be the member of the BU is not obligatory for all EU Member States, only for the members of the Monetary Union. For non-Monetary Union members, it is voluntary to join. In this sense, the BU significantly increases financial integration within its member states, however, it also fosters divergence between its members and EU Member States outside the BU.

The BU is based on three pillars: the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and the European Deposit Insurance System (EDIS). The SSM began operating first, in November 2014, under the aegis of the European Central Bank. Since then, the banking supervision is delegated at a supranational level. The SRM is the BU-level bank resolution authority, which began operation in 2016 as a new institution. The third pillar, the EDIS has not been established yet, since it is under permanent political debates. Aside from this, banking regulations have also become more integrated: several directives were replaced by EU regulations, which means that they are directly effective in all member states without being implemented by national legislators.

As a short history of European banking integration shows, before the GFC only harmonization and partial integration was realized, while the GFC and the consecutive sovereign debt crises of the Euro area brought a significant step towards real integration in the form of the Banking Union. However, this integration has taken place only for Monetary Union member states. EU Member States outside the monetary union have strong reservations to join (Mérő and Piroska 2018; Mérő 2021). Until now, only those countries, that have already decided to join the Monetary Union joined the BU on a voluntary basis. As of 2024, six out of the 27 EU Member States are not BU members.

3.2. Banking Integration in the ASEAN

After the 1997 Asian Crisis, the main field of ASEAN financial integration was the need to establish an IMF-like Asian fund for resolution of similar regional crises. Banking integration was not on the agenda at that time. The first step towards banking integration happened in 2003 when the Roadmap for ASEAN Integration in Finance (RIA-Fin) was accepted by ASEAN finance ministers. RIA-fin covered three areas of regional integration of financial services: capital account liberalization, capital markets development, and liberalization of providing financial services within the region by 2020 (Kawai et al., 2015). Liberalization of financial services—even at the level of intentions—meant less than that provided by the Second Banking Directive in Europe. There was no political will for providing a single ASEAN passport for all banks of the region and even for the loose regulatory harmonization, as was provided by EU directives. Bilateral recognition of banking licenses also did not function. Actually, the RIA-Fin did not bring significant results until the GFC.

As in Europe, the GFC also enhanced efforts for deeper financial integration in the ASEAN. The path for post-GFC integration set by the ASEAN Banking Integration Framework (ABIF) in 2015 aimed to achieve its goal by 2020. The four aims of the ABIF are as follows: regulatory harmonization at the level of principles; policy coordination for financial stability-related issues; promoting development of less developed countries banking systems (the BCLMV countries, i.e., Brunei, Cambodia, Laos, Myanmar, and Vietnam); and adopting methods for so-called Qualified ASEAN Banks (QABs) (Shizumum, 2014). As it is stressed by Do et al (2017), the ABIF is not a real regional banking integration, rather the ABIF is only a framework signed by all 10 ASEAN Member States. Within this framework, countries can agree bilaterally, possibly 3 or multilaterally, to allow banks that meet the QAB criteria to operate in each other's countries. That is, actual agreements are bilateral, not ASEAN level. In this sense, the ABIF is highly different from the EU's Banking Union (Blizkivsky, 2014). Under the umbrella of the ABIF, several agreements would be signed, which means that the ABIF does not aim for integrated banking markets for 2020, instead it fosters integration between its member states.

Among the four aims of the ABIF, the fourth was immediately implemented, and in this respect, serious progress has been made. In line with the adoption of the QAB principle, the ASEAN path for banking integration is very different from the European one. It is not related to all banks within the region, but to the most stable, well capitalized and managed banks which are qualified for it, the QABs. To become a QAB, two or more ASEAN Member States have to agree upon it. That is, even a QAB has no single ASEAN license, but a license for two or more countries that acknowledged the high quality and low risk profile of the given bank (Lupo-Pasini, 2019). After having been acknowledged as a member of the QAB, the bank has equal treatment with the domestic banks in the host country (ASEAN and the World Bank, 2015). Until now, there are only a few banks which received the QAB status. The first one was the Indonesian Mandiri, which was qualified in 2017 by Malaysia¹³. In some cases, bilateral agreements were made between the national central banks on their openness to receive banks' request for QAB status. An example is the agreement between the Thai and Malaysian central banks in 2021¹⁴. According to Remolona and Shim (2015), one of the lessons of the European banking integration is that single passport without common supervision and a sound cross-border resolution framework makes the banking integration vulnerable. Accordingly, since the regulatory harmonization and the resolution framework is missing, the cautious steps for banking integration in the form of an individual decision on QAB status of banks may be better and more sustainable from the point of view of financial stability.

4. Capital Markets Integration

4.1. Capital Markets Integration in the EU

The first steps in relation to European capital markets integration were similar to that of the banking integration. In the 1980s, the minimal harmonization EU directives were the main tools for capital markets

13 <https://www.theedgemarkets.com/article/bank-mandiri-likely-be-first-qab-malaysia-region>

14 <https://www.bloomberg.com/news/articles/2021-09-14/thailand-malaysia-set-rules-for-banks-entry-under-asean-accord>

integration. Among them, the most important was the Investment Service Directive of 1993, which determined the framework for providing investment services in securities. The early example of higher-level markets integration was the case of collective investments. The first directive on undertakings for collective investment in transferable securities (UCITS) was adopted in 1985. If an investment met the regulatory requirements, it could receive a European passport and become subject to EU regulation. Later, the UCITS directive were amended several times. However, its basic principle—i.e., to provide well regulated, safe, and barrier-free investment for European investors—remained unchanged. According to the official website of the EU, UCITS accounts for about 75 percent of small investors' investment fund portfolio.

As is shown in Section 3.1, both the FSAP and the Lamfalussy framework also aimed at capital markets' integration, and contributed to more harmonized market conditions, regulation, and supervision. Similar to banking, the FSAP and the Lamfalussy framework made capital markets more integrated. However, also similar to banking—with the exception of UCITS—national regulatory and supervisory differences within the framework of minimum harmonization directives promoted markets' segmentation among EU Member States.

Similar to banking, in the post-GFC era several directives of securities and capital markets were replaced by obligatory regulations. Aside from this, the most important feature of post-GFC EU level capital markets regulation was that items which were blamed for the financial crisis and had not been regulated earlier, became regulated. Principal regulations in this relation were the Alternative Investment Fund Managers Directive, the AIFMD, which extended the investment funds regulation beyond the UCITS, the European Market Infrastructure Regulation, the EMIR, which enhanced the role of central counterparties in OTC derivative markets, the Credit Rating Agencies Regulation and Directive (CRAR and CRAD) and the Short Selling Regulation (Moloney, 2014).

The most important development of creating a European single capital market is the Capital Markets Union (CMU) project. The first CMU Action Plan was launched in 2015 (European Commission, 2015). Within its time horizon up to 2019 it had achieved serious progress. However, the markets'

fragmentation remained serious within the EU. Accordingly, in 2020 a new Action Plan was adopted (European Commission, 2020). The main novelty of the new Action Plan was that it emphasized the importance of green and digital finance.

The CMU project's main aim is to decrease the highly bank-based nature of the continental European financial system and to increase the role of capital markets in business finance, especially for the SME sector and as such, increase the funding diversity and making the financial sector more stable. The CMU project is different from the BU project in several aspects. Firstly, it covers the whole EU, not only the monetary union members, secondly, it is not about the single supervision or resolution, but about building a single market, and thirdly, its aims are motivated by financial markets' efficiency, not solely by financial stability. Since almost all the tools of the CMU project promote growth of market-based finance, simultaneously these tools also promote an increase of shadow banking (Braun, Gabor and Hübner, 2018; Pires, 2019). Accordingly, CMU induced (re)regulation of shadow banking instruments to transform them into safe and stable market-based finance became of utmost importance for the EU. To manage this contradiction, among others, EU level regulations of money-market funds, covered bonds, asset backed securities and securitization have been made. From the point of view of financial integration, an important contradiction of the CMU project is that while it aims to enhance the EU level integration, it is in favor of countries with the most developed capital markets. The reason for this is that sophisticated financial assets that are encouraged to be used within CMU framework are almost entirely missing for the countries with the least developed financial markets, especially for Central and Eastern European member states (Piroska and Epstein, 2022).

4.2. Capital Markets Integration in the ASEAN

As it was described in Section 3.2, one of the goals of RIA-fin in 2003 was to promote capital markets developments. In line with the RIA-fin, in 2003 the ASEAN+3¹⁵ agreed to develop an Asian Bond Market Initiative (ABMI) to develop and integrate both the government and corporate bond markets of the region. As a lesson, learned from the 1997 crisis, the ABMI

15 It consists of 10 ASEAN Member States and China, Japan, and South Korea.

targeted to issue bonds in local currencies and consequently eliminate the exchange rate risk. The process was assisted by the Asian Development Bank. However, despite the regional nature of the initiative, it was an integrative step only in one sense, that it aimed similar and harmonized development in all member states. Its actual focus was the national market's development and not the real regional integration.

However, the standardization of national bond issues—typically in local currency—paved the way for later integration. That is why the original ABMI initiative was followed by several Medium-Term Roadmaps for higher level harmonization of domestic bond markets. The latest were issued in 2019 for 2019–2022 (ASEAN+3, 2019) and in 2023 for 2023–2026 (ASEAN+3, 2023). The 2023 Roadmap determined five pillars for further development. These are as follows:

1. Promoting sustainable finance, including green bond issues in the region.
2. Promoting regional cross-border transactions through better regulatory and market framework. This pillar is based on the 2014 Multi-Currency Bond Issuance Framework (AMBIF) of ABMI, that has so far resulted in few actual successful issues but has also created a number of potential opportunities through standardization.
3. Promoting digitalization for better integration of markets.
4. Promoting local currency liquidity provisions to decrease the over-reliance on the USD in cross-border transactions.
5. Promoting local currency bond market developments for countries with less developed capital markets in the form of technical assistance.

Besides the ABMI, in 2004, the ASEAN finance ministers established the ASEAN Capital Markets Forum (ACMF) to develop deeper, more liquid and integrated regional capital markets by 2015. However, until 2015, only very limited results were made. Capital markets have remained dominantly fragmented. Nevertheless, the achievements resulted in more developed national capital markets, which became somewhat more harmonized, and consequently, more open for bilateral agreements (Dy, 2019).

5. Conclusions

Both the ASEAN and the EU have survived several crises, namely the Asian crisis of 1997–1998, the Global Financial Crisis 2007–2009, the Eurozone crisis 2010–2012, and the Covid Pandemic of 2020–2021. In light of these crises, both the vulnerability and the sustainability of the financial markets' integration can be evaluated.

There are previous studies which compared the two financial integrations. However, since the European financial integration is more advanced, they generally try to draw lessons from the European experiences for the Asian region. This paper does not try to evaluate the ASEAN financial integration in the light of European developments, instead, the two systems are analytically presented, and conclusions are based on the parallel analysis. The main reason for this is that as the stylized facts show, the two regions are very different in terms of development, globalization, depth of financial intermediation and the role of foreign ownership, so the European situation is not necessarily a guide for the ASEAN.

One of the main differences in relation to financial markets integrations is that while European integrative steps are at the EU or EMU level, ASEAN integration is mainly based on framework agreements and several bilateral agreements within these frameworks, to which additional countries (as third or fourth, etc.) can join in principle, however, de facto they are typically remaining bilateral. Accordingly, supranational institutions to manage financial markets integrations were established only in Europe. The ASEAN put more emphasis on the application of common principles on a country-by-country basis than on regional ones. Unlike the EU, the ASEAN did not give up any part of their sovereignty, they opposed any such intervention.

Based on our analysis, there is no clear answer to our original question as to which type of integration is more supportive of financial stability. As financial integration related decisions are more political than economic, sustainability depends on the political will, political consensus and their sustainability. In the EU, where there has been strong political will for financial integration, fast and deep integration seems to be appropriate and

sustainable, even if it has several theoretical and practical shortcomings. In the ASEAN, where this type of political will is missing, only slower and less deep integration can work and be sustainable.

The faster and deeper European financial integration may result in outcomes that can threaten financial stability, as it was proven during the European sovereign debt crises in the early 2010s. However, the lessons of the crises in Europe have led to solutions that have further deepened integration, making the EU much more resilient to future crises. In other words, the EU can manage several financial risks and vulnerabilities better on a supranational level. Slower and less deep Southeast Asian financial integration follows a safer path, it does not make further integration steps unless they seem to be mutually beneficial and not risky. Accordingly, the Asian way of integration is less risk-generating and also less risk-reducing.

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Asia to Europe and Rewind: Reshaping the Knowledge in Asia and Europe through Educational Collaborations

Dewi Tamara and Anita Maharani

Abstract: The aim of this research is to explore factors such as negative perception and social benefit perception in influencing academic benefit perception in students who are receiving guest lectures from other universities, by involving generic benefit perception as mediation. The concepts used to build this research model are the concepts of globalization, social exchange theory, social learning theory, and social competence. This research approach is quantitative with partial least squares structural equation modeling analysis techniques (PLS-SEM), with 70 respondents from ISC Paris Campus and the Orleans Campus students, who volunteered to fill out a survey that had been prepared by adopting 20 statement items. The results of the study show that the hypothesis statement that social benefit perception affects academic benefit perception positively through benefit perception is supported, while the hypothesis statement that negative perception affects academic benefit perception positively through generic benefit perception is not supported. The implication of this research is that the form of activities carried out by involving teachers from higher education institutions from other countries can provide benefits both practically and academically, both for students and for activity organizers, however there are several aspects that need to be considered, including cost factor.

Keywords: Education, Cultural Exchanges, Cross-cultural Collaborations, Social Exchange Theory, Innovative Teaching Methodologies

JEL: I20, I21, A23, I25, I26

1. Introduction

The global education landscape has recently experienced a significant transformation, marked by increased student mobility and international collaboration between universities. Three things that also benefit from the transformation are the opportunity to get a variety of learning spaces, having many choices to study knowledge that is considered current and interesting, and the most important thing is that because international mobility involves a group of students, this can increase the experience of being part of globalization (Boni and Calabuig, 2016). This phenomenon can especially be obtained during student exchanges, between Asia and Europe, where more and more students are traveling abroad to pursue study opportunities outside their country of birth. In one study in the United States, for example, foreign students who came to the United States to study there were driven by their hopes of increasing their career opportunities after graduation and gaining experience that would lead to better jobs than in their country of birth (Urban and Palmer, 2016). The phenomenon of student mobility presents a unique opportunity for researchers to explore the dynamics of the relationship between students and education across continents and examine the different patterns of academic mobility between regions with mobility models that focus on international mobility and others that focus on domestic mobility (Hoffman, 2008).

According to researchers, understanding these dynamics is very important for several reasons. Firstly, from understanding the dynamics, we will know about patterns of social interactions, cultural exchanges, and collaborative initiatives that are fostered by student mobility, so that this can provide input for the development of more inclusive and effective educational practices. In one study, it was even found that students will have more active participation in socio-emotional interactions as a good impact of collaborative learning, because in the collaborative learning model there is a transition between cognitive and socio-emotional interactions (Isohätälä, Näykki, and Järvelä, 2020). Secondly, there is an opportunity to examine the impact of student mobility from an economic and diplomatic perspective and the potential of student mobility in terms of strengthening bilateral relations and international relations between Asia and Europe. In one study it was found that exchange activities that occur between international countries, even in the form of education, can

increase students' understanding of the international world, encourage the urgency of cross-cultural communication, and support the mastery of foreign languages which can open up many opportunities in the future, which ultimately can increase students' competitiveness when entering global competition (Hongsheng, 2011). Thirdly, researchers also see the potential to analyze the impact of student mobility on the education system, because they will be learning about educational practices, both in terms of teaching methodology, as well as potentials that can be exploited to improve the quality of education. In one study, it was stated that student mobility can have a significant impact on teaching patterns and classroom management upon the students' return to their home university (Lash and Kirkpatrick, 1990).

As the demand in the industrial world for skilled workers increases, the labor market is only more likely to absorb highly skilled workers and in return, the industry will provide the absorbed workforce with better job prospects (OECD, 2024). Finally, by investigating how students from Asia and Europe navigate cultural differences, adapt to new learning environments, and participate in cross-cultural collaborations, this research emphasizes the role of education in fostering global citizenship and dismantling cultural stereotypes.

In general, countries in Asia and Europe have had very dynamic collaborations over the years. One study even suggested the need to change the conceptual view using socio-anthropology rather than just looking at international relations (Fawn, Kluczevska, and Korneev, 2022) that occur between countries in Asia and Europe. From a historical perspective, one of the sources obtained stated that World War I was the trigger, in 1919 (NWSE, 2018), at which time the Institute of International Education (IIE) was formed. It was a global non-profit organization that facilitated educational programs, including student exchanges. However, the same source also revealed that in 1951 the sending of students from the United States to Europe was opened. However, regardless of which organization or university or country-initiated student exchanges, people undertook education-oriented travel as early as the 12th century. Unfortunately, there is no information indicating which universities accepted student exchange programs.

Another interesting piece of information is the formation of the Asia-Europe Meeting (ASEM) in 1996 (ASEM, 2021), the aim of which was to be used as a forum for discussions and cooperation between Asia and Europe amidst world dynamics, including those related to connectivity, trade and investment, and climate change. The activities carried out were related to educational issues called ministerial meetings, namely meetings between ministries of education in Asia and Europe. ASEM paints a picture of the importance of collaborative relations between Asia and Europe, and there are also other organizations that play a role in the success of collaboration between Asia and Europe, such as Erasmus+ (Erasmus, 2024). In fact, in one source it is stated that an estimated 6.4 million students in 2020 will carry out educational mobility and the main destination will be countries in the European Union (France, 2023). Collaborative higher education initiatives can enhance leadership development and foster knowledge sharing, contributing to long-term transformation and sustainable change in complex environments (Albertyn and Frick, 2016). Therefore, the dynamics that occur between Asia and Europe will be interesting to study in this article.

The question that arises based on the explanation above is *“What are the dynamics that occur between Asia and Europe in the context of education?”* Based on the description above, this article has four objectives:

1. To identify the cultural nuances influencing educational exchanges. Understanding how students from Asia and Europe navigate cultural differences, adapt to new learning environments, and engage in cross-cultural collaborations helps create inclusive and effective educational practices.
2. To explore the economic and diplomatic implications of student mobility and educational partnerships between these regions. Analyzing the impact on economies, policy-making, and international relations provides valuable insights for policymakers, educators, and institutions seeking to strengthen bilateral ties.
3. To study Asia and Europe student and educational relations in how they contribute to the enhancement of educational systems.
4. To highlight the role of education in fostering global citizenship.

In the section above, this paper presents its aim, and in the next section several definitions will be presented which are used as the basis for the discussion of this paper.

2. Literature Review

There are several theories used as theoretical foundations underlying educational collaboration between Asia and Europe, which are then aimed at describing the globalization concept, then collaboration involving individual motivation (signified by the social exchange theory), and group dynamics (characterized by social cultural theories).

2.1 The Concept of Globalization

Several number of sources have tried to explain the meaning of globalization, and here is a selection. Globalization refers to the formation of world systems, including finance, trade, communications, information technologies, migration, tourism, global societies, as well as linguistic, cultural, and ideological convergence (Marginson, 1999). Globalization encourages collaboration, such as in views. International collaboration in science has grown rapidly since 1990, with an increased scope positively affecting the impact, and network characteristics tend towards convergence at the global level (Wagner, Whetsell, and Leydesdorff, 2017). Globalization is a concept that has various meanings. The term globalization was triggered after the phenomenon of increasing interdependence between countries in the world, especially from an economic and cultural perspective. There is a view that assumes that globalization is related to economic integration that occurs between countries due to trade and investment cooperation (Beck, 1999). Apart from that, there is also a view that believes globalization is related to cultural exchange between countries (Giddens, 1990).

However, there is also a view that actually sees globalization as something holistic, where it is not only economic, but also political, social, and cultural (Held, McGrew, Goldblatt, and Perraton, 2000). Globalization influences social interactions through the Internet, allowing for greater exposure to other cultures and enabling the development of broader

social networks (Sanri and Goodwin, 2014). Globalization affects social interactions through three foci of identification: local culture, globalized Western culture, and humanity in its entirety (Rosenmann, Reese, and Cameron, 2016).

2.2 Social Exchange Theory, Social Learning Theory, and Social Competence

The social exchange theory (SET) illustrates that social behavior is created through an exchange of goods, for example, material and non-material goods (Homans, 1958), and later the advancement of this theory led to the two types of social exchanges which were economic and social (Blau, 1964). Later, research exploring internalization in higher education highlighted the extension to the social exchange theory about a decision made by one person influenced by a long-term reward vision, despite the short-term costs (Romani-Dias and Carneiro, 2019).

The social learning theory also has the potential for teaching leadership in formal and informal settings (Decker, 1986). Both the social learning theory and developmental psychology are influenced by the contributions of Robert Sears and Albert Bandura, who sought to understand human behavior through cognitive and information-processing capacities (Grusec, 1992). Later, social competence was defined as effectiveness in social interactions, with four general approaches to operational definitions: social skills, sociometric status, relationships, and functional outcomes (Rose-Krasno, 2006).

Intercultural communication competence (ICC) is distributed through members of a community, rather than being solely an individual attribute, and it is crucial for socio-cultural adaptation regardless of one's cultural background (Chi and Suthers, 2015). Social interactions and socialization shape our understanding of group dynamics and influence, influencing our understanding of social interactions and group dynamics (Garcia-Alexander, Woo, and Carlson, 2017).

2.3 Hypothesis Development

There is a positive relationship between the perceived benefits of academic activities and student motivation (Tasgin and Coskun, 2018). Apart from that, students, who have stronger self-confidence in the benefits they will get from receiving education have higher self-confidence in academics than students who do not have self-confidence, and this has implications for academic achievement. Academic self-efficacy mediates links between students' perceptions of feedback and academic attainment (Adams, Wilson, Money, Palmer-Conn, and Fearn, 2020). However, in the process of undergoing the academic process, students may have a change in perception of the academic activities they are undertaking, and this is caused by various factors, including boredom or anxiety, which can hinder academic motivation and involvement in academic activities. Students' internal factors, such as social class, expectations, and beliefs, and external factors like academic-related characteristics, reward, and feedback, also influence their academic motivation (Van Etten, Pressley, McInerney, and Liem, 2008).

When students feel they do not have the ability to choose, especially in academic matters, students will show reactions that motivate them to look for ways to have the ability to see academic benefits, and this is in line with reaction theory. Students choose courses they find interesting, useful for future goals, and challenging, with females more often choosing challenging courses and males selecting classes they believe will benefit their future schooling or career (Wilson, Stocking, and Goldstein, 1994). Meanwhile, on the other hand, students can have a negative perception of academic activities which can actually provide good benefits in the future, as is the concept of effort heuristic. Perceived effort source influences students' ability evaluations, with task-elicited effort leading to an inverse relation between effort and ability, while self-initiated effort can lead to a positive relation (Muenks, Miele, and Wigfield, 2015). On the other hand, in this case students will try to encourage themselves to focus on academic achievement even though at first, they do not like it, because there are targets that are set even though they are not initially set by themselves or in line with the goal-setting theory (Locke and Latham, 1991). The encouragement felt by an individual is usually influenced by the expectations and values associated with the things they will do, and

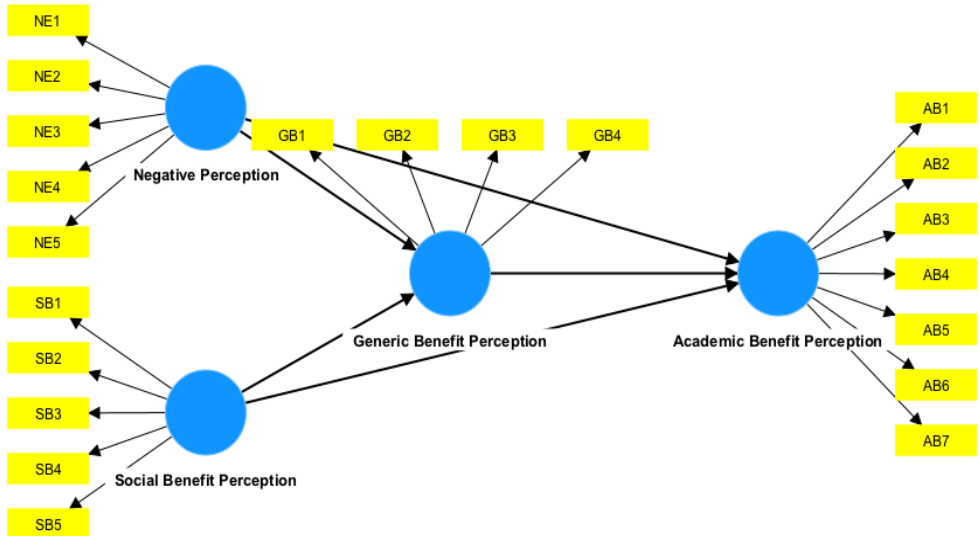
if negative perceptions arise, this can make students doubt their ability to achieve success, known as expectancy-value theory (Wigfield and Eccles, 2000). Therefore, a student needs to have self-confidence, which can later influence his motivation and efforts in achieving academic goals, also known as self-efficacy theory (Bandura, 1997).

Hypothesis 1: Negative perception affects academic benefit perception positively through generic benefit perception.

The classic Social Learning Theory shows that learning ideally emerges after a process of observation and interaction from teacher to student and vice versa (Bandura, 1997), so that it will produce academic activities that can encourage the creation of opportunities to share knowledge, clarify concepts, and learn from a variety of perspective. Apart from Bandura, there is also another view known as the Social Identification Theory which states that a person can gain self-confidence because of a sense of belonging to a social group, so that when academic activities occur, including teamwork and collaboration, this can strengthen an individual to be motivated and focus on academic achievement goals (Tajfel, Turner, and John, 2001). There is also the Cognitive Elaboration Theory which has the view that an individual who is involved in social activities will have the opportunity to process the information they obtain because they can explore and have a strong relationship between the added value obtained academically and their involvement in social activities (Petty and Cacioppo, 1986). Therefore, there is a phenomenon that students with negative perceptions have a tendency not to identify or appreciate the general benefits associated with these learning activities (for example, intellectual stimulation, development of new skills). Thus, there will be a lack of focus on broader benefits which can then hinder students' ability to connect these activities with academic goals, which ultimately results in low student perceptions of the academic benefits they will receive.

Hypothesis 2: Social benefit perception affect academic benefit perception positively through generic benefit perception.

Proposed Research Model



3. Methodology

3.1 Methods

This paper was prepared and took data using a teaching exchange work visit between BINUS Business School from Indonesia and ISC from France on 12 and 14 February 2024 located at two ISC campuses in France, namely at the Paris Campus and the Orleans Campus. The targeted respondents were students studying in undergraduate programs and taking classes involving foreign teaching staff from other campuses outside ISC.

3.2 Sampling Method

There was no determination for the research sample; however, it was targeted that a minimum of 30 respondents would be involved in filling out the survey. A minimum sample of 30 people (Sekaran and Bougie, 2016) still makes it possible to get an overview of a phenomenon.

This paper adopted a quantitative descriptive approach to analyze twenty indicators used to explore student perceptions.

3.3 Data Collection Method

A survey method was applied. The survey was adapted from a previous study (Destriana, 2018) and modified by the researchers to explore the variables: academic benefits perception, social benefits perception, generic benefits perception, and negative perception. The following table depicts the operationalization of the variables.

Table 1. Operationalization of the Variables

Variables	Code	Indicators	Sources
Academic Benefits Perception	AB1	Help students understand the materials.	Destriana (2018)
	AB2	Help students in the exchange of knowledge, information, and experiences.	
	AB3	Help students solve problems easier.	
	AB4	Provide students with helpful feedback.	
	AB5	Improve students' performance.	
	AB6	Make students actively participate in the learning process.	
	AB7	For students, international lectures are a good learning experience.	
Social Benefits Perception	SB1	Help students be more relaxed in learning.	Destriana (2018)
	SB2	International lectures make students have more international colleagues.	Tamara and Maharani (2024)
	SB3	Increase the spirit of going international.	
	SB4	Increase the understanding of other countries.	
	SB5	International lectures should be continued regularly.	

Generic Benefits Perception	GB1	Stimulate critical thinking.	Destriana (2018)
	GB2	Help students to be more responsible for themselves.	
	GB3	Provide students with a better understanding about international collaboration.	Tamara and Maharani (2024)
	GB4	Improve students' communication skills.	
Negative Perception	NE1	Waste the students' time to understand the lectures.	Tamara and Maharani (2024)
	NE2	Have difficulty to ask questions.	
	NE3	Have difficulty to participate in the class.	
	NE4	Students feel that the lecturer in the session is not capable.	

A Likert scale was adopted in this study with a range between 1 and 4, where 1 is strongly disagree and 4 is strongly agree. The reference is that a range of 1–4 is allowed on a Likert scale based on previous studies (Nee and Yunus, 2020).

3.4 Data Analysis Technique

A data analysis technique refers to a simple descriptive data analysis technique, such as the mean and standard deviation. Descriptive statistics, such as mean, median, mode, range, and standard deviation, are useful for analyzing data (Janes, 1999). PLS-SEM was then adopted as an analysis technique for the research model, with two steps being undertaken for this type of analysis, firstly, the measurement model assessment (construct reliability and validity, discriminant validity, and model prediction) and secondly, the structural model assessment (bootstrapping) (Hair, Risher, Sarstedt, and Ringle, 2019).

4. Results

4.1 Participants

Students from the ISC Paris Campus and the Orleans Campus volunteered for this study. There were 50 respondents from the ISC Paris Campus (33 women and 17 men), and 40 from the ISC Orleans Campus (24 men and 16 women). Table 1 summarizes the number of participants for each campus. The students were from two program levels, bachelor's and post graduate levels who joined the International Lecture Week, in the second semester. The lectures were conducted on 12 and 14 February 2024 at the ISC Paris Campus and the ISC Orleans Campus, consecutively. The questionnaires were distributed after the lecture about Sustainability and Data Management during the International Lecture Week, presented by Dewi Tamara, a faculty member from the Master's Program of BINUS Business School, Indonesia.

Table 2. Participants' Profile

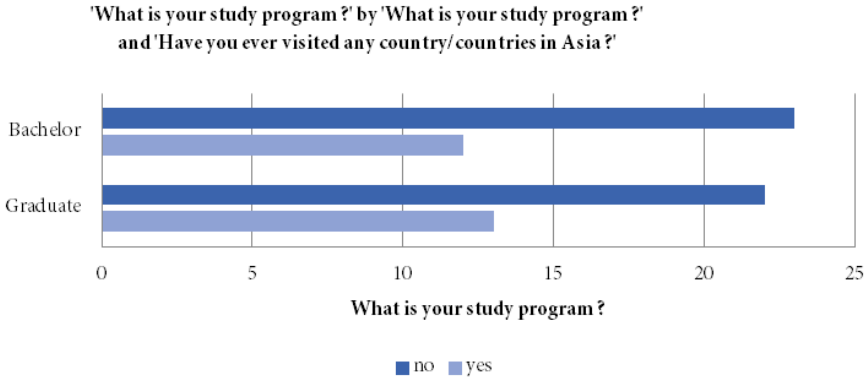
No	Characteristics	Total	(%)
1	Campus		
	ISC Paris	58	83%
	ISC Orleans	12	17%
2	Level		
	Master's	33	49%
	Bachelor's	27	51%
3	Study Program		
	Information Technology (IT)	3	4%
	Management	29	41%
	International Business	11	16%
	Finance	9	13%
	Marketing	12	17%
	Supply Chain	6	9%
3	Nature of Participation		
	Mandatory	60	86%
	Voluntary	10	14%

4	Participation in the International Lecture Week Event		
	Once	39	56%
	2–3 times	15	23%
	More than 3 times	16	21%
5	Have you ever visited a country in Asia?		
	Yes	25	36%
	No	45	64%
6	If your answer is Yes, which countries?		
	India	5	25
	Thailand	5	
	China	2	
	United Arab Emirates	4	
	Armenia	2	
	Singapore	2	
	South Korea	1	
	Indonesia	1	
	Malaysia	2	
	Hong Kong	1	

Source: Processed data (2024), n=70

From the table above, almost the same number of undergraduate and post graduate programs took part in this activity, with almost all the survey participants joining the International Lecture Week activities, because it was required by the education management. Therefore, there is a small possibility that the respondents who responded to this questionnaire took part in the activities because of their own wishes. Figure 1 also shows whether the students from the undergraduate and post graduate programs have visited an Asian country. This question was asked because when this questionnaire was distributed, the material presented by the facilitator was related to business in Asian countries, more specifically, Indonesia.

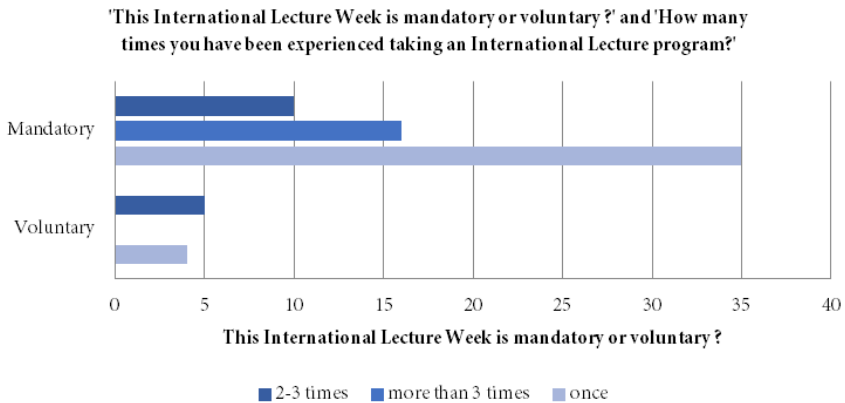
Figure 1. Comparison between Undergraduate and Postgraduate Students on Their Experience in Visiting an Asian Country



Source: Processed data (2024), n = 70

From the data above, most of the participants with undergraduate and postgraduate backgrounds have never visited countries in Asia. Based on this information, the student participation in providing material revealed the possibility of exposure to Asia in general and business in Asia in particular, in this case the country that was appointed as the topic of discussion was Indonesia.

Figure 2. Comparisons between Involvement and Frequency



Source: Processed data (2024), n = 70

Based on Figure 2, it can be seen that when the participants filled out the questionnaire, it was actually their first-time taking part in International Lecture Week activities. However, it can also be viewed that participating more than once in similar activities is considered a mandatory activity. The comparison between students at ISC who took part mandatorily and voluntarily is quite a big gap. In other words, students are still very much influenced by the obligation factor rather than the voluntary desire to take part in this kind of activity.

Table 3. Descriptive Results

	Variables			
	Academic Benefits Perception	Social Benefits Perception	Generic Benefits Perception	Negative Perception
Mean	3	3	3	3
Median	3	3	3	3
Mode	3	3	3	3
Range	1	1	1	1
Standard Deviation (SD)	0.74	0.73	0.7	0.87

Source: Processed data (2024), n = 70

From Table 3 above, it can be observed that the respondents on average stated that they mostly agree with all the means per variable presented in the questionnaire. Based on these results, the researchers will relate it with the relevant phenomenon and literature.

Table 4. Construct Reliability and Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Academic Benefit Perception	0.957	0.957	0.964	0.795
Generic Benefit Perception	0.896	0.902	0.928	0.762
Negative Perception	0.863	0.983	0.881	0.598
Social Benefit Perception	0.921	0.924	0.941	0.760

From Table 4 above, all Composite reliability results are acceptable, as in the parameters which allow between 0.6–0.7 to be considered acceptable (Hair, et al., 2019). Meanwhile, for average variance extracted (AVE), the parameter used is a calculated value > 0.5, which means the construct can explain at least 50 percent of the variance of the existing measurement items, and the existing results show a calculated AVE value > 0.5 (Hair, et al., 2019).

Table 5. Discriminant Validity— Fornell Larcker

	Academic Benefit Perception	Generic Benefit Perception	Negative Perception	Social Benefit Perception
Academic Benefit Perception	0.892			
Generic Benefit Perception	0.852	0.873		
Negative Perception	0.560	0.593	0.773	
Social Benefit Perception	0.882	0.851	0.575	0.872

In Table 5 above, the Fornell-Larker value appears, and the discriminant validity is determined by comparing the square of the Average Variance Extracted (AVE) of each construct with the square of the correlation between constructs (Hair, Hult, Ringle, and Sastedt, 2022).

Measurement Model

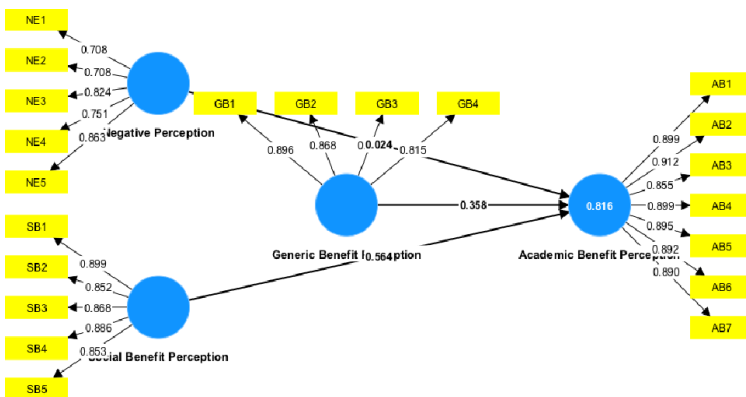


Table 6. R-Square

	R-square	R-square adjusted
Academic Benefit Perception	0.816	0.808

In Table 6 above shows the strength of the proposed research model can be explained by endogenous constructs and is often considered a predictive model which can describe actual phenomena in the field. The guideline that is often used is between 0–1, and the closer it gets to 1, the more the research model is considered to have greater explanatory power (Hair, et al., 2019). Based on these parameters, this research model has an R-square value of 0.816 or in other words it can describe the existing phenomenon.

Table 7. Bootstrapping

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Negative Perception -> Generic Benefit Perception -> Academic Benefit Perception	0.054	0.062	0.039	1.393	0.082
Social Benefit Perception -> Generic Benefit Perception -> Academic Benefit Perception	0.268	0.262	0.092	2.921	0.002

Based on Table 7 above, only hypothesis 2 is supported, namely that social benefit perception influences academic benefit perception positively through generic benefit perception. Meanwhile, hypothesis 1 is not supported, namely this research proves that negative perception does not influence academic benefit perception positively through generic benefit perception. Supported and unsupported decision-making parameters are based on the view of P-Values which must be < 0.05 (Andrade, 2019).

Figure 3. Structural Model

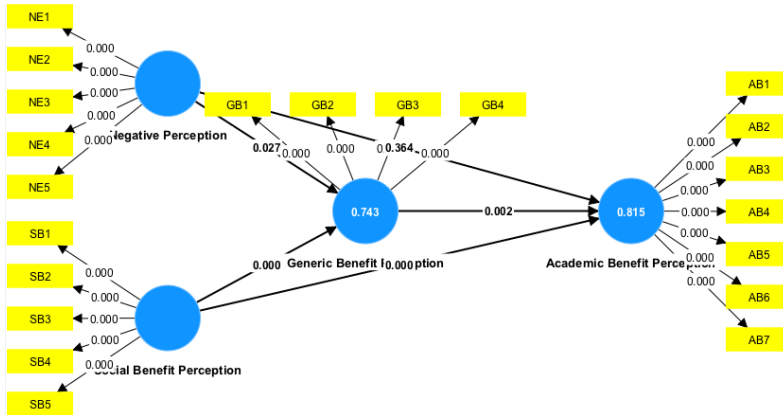


Figure 3 above shows the processing visualization after bootstrapping. The article will now move on to the next part, namely discussion.

5. Discussion

Based on the purpose of writing this paper, the discussion will be divided into four parts. It will begin with a discussion related to the purpose of the study, namely the identification of cultural nuances influencing educational exchanges, understanding how students from Asia and Europe navigate cultural differences adapt to new learning environments, and how engaging in cross-cultural collaborations helps create inclusive and effective educational practices.

Based on the results of the data collection, it was found that exposure to countries outside Europe for mandatory learning could be one way to provide an initial illustrative picture of education outside Europe. As when this data collection was carried out, the researchers were involved as facilitators and received interesting responses from the participants that academic benefits, social benefits, generic benefits, and negative perceptions received similar responses from all the respondents (n=70).

The results of multivariate analysis which tries to prove the factors that are considered to influence academic benefit perception show that social benefit perception can influence academic benefit perception positively through generic benefit perception. When students are involved in academic activities that they consider provide social benefits, students can develop themselves because of intellectual stimulation. Self-development experiences for students can create a perception of general benefits. On the other hand, the existence of generic benefits acts as a bridge between social benefits and academic benefits. This happens when students feel that there are general benefits, and so they tend to connect the social aspects of these activities with their overall academic goals, and therefore this relationship can lead to a stronger perception of academic benefits.

As viewed from the perspective of globalization, educational collaborations between Asia and Europe can encourage student mobility and create educational partnerships between countries, which are usually initiated by the Ministry of Education and then implemented by partners either from universities or organizations that have competence in managing educational mobility programs. Not only that, educational collaborations between Asia and Europe could bring huge economic and diplomatic benefits, as well as shape the world in amazing ways. From an economic point of view, student mobility has a role as an agent of “knowledge transfer”. When students return to their country of origin or finish their mobility activities, they are assumed to have new skills which are of course useful in developing a country’s human resources, thereby indirectly contributing to economic development. However, even though globalization opens opportunities for some people, there are still potential obstacles, namely those related to finances, where not everyone can take part in mobility programs, and this can be an obstacle for students who have weak financial capabilities. Therefore, the government’s role in providing a stimulus or assistance in the form of a scholarship program can overcome this. Apart from that, in learning from experience during the pandemic, one thing that can reduce mobility costs is by providing hybrid mobility program channels, namely online and face-to-face, so that for those who have an interest in participating in educational mobility activities but are hampered by costs, the participants can still take part in similar activities by watching real-time conference meetings.

The activities carried out at ISC Paris are one of a series of International Lecture Week activities which are routinely held from year to year between ISC and BINUS Business School, which is in Jakarta, Indonesia. Since the pandemic at the end of 2019, the delivery mode has been carried out via a hybrid method, and this has been maintained until the time this paper was written. The difference is, in 2024, when this International Lecture Week will take place, there will be two modes, namely a face-to-face learning mode, where facilitators from partner universities come directly to ISC to give lectures, and an online learning mode, where facilitators make lecture presentations at the university location and are witnessed by ISC students via teleconference. An interesting challenge is related to the timeframe, where there is a time difference between the ISC and partner universities, so that specifically for activities carried out in a hybrid manner, schedule adjustments are made before the event is held, so that the activities can be conducted well. The impacts on economies, policy-making, and international relations provide valuable insights for policymakers, educators, and institutions seeking to strengthen bilateral ties. As it requires international experience for students before graduation, BINUS Business School also conducts International Lecture Week on a yearly basis, which, last year (2023), successfully had 67 faculty members from 20 partner universities, and a high amount of student participation, both from the undergraduate and master's degree programs.

The student exchange programs between Asia and Europe play an important role in encouraging social change. By promoting student mobility activities, there will be a process of social exchange, social learning, and a more global human resource mindset. Indirectly, the student participants who take part in these programs have the opportunity to become a generation ready to face an increasingly interconnected world. Furthermore, when social interactions occur from student mobility programs, learning and globalization will have an increasingly close relationship, bridging the gap between continents, in this case between Asia and Europe, and encouraging a better future.

Several programs that show the existence of educational collaboration between Asia and Europe include Erasmus+, ASEM Education Process, ASEFClassNET17 School Collaboration, SHARE, and the ASEAN-EU Higher Education Fair, which are channels that can be utilized by all

Asian and European communities and are reciprocal in nature. For this paper, the program explanation takes Erasmus+ and SHARE as a sample, as follows.

Erasmus+ is a program that promotes activities that are consistent with the aims of the EU's cooperation policy in these regions. Asian nations can participate in Erasmus+ as partner nations in four different types of higher education sector initiatives, as well as youth cooperation programs (Commission, 2024).

SHARE is a program that has recently been launched. In sources obtained regarding the SHARE project, it started its operation as the European Union's flagship higher education project with ASEAN on February 27, 2021, following an agreement between the EU and ASEAN that extended the program until the end of 2022. The initiative was officially inaugurated by the ASEAN Secretary-General, H.E. Dato Lim Jock Hoi; the EU Ambassador to ASEAN, H.E. Igor Driesmans; and officials from the SHARE consortium partners (McDermott, 2021).

Over time, Asia and Europe are considered to be close, because of the interconnectedness of many activities, one of which is related to education. In the landscape of relations, Asia and Europe have a number of collaborations in the field of education which can then foster the principles of global citizenship. Education is actually the most powerful weapon and plays an important role in cultivating a global citizenship mindset.

6. Conclusion

Based on the discussion section of this paper, there are opportunities to be gained from educational collaborations between Asia and Europe, including student mobility, encouraging economic development through the creation of a workforce with global competence, as well as inclusive and global-oriented learning. Apart from that, a number of challenges related to educational collaborations between Asia and Europe include the potential for financial limitations which could prevent students from taking part in collaboration programs, encouraging the importance of initiatives that need to be made by the government, and of course ensuring that the implementation of activities can be carried out in a number of ways, including with a hybrid model which is more affordable and can reach a wider audience that is not possible face-to-face. Therefore, several things that can be done to increase educational collaborations between

Asia and Europe, apart from financial assistance for students who cannot afford it but have potentials in terms of academic achievements, are by implementing alternative learning modes which do not require participants to incur costs and do not make them be physically present.

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Appendix 1. List of Survey Questions

Questionnaire of the Profile of the Students

Information about the year of study.

Which faculty and study program.

Is the International Lecture Week a mandatory/voluntary activity?

How many times have you experienced International Lecture week?

Questionnaire about the Academic Benefits Perception of International Lectures

Help students understand the materials.

Help students exchange knowledge, information, and experiences.

Help students solve problems easier.

Provide students with helpful feedback.

Improve students' performance.

Make students actively participate in the learning process.

For students, international lectures are a good learning experience.

Questionnaire about the Social Benefits Perception of International Lectures

Help students be more relaxed in learning.

International lectures let students have more international colleagues.

Increase the spirit of going international.

Increase understanding about other countries.

International lectures should be continued regularly.

Questionnaire about the Generic Benefits Perception of International Lectures

Stimulate critical thinking.

Help students be more responsible for themselves.

Provide students with a better understanding about international collaborations.

Improve students' communication skills.

Questionnaire about Negative Perceptions of International Lectures

Waste the students' time to understand the lecture.

Have difficulty to ask questions.

Have difficulty to participate in the class.

Students feel that the lecturer in the session is not capable.

The EU's Central Asia Policy in a Shifting Regional Geopolitical Landscape¹⁶

Dragan Trailović and Slobodan Popović

Abstract: Historically situated as a crossroads of great powers, Central Asia has regained prominence in the contemporary global arena. For decades, the European Union (EU) has been a significant player whose normative power, geopolitical interests and geoeconomic needs influence (Central)Asian (inter)regional dynamics. This paper examines the EU's evolving policy towards the region, assessing its responsiveness to shifting (geo)political and security realities, currently and notably shaped by China's rise and constant search for stability. Moving beyond a primarily aid-centric approach, the EU is strategically prioritizing facets such as energy security, connectivity, human rights, and the promotion of regional cooperation. This article examines the transformation and ramifications of the EU's policy trajectory concerning Central Asia amid the rapidly changing regional landscape. The effectiveness of the EU's existing strategies and initiatives in the region is examined, alongside an analysis of the challenges posed by the increasing influence of other powers, which has triggered a New Great Game. Through a study of key policy dimensions, diplomatic undertakings, and collaborative endeavors within the region, the paper aims to illuminate how the EU navigates the complex dynamic of a regional environment, seeking to support cooperation, address shared challenges, and foster stability in its engagements with Central Asia. In doing so, this paper provides insights into the EU's role in shaping and recalibrating its policy framework in response to the evolving geopolitical and economic dynamics characterizing Central Asia.

Keywords: Central Asia, European Union (EU), EU's Central Asia Strategy, Geopolitical dynamics

JEL: F50, F53, F55, O10, Q40

¹⁶ Funding: The paper presents findings of a study developed as a part of the research project "Serbia and challenges in international relations in 2024", financed by the Ministry of Science, Technological Development and Innovation of the Republic of Serbia, and conducted by Institute of International Politics and Economics, Belgrade, during the year 2024.

1. Introduction

1.1 Different Readings and Understandings of the Map of Central Asia

In the (academic) literature of history, diplomacy, international relations, studies of security, geography and brochures released by international institutions and governments, we can find different spatializations of the meanings or “covered” space in the two words “Central Asia”. The widest determination of the space of the Central Asia is given by the UNESCO. Namely in 1978, UNESCO in the region of Central Asia included Afghanistan, north-eastern Iran, Pakistan, northern India, western China, Mongolia and the five former Soviet Central Asian Republics, [...] “which corresponds to a clearly discernible cultural and historical reality” (Mayor, 1992, p. 8). This is one of the many different definitions and understandings about the Central Asian region. Different understandings and readings of Central Asia followed its dynamic historical, political, strategic and wider social changes, issues and new trends. Having this (un)predictable dynamism of Central Asia in mind, it becomes obvious that there is no one commonly accepted definition of the Central Asian region. On the contrary, given definitions depend on which features (solely geographical or with a wider perception including political, cultural and other elements) we take for their basis (Trailović, 2022, pp. 80–81). Different understandings provided by different countries or international institutions mean different strategies and ways of behaviour towards the region of Central Asia.

Different understanding and readings of the region of Central Asia corroborate the fact that geopolitics should be critically re-conceptualized as a discursive practice by which intellectuals of statecraft “spatialize” international politics in such a way as to represent it as a “world” characterized by particular types of places, peoples and dramas. In our understanding, the study of geopolitics is the study of the spatialization of the international politics by core powers and hegemonic states (Dalby, Routledge, and Tuathail, 2003). Thus, (critical) geopolitics does not assume that “geopolitical discourse” is the language of truth; rather, it understands it as a discourse seeking to establish and assert its own truths (Dalby et al., 2003).

For the purpose of this paper, we will rely on a political concept that implies a narrower spatial-geographic scope of—the Central Asian region including five former Soviet Republics—Kazakhstan (capital Astana), Tajikistan (capital Dushanbe), Turkmenistan (capital Ashgabat), Uzbekistan (capital Tashkent) and Kyrgyzstan (capital Bishkek) —which for the very first time became independent states in the last decade of the 20th century.¹⁷

Although, this is a landlocked region, due to its energy resource abundance, religious particularism, porous institutionalism, weak borders, central geographic position, vicinity of Russia, China, Afghanistan, India, and the Golden Crescent, it attracted the attention of both geographically close and states located a long distance from this region. Drawing attention of powerful states is a tradition of the Central Asian states. For example, during the 19th century, it was a playground of the British Crown and Imperial Russia. Russia wanted to reach, that is, to be positioned in warm waters making an undisrupted channel for spreading its influence, whilst the British side prevented this from becoming a reality. Their skirmishes and confrontations in this particular part of the globe, in the literature, are defined as a *Great Game* and/or *Tournament of Shadows*.

Since that period of time, many states expressed the ambition to spatialize that space and make the geopolitical order¹⁸ in accordance with their needs and interests. With a population of over 70 million, the Central Asian region spans around four million square kilometres. Rich in natural resources such as uranium, oil, natural gas, and gold, Central Asia is strategically important and attractive from a geopolitical standpoint, drawing significant political and economic engagement from major global powers as well as regional players.

17 In the current form/boundaries, but before getting independence after dissolution of the Soviet Union, Central Asian states were created under direct Stalin's directives. Firstly, Uzbekistan, Turkmenistan and Tajikistan were recognized in 1924, and after that Kazakhstan and Kyrgyzstan in 1929 and 1935, respectively. The creation of the Central Asian SSRs was primarily driven by Stalin's desire for a pyramidal political structure and integration into the Soviet economic plans. While ethnicity played a role, historical and religious factors were less emphasized. This approach led to the creation of republics with sometimes arbitrary borders, which continues to have consequences in the region today (Trailović, 2016).

18 For the definition of the geopolitical order look in (Agnew and Crobridge, 2002).

1.2 Shifting Regional Geopolitical Landscape

In contemporary history, besides voluntary foreign involvement in the region of Central Asia, there is an impression that Central Asian sovereign republics are pursuing multi-vector foreign policy for attracting capital and political presence of powerful states with simultaneous reinforcing of the independent intraregional interconnectivity. This kind of perplexed situation opened the question of the type and form of the *New Great Game*. As noted by Qamar and Zafar (2014), compared to the 19th century Great Game, the new one is based on diversified objectives, strategies, players, and interest. As it was noted, players in the *New Great Game* are diversified and more numerous. First of all, all five republics included in this research were a part of the Soviet Union with Russia for their leader. After the dissolution of the Soviet Union, when the world entered an era of unprecedented changes, Russia continued to perceive the five Central Asian states as its backyard, i.e., the space for exerting its further and unquestionable geopolitical and geoeconomic influence. Expectedly, Russia was the first state to start diverse both economic and security processes of integration in this specific part of the globe. That resulted in creating the Commonwealth of Independent States, the Eurasian Economic Union and the Collective Security Treaty Organization and Russia became/sustained the position as the most important influence in every aspect of the Central Asian society, politics, economy and security.

When the Soviet Union was dismantled, instead of one neighbor, China obtained three new neighbors—Kazakhstan, Kyrgyzstan and Tajikistan, with unresolved and non-defined borders as a heritage of history. Non-defined borders could be used by some Turkophone groups located in Central Asia to give support to separatist movements which are trying to transform the Chinese Uyghur Autonomous Region into an independent, so-called state of “East Turkestan”. In the moment when the five Central Asian republics became independent for the very first time in Central Asia, China was a much powerful partner and neighbor, but instead of pursuing the course of securitization (Buzan, Wæver and De Wilde, 1998) of mutual relations followed by potential conflicts, China selected diplomacy, diplomatization of relations (Štambuk and Popović, 2022) and mutual economic development. By doing so, China achieved two instrumental and strategic goals—firstly, it created a space for investing money in

economic development instead in weaponry race, and secondly it made the space for a third party, as a broker, in developing cooperation unnecessary (Popović, 2018a; Popović and Stevic, 2023). This kind of behaviour resulted in the founding of the Shanghai Cooperation Organization whose current member states are Russia, China, India, Pakistan, Iran, Uzbekistan, Kyrgyzstan, Tajikistan and Kazakhstan. The nurturing of sincere and strategic good neighborhood diplomacy resulted in China's announcement of the continental part—Silk Road Economic Belt—of the One Belt One Road Initiative/Belt and Road Initiative in Kazakhstan in 2013. Through its initiatives and ambitious plans, China became one of the most powerful economic actors in this region.

Since Central Asian states obtained independence, the United States recognized their importance for American geopolitical interests. The then leaders of the USA understood that possible stronger presence of their country in Central Asia, besides their stronghold in the Pacific region, could be crucial in pursuing the strategies for the containment of Russia and planned growth of China. Thus, in 1992, the USA released the following document *Freedom Support Act/Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act*. According to this Act, one of the main goals that new Central Asian republics should achieve was to become part of the democratic world defined by the West (Congress, Public Law 102-511, 1992).

After that, the USA published the *Silk Road Strategy Act of 1999*. Through this strategy from 1999, the USA defined goals that should be achieved in the region of Central Asia. Those goals were reinvigorating cross border trade, protecting sovereignty, modernization of energy, transportation and telecommunication infrastructure, and investing in education and business development (Congress, H.R. 1152, 1999). The new *Silk Road Strategy Act* was adopted in 2005, in which was accentuated the importance of dissemination of the American ideological interests through fighting terrorism, religious extremism and securing energy security (Congress, S. 2749, 2006). In 2015, Anthony Blinken (2015) gave a speech entitled *An Enduring Vision for Central Asia*, in which he accentuated that the USA with each of the Central Asian states is striving to achieve the following goals: strengthening partnerships to advance mutual security; forging closer economic ties; and advancing and advocating for improved governance

and human rights.¹⁹ Some of the USA interests in Central Asia were realized in 2017 by signing the agreement about the Lapis Lazuli Corridor in Ashgabat (Rahim, 2017). The mentioned activities gave great impetus in defining *United States Strategy for Central Asia 2019-2025: Advancing Sovereignty and Economic Prosperity*. In this strategy, the Central Asian region is understood through Central Asian relations with other regions and USA relations with Central Asian neighbors (US State Department, 2019).

With its aim of securing a better position for achieving some of its goals through cooperation with Central Asia, the USA, that is the then U.S. Secretary of State John Kerry paid a visit to the Central Asian states and launched the C5+1 mechanism of cooperation. The very first meeting was held on November 1, 2015 in Samarkand with a series of bilateral consultations with governments of each of Central Asian republics that allowed the Washington U.S. to deliver the specific political messages to each country in the region. In fact, John Kerry's visit to the region was the most extensive by the U.S. Secretary of State since James Baker's post-Soviet diplomatic tour to Central Asia in January 1992 (Parkhomchik, 2016). The C5+A dialogue platform was additionally reinforced by starting the B5+1 (Business 5 + 1) mechanism of cooperation on the level of private entrepreneurship (US Embassy in Tajikistan, 2023).

US President Joe Biden met with the leaders of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan for the inaugural C5+1 presidential summit at the United Nations in 2023. The summit marked a significant milestone in Central Asian-United States relations, as it was the first time a US president had convened with these leaders in this format (The White House, 2023). Although one of America's main focuses after withdrawing from Afghanistan was to pacify it by including Afghanistan in the wider region, now it is certainly focused on deepening political and military, but above all economic engagement through the "C5+1" format of cooperation with Central Asia, providing the republics with a counterbalance to Russian and Chinese influence.

¹⁹ For example, the US invested about one hundred million US dollars in Kazakhstan and Azerbaijan in order to implement the Caspian Basin Protection Operation. The goal of this operation was to protect oil facilities from terrorist or other types of attacks (European Commission, 2007, p. 10).

On the other hand, alongside the United States of America's intention to increase engagement within its "C5+1" format, China has also initiated a new "China+5" cooperation format launched in 2020. This move represents the expansion of China's role in the region and marks a gradual transition from mainly economic cooperation with the region to the realm of political relations. It is the first multilateral forum where only China and the Central Asian republics are present, without the involvement of other actors. In addition to its previous focus on bilateral relations with these republics individually, China has now decided to treat them as an integral region. It has been observed that in recent years, intra-regional transitions of power have been occurring within the Central Asian republics, leading to an internally driven process of strengthening regional connections and integration through consultative meetings among the heads of state of Central Asia (Helf, 2023). Simultaneously, there have been shifts in the geopolitical dynamics of the region, evidenced by a more assertive approach from major powers, primarily China and the USA. Their engagement with the region through diplomatic platforms such as "5+1" cooperation signals the onset of a new phase in geopolitical relations and indicates that both countries remain prepared to vie for influence in Central Asia. This competition aims ultimately to diminish the excessive or dominant dependence of Central Asian republics on other major powers.

In analyzing the *New Great Game* and balance of interconnectedness in that particular part of the globe, we should not exclude the strategies of Japan (Popović, 2018b), South Korea (Hwang, 2012), and Turkey (Sasley, 2010)—who is insisting on the Turkophone identity of the region—India (Gupta, 2013) and Pakistan (Javid and Naseem, 2014). However, for the purpose and the length of this article we are not able to analyze the strategies of the mentioned states.

Aware of Central Asia's strategic significance and opportunities for collaboration, the European Union has also demonstrated an interest in interacting with the region. The European Union seeks to foster stability, economic growth, and connectivity in Central Asia by means of many programs and collaborations. In the following part of the paper, the focus will be on European Union strategies towards this region. We will follow changes that occurred within the behaviour and goals that the EU set to achieve through cooperation with these five sovereign republics.

2. The Evolution of the EU's Central Asia Policy: Overview of the EU Strategy on Central Asia

After the collapse of the Soviet Union, the republics of Central Asia became independent states that gradually began to open up to the outside world. The European Community acknowledged the independence of Central Asian republics with the “Joint Declaration of Twelve” issued in December 1991. Following this, “Memorandums of Understanding (MoU)” between the republics of Central Asia and the European Commission were signed in 1992. European countries subsequently developed their approach to Central Asia, with Germany being the sole country to maintain diplomatic representation in all five Central Asian nations, while others primarily managed diplomatic affairs in the region from Moscow. Initially, progress in relations was slow, with the EU concentrating on providing humanitarian aid and supporting the transition to democracy and a market economy. The EU established a delegation in Kazakhstan in 1994, later expanding it to include Tajikistan and Kyrgyzstan (Melvin, 2008, p. 2). The European Union Commission specifically highlighted the EU's strategic interests in Central Asia in its 1995 “Communication on Relations with Newly Independent States of Central Asia” (Yunusov, 2018, p. 105).

Recognizing the strategic importance of Central Asia, the EU began to engage more actively in the region. In 1996, Partnership and Cooperation Agreements (PCAs) were signed between the EU and the republics in Central Asia. Specifically, PCAs were signed with Kazakhstan, Kyrgyzstan, Uzbekistan, and Turkmenistan (although the latter was not ratified) in 1996, while Tajikistan did not sign until 2004 (Melvin, 2008, p. 2). These agreements aimed to foster political dialogue, economic cooperation, and development assistance, providing a framework for collaboration in various areas such as trade, investment, human rights, rule of law, and security.

According to data presented in the document *Strategy Paper 2002-2006 & Indicative Program 2002-2004 for Central Asia*, from 1991 to 2002, the European Union provided Central Asia with aid totaling more than €944.4 million. This aid included €366.3 million in bilateral technical assistance through the TACIS Programme, €153.5 million in humanitarian assistance via ECHO, €137.4 million from the Food Security Programme,

and €265.7 million in macro-financial assistance (European Commission: DG External Relations, 2002, p. 38).

The European Union's approach and strategies for Central Asia have evolved through three distinct periods: 2002–2006, 2007–2015, and from 2019 until the present day.

In 2002, the EU issued a *Strategy Paper 2002–2006 & Indicative Programme 2002–2004* for Central Asia. It was essentially a basic strategic approach that clearly defined the means of delivering technical assistance to Central Asia, relying primarily on the TACIS program. TACIS (Technical Assistance to the Commonwealth of Independent States), established in 1990, was a special program of the European Community aimed at supporting the ongoing process of economic reforms and development in the countries of the Commonwealth of Independent States, including the five Central Asian republics (European Commission, 1992). The Program in the region was activated in 1991 and it was in operation until 2006. During this period, the European Union's approach to Central Asia focused on poverty reduction, stability and economic development, with an implicit consideration of democratization. The strategy for Central Asia in the period of 2002–2006 prioritized three main areas: “support for institutional, legal, and administrative reform”; “natural resources/networks”; and “support in addressing the social consequences of transition” (European Community, 2007, p. 16). In this period of time, resource allocation reflected a balanced approach, with 26 percent directed towards regional cooperation initiatives, 54 percent allocated to bilateral programs, and 25 percent designated for targeted poverty reduction schemes (European Community, 2016, p. 16). The international intervention in Afghanistan in 2001 marked a significant shift in EU-Central Asian relations. The EU became increasingly interested in the region due to its strategic location and the potential for instability to spill over from Afghanistan, prompting security issues to come into focus. Following the attacks of September 11 and the onset of the “war on terror,” Central Asia gained greater global importance, prompting the EU to pay more attention, particularly in the security sector, with an emphasis on border issues. The EU launched aid programs such as the Border Management Program in Central Asia (BOMCA) to address security concerns (Melvin, 2008, pp. 3–4). Recognizing the strategic importance of the region and the escalating competition for energy resources, the EU

decided to strengthen its involvement in Central Asia by establishing the role of the European Union Special Representative for Central Asia in 2005 (Melvin, 2008, pp. 4–5). Since the 1990s, EU engagement in Central Asia has evolved from focusing on internal economic reforms to recognizing the region’s significance for energy security.

In 2007, the EU reached a significant milestone when the Strategy for Central Asia it adopted was endorsed by the European Council. This marked a departure from a Commission-centric focus on EU assistance programs to a comprehensive EU-wide document encompassing relations with Central Asia across various levels (Cornell and Starr, 2019, p. 30). Although the policy establishes broad guidelines and concepts, the funding commitments are outlined in detail in the EU’s Regional policy Paper for Assistance to Central Asia in 2007–2013 (Voloshin, 2014, pp. 45–46). The “Strategy for a New Partnership” (2007) acknowledges that developments in Central Asia have a direct impact on EU interests. It emphasizes the shared interest in diversifying energy exports, aligning with Central Asia’s aspiration to diversify its energy exports and the EU’s necessity to diversify its energy imports (Juraev, 2017, p. 82). Moreover, the Strategy explicitly prioritizes good governance and democratization, gradually transitioning from a cautious focus on state-building to a stronger emphasis on democratization, often embedded within broader efforts to promote stability, security, and poverty reduction. Key approaches include promoting civil society, strengthening the rule of law, and supporting independent media (Winn and Gänzle, 2023, pp. 1348–1350). These strategies underscore the EU’s acknowledgment of the critical role of democracy and governance in achieving long-term stability and development in Central Asia. During this period, the European Union paid increased attention to state-building initiatives such as border management, social and economic development, and water management (Norling and Cornell, 2016, pp. 10–11).

However, the adoption of the document occurred during Germany’s tenure as the EU presidency and predominantly mirrored Germany’s interests in Central Asia. This clarifies why the Strategy sought to harmonize democracy and security, particularly in the aftermath of the 9/11 attacks. Germany’s significant involvement in neighboring Afghanistan, where it ranked as the second-largest contributor of troops after the United States, likely

shaped this perspective (Fawn, Kluczevska and Korneev, 2022, p. 624). The EU also developed human rights dialogues as part of its democratization policy toward Central Asian republics after the 2007 Strategy was adopted. The goal of these bilateral discussions with each of the five Central Asian republics was to address shared concerns about human rights and to strengthen collaboration, particularly in multilateral fora such as the UN. The Dialogs are formal gatherings involving human rights representatives from the European Commission, Council Secretariat, EU Presidency and representatives of relevant departments of the Central Asian republics (Axyonova, 2011).

According to Cornell and Starr (2019, pp. 22–23), starting from 2010, the European Union began to pay additional attention to the Central Asian region for several reasons. Firstly, this was due to the deterioration of relations with Russia in 2014, followed by the announcement of the planned withdrawal of NATO from Afghanistan. Additionally, there was a completely new reason: the EU no longer viewed Central Asia solely through the prism of relations with Russia and the situation in Afghanistan, but also in relation to the increasing presence of China.

In that sense, the Strategy adopted in 2007 underwent two revisions in the following period, namely in 2012 and 2015. The revision from 2012, among other areas, significantly related to matters of regional security, as well as economic development, human rights, good governance, corruption and energy issues with a focus on the lack of concrete initiatives that would strengthen the connection of Europe and Central Asia (Winn and Gänzle, 2023, p. 1350; Cornell and Starr, 2019, pp. 33–35). As Cornell and Starr (2019, pp. 35–36) have noted, the 2015 revisions filled a vacuum in earlier papers by providing a practical evaluation of the geopolitical conditions surrounding Central Asia. It draws attention to issues raised by China’s “economic expansion,” Russia’s “integrationist” program, and the waning influence of the United States. Furthermore, it emphasizes how the Ukraine situation has made these challenges even more complex.

2.1 2019 EU Strategy for Central Asia – “New Opportunities for a Stronger Partnership”

In recent years, Central Asia has gained growing significance for influential international actors, including those in close geographic proximity to the region like Russia and China, as well as those farther away but with their own geopolitical and geoeconomic interests, such as the USA and the European Union. As stated in almost all previous EU strategic documents on Central Asia, this region is crucial for the Union for at least three reasons. One is its strategic geographical position at the heart of Eurasia, serving as the land link between Asia and Europe. Additionally, the area is rich in energy resources, which are vital to the European Union’s economies. Furthermore, regional and broader security issues in Eurasia are significant factors, particularly in relation to the situation in Afghanistan and the new conflict in Ukraine.

For the European Union and its further and more comprehensive engagement in Central Asia, the newly self-initiated process of intraregional cooperation between the republics of the region is particularly important. The Central Asian region has long been viewed as a region that is not characterized by comprehensive cooperation between the Central Asian republics, but rather as a fragmented region that is mainly characterized by conflicts and rivalry. Now that the Central Asian states have initiated the process of political intraregional cooperation embodied in the summits of the heads of the Central Asian states, other actors, including the EU, look at the region as a single economic and political space (Fawn, 2022, pp. 678–681). Accordingly, the relationship towards Central Asia is such that, in addition to bilateral cooperation, attention is also paid to regional cooperation and assistance, looking at the region as a whole. Some scholars claim that rather than promoting norms and values, the European Union’s new approach to Central Asia is now more driven by political and economic concerns (Khitakhunov, 2023, p. 27).

As Winn and Gänzle (2023, p. 1343) observed, the EU’s foreign policy in Central Asia has evolved from a primary focus on normative power and democracy promotion to embracing a stance characterized by principled pragmatism and resilience. Although democracy promotion continues to be important within this framework, there is a realization

that the EU occupies a secondary position in the region when compared to other influential powers like Russia, China, and the United States. For these reasons, in 2019, the EU adopted a new strategy for Central Asia called “The EU and Central Asia: New Opportunities for a Stronger Partnership”. This strategy reflects the EU’s new approach to the region, with greater emphasis on resilience, prosperity and regional cooperation. The EU aims to cooperate with Central Asian republics to address socio-economic challenges, promote democracy, and climate issues. Additionally, the strategy aims to unlock growth potential by fostering a competitive private sector and improving investment environment. It also emphasizes strengthening partnerships through political dialogue, civil society involvement, and public diplomacy to underscore the benefits of cooperation for the region (European Commission, 2019).

The goal of the EU’s “Partnering for Resilience” effort is to make Central Asia more resilient to challenges resulting from globalization, new security risks, climate change, fast population expansion, strain on water and energy resources, and environmental degradation. It places a high priority on human rights, democracy, inclusive economic and political government structures, and the empowerment of civil society. The EU also prioritizes gender equality, fair work standards, and sustainable growth. According to the strategy, security, migration, and border management are also identified as significant areas for cooperation. Through the Paris Agreement, the circular economy, and sustainable resource management, the EU also promotes environmental resilience. Initiatives also include scientific research on water management, climate change and renewable energy (European Commission, 2019, pp. 3–8).

Within a second strategy priority “Partnering for Prosperity” the EU hopes to support Central Asia’s sustainable economic growth by expanding the private sector, fostering a more favorable investment environment, embracing a green economy, lowering socioeconomic disparities, investing in human capital, advancing decent work, and boosting regional trade and connectivity. The European Union prioritizes economic modernization and reform, promoting capital markets, a competitive private sector, and business-to-business communication. It is in favor of encouraging regulatory convergence, removing non-tariff obstacles, and pursuing conformance with WTO, EU, and World Customs Organization international customs

standards. In order to promote exports and economic diversification, the EU will increase its efforts to assist Central Asian recipient nations in better utilizing the unilateral preferential access to the EU market granted by the GSP and GSP+. The emphasis is on sustainable connectedness, with particular attention to energy, transportation, and digital links. The European Union will persist in emphasizing the increased contribution of Central Asia to the energy supply security and diversity of the EU's suppliers, sources, and routes. This will involve evaluating the feasibility of constructing the Trans-Caspian Pipeline. Additionally prioritized are investments in youth, education, innovation, and culture (European Commission, 2019, pp. 8–14).

According to the third strategy priority “Working Better Together” the EU plans to implement a new strategy in Central Asia, focusing on fostering synergies between its institutions and Member States. In addition to regular and formally established cooperation mechanisms, the EU plans to enhance institutional frameworks for dialogue, including *ad hoc* senior officials' meetings and informal ministerial consultations on the sidelines of international gatherings in order to strengthen the architecture of the partnership. The EU will enhance dialogue frameworks, encourage inter-parliamentary dialogue, and engage with civil society. The partnership will continue to focus on development assistance, promoting policy dialogue, and cooperating with international financial institutions. A dynamic communication strategy will be developed to highlight the benefits of EU engagement in Central Asia (European Commission, 2019, pp. 14–16).

3. Key Elements and Objectives of the EU's Central Asia Policy

3.1 Political Cooperation

In order to address a variety of issues including trade and investment, democracy and human rights, justice, energy and transport, environmental issues, regular meetings and annual cooperation councils have been established. Three main mechanisms that facilitate political cooperation and dialogue between the European Union and Central Asian republics are: Ministerial meetings, Regional High-level Meetings between the President of the European Council and the Heads of State of Central

Asia, and High-level Political and Security Dialogue. These structures function as crucial official forums that facilitate comprehensive dialogues and promote cooperation between the European Union and the Central Asian republics on a plethora of political and security issues. The EU and all of the Central Asian republics now have more diplomatic exchanges as a result of these arrangements.

A regular platform for communication between the European Union and the five Central Asian nations is the EU Central Asia ministerial meetings. The first EU Strategy for Central Asia was adopted in 2007, which prompted the start of these ministerial sessions. Since then, the EU and a capital city in one of the five Central Asian nations have alternated hosting them every year. During these talks, Central Asian foreign ministers meet with counterparts from EU Member States, notably the High Representative for Foreign Affairs and Security Policy and the European Commissioner for International Partnerships. October 23, 2023, saw the 19th EU-Central Asia Ministerial Meeting take place in Luxembourg. Stressing the common interests and principles that have been shown in prior meetings, both parties reiterated their commitment to their strategic collaboration. The participants committed to respecting international law while cooperating for peace, security, and sustainable development (Council of the EU, 2023). All of them supported the Joint Roadmap for Strengthening Relations between the European Union and Central Asia. This plan presents a thorough framework with high goals to strengthen the cooperation with an emphasis on prosperity and sustainability. It addresses a number of important topics, such as improving people-to-people interactions and mobility, trade and economic ties, energy, the climate-neutral economy, connectivity, and interregional political discussion (Council of the EU, 2023; Xinhua, 2023).

The importance of Central Asia for the EU was also confirmed in 2022, when the first high-level meeting between the presidents of the CA states and the President of the European Council was held. The second meeting in a row was held in 2023, and it confirmed the commitment that such a high-level dialogue platform should continue to be held in order to address all those priority areas that both parties previously identified. This marked progress in the further institutionalization of political relations between the two partners. It was also decided that the meetings will continue to be

held regularly in the form of a summit starting in 2024 (European Council, 2023).

The establishment of this type of cooperation formats at the highest level should be seen in the light of the initiatives of other important international actors in the region, such as “China+5” and the American C5+1 diplomatic cooperation format, which marked their greater political engagement in Central Asia.

The High-level Political and Security Dialogue has been held regularly since its launch in 2013. Meetings are held at the level of Deputy Ministers of Foreign Affairs of Central Asian republics and Deputy General Secretary for Political Affairs of the European External Action Service. The tenth round of the annual Dialogue was held in Astana in 2023. On this occasion the EU reaffirmed its strong commitment to the region and expressed its readiness to support all efforts aimed at intensifying cooperation with Central Asia (European External Action Service, 2023).

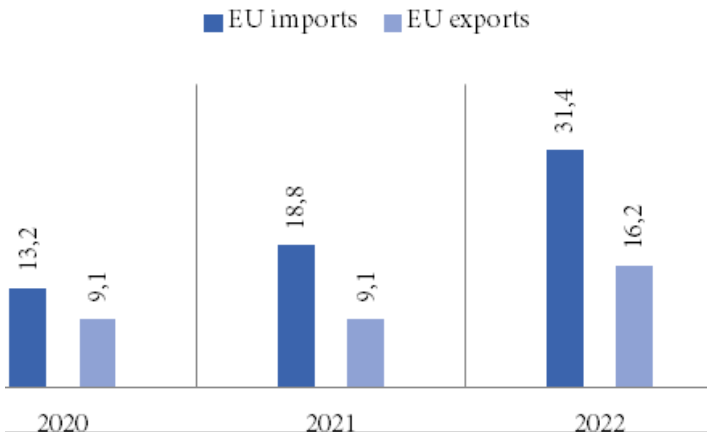
The European Union also dedicates significant attention to bilateral cooperation with the republics of Central Asia. Partnership and Cooperation Agreements (PCAs) serve as vital instruments in strengthening bilateral relations between the European Union (EU) and the republics of Central Asia. These agreements encompass a broad spectrum of areas, including promotion of human rights and democracy, facilitation of trade and investment, promotion of sustainable development, protection of intellectual property rights, enhancement of security cooperation, management of energy resources, protection of the environment, and more (Yunusov, 2018, p. 112). The core element of EU engagement in the region will be the new generation of bilateral Enhanced Partnership and Cooperation Agreements (EPCAs), which the European Union (EU) could enter into with specific Central Asian republics (European Parliament P9_TA(2024)0027, 2024). Kazakhstan was the first state in Central Asia to sign an EPCA in 2015, and it went into effect on March 1, 2020. The EU concluded negotiations on an EPCA with Kyrgyzstan on July 6, 2019, but the agreement has not yet been signed. The EU concluded negotiations on an EPCA with Uzbekistan on July 6, 2022, and the EU began negotiations on an EPCA with Tajikistan in early 2023 (European Parliament P9_TA(2024)0027, 2024; European Commission, 2019, p. 2)

3.2 Mechanisms for Economic Cooperation and Connectivity

The expansion and strengthening of economic cooperation stand as primary objectives of the European Union, as outlined in its strategy for Central Asia. The EU aims to enhance regional economic growth, foster collaboration across various economic domains, and strengthen its economic relations with the nations of Central Asia.

Since the EU adopted its new strategy for Central Asia in 2019, political and economic cooperation between the European Union and the republics of Central Asia is becoming more and more developed. With its commitment to the operationalization and implementation of the goals defined in the EU Strategy, it has established itself as a key economic and trade partner in the region (Figure 1.; Figure 2.), as well as a significant investor. According to preliminary data from the EU Commission, EU goods imports from Central Asia rose by 67 percent in 2022, while EU exports to Central Asia increased by 77 percent (European Commission, 2024a). The annual average growth rate for imports was 14.2 percent and for exports was 20.9 percent between 2019 and 2023 (European Commission, 2024b).

Figure 1. Trade in goods, € billions (2020–2022).



Source: European Commission, 2024a.

Figure 2. Trade in goods, million € (2023).

Year	EU Imports	EU Exports	Balance
2023	32.562	20.198	-12.364

Source: European Commission, 2024b.

It is important to note that the European Union had a trade deficit with Central Asia amounting to €15.2 billion in 2022, and €12.364 billion in 2023 (European Commission, 2024a; 2024b). For instance, the EU's significant trade deficit with Kazakhstan is primarily due to Kazakhstan's exports of oil and gas (European Commission, 2024c). For the EU, the primary imports from the region include energy and raw materials, such as oil from Kazakhstan and Turkmenistan, and gold from Kyrgyzstan and Tajikistan (Pomfret 2022, pp. 52–54). According to Pomfret (2022, p. 52) the general trend in EU-Central Asia merchandise trade involves exchanging primary products from Central Asia for European manufactured goods.

In the past decade, EU member states have invested more than €105 billion in the republics of Central Asia, which exceeds 40 percent of the total amount of direct foreign investment in the region. The EU accounts for more than a third of total foreign trade in Central Asia (European Commission, 2021). With aid totaling €1.1 billion between 2014 and 2020, the EU continues to be the leading donor in this region. Additionally, throughout the pandemic, the EU raised €123 million for Central Asia (Khitakhunov, 2023, p. 28).

The Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) is a unique incentive program designed to encourage good governance, economic cooperation, business opportunities, and sustainable development. Under this program, the EU lowers most of its tariffs to zero percent for nations that agree to ratify 27 international agreements pertaining to good governance, environmental and climate protection, and labor and human rights (Human Rights Watch, 2023). Specifically, these programs imply a reduction of tariffs for users by 66 percent of all EU tariff lines. The EU granted Kyrgyzstan and Uzbekistan GSP+ status, enabling these republics to export 6200 products to the EU without facing any tariffs (Khitakhunov, 2023, pp. 28–29; Herman,

2022). As a beneficiary of the Generalised Scheme of Preferences (GSP) provided by the European Union, Tajikistan has recently demonstrated its dedication to become a member of the Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+). Preferential imports from Tajikistan are predominantly concentrated in two sectors: industrial products such as base metals, and textiles (Delegation of the European Union to Tajikistan, 2021).

As one of the most important mechanisms of economic cooperation between the European Union and the republics of Central Asia, the Economic Forum European Union—Central Asia was created. Back in 2020, this new regional platform for economic dialogue between the European Union (EU) and Central Asian states was launched, with the aim of accelerating the diversification of Central Asian economies, improving trade relations, strengthening the rule of law and modernizing regulatory frameworks. In this sense, the first formal European Union-Central Asia Economic Forum was held in Kyrgyzstan in 2021. Strengthening economic ties between the EU and Central Asia was the primary focus of the forum, as well as green recovery, digitization, and the improvement of the business environment (European Commission, 2021). The second EU-Central Asia Economic Forum was held in Kazakhstan in 2023. Discussions within the Forum focused on improving the business environment, transitioning to a green and digital economy, and fostering trade relations. The forum emphasized the importance of respecting international law and principles, promoting inclusive and sustainable development, and facing the challenges of climate change. Key findings included plans for future prosperity programs, the possibility of cooperation on critical raw materials, and efforts to improve regional connectivity through sustainable transportation infrastructure (Khitakhunov, 2024; Delegation of the European Union to the Republic of Kazakhstan, 2023).

One of the important aspects of cooperation between the European Union and Central Asia is the need for the EU to diversify land transport routes that connect Europe with Asia, in order to avoid possible problems that could arise on maritime transport routes, but also to bypass those land transport corridors that imply the transit of goods through Russia. Although most of the transport of goods from Asia to Europe and vice versa is carried out by sea routes, a significant part of the transport is also carried out via three land

routes, namely: Northern Corridor (China, Kazakhstan, Russia, Belarus, Poland); Trans-Caspian International Transport Route—Middle Corridor (Kazakhstan, Caspian Sea, Azerbaijan, Georgia, Bulgaria or Romania) and The Southern Corridor (Kyrgyz Republic or Tajikistan, Uzbekistan, Turkmenistan, Iran, Turkey, Bulgaria or Greece and Afghanistan, Central Asia, Caucasus) (European Bank for Reconstruction and Development, 2023, p. 11).

For the reasons mentioned above, the European Union conducted a special study on which transport route would be the most efficient, i.e. to identify the most sustainable transport connections between the five Central Asian republics and the EU's extended Trans-European Transport Network (TEN-T). Based on this study, the Central Trans-Caspian Network (CTCN) is identified as the most sustainable transport connection between Europe and Central Asia as opposed to the other two corridors, Northern and Southern Trans-Caspian Corridor (European Bank for Reconstruction and Development, 2023, pp. 13–16).

In order to implement the conclusions of the study, the Investors Forum for EU-Central Asia Transport Connectivity was held in 2024. The Investors Forum is a high-level gathering that includes representatives of the European Commission, EU member states, republics of Central Asia and the Caucasus, and Turkey. Other participants include the G7 countries, as well as financial institutions and the private sector. As noted, the Forum relies on a study on sustainable transport links between Europe and Central Asia, identifying infrastructure needs and key actions to improve Trans-Caspian transport networks. The European Commission is working to implement the findings of the study and is mobilizing €10 billion with its partners for the development of key transport networks in Central Asia. This effort strengthens the EU's long-standing partnership with the republics of Central Asia, with the aim of establishing direct transport links through the Black Sea and Caucasus regions within the Global Gateway Strategy (European Commission, 2024d).

Additional agreements reached include the implementation of the EU-funded Regional Transport Program, which is planned for adoption in 2025. The program aims to provide technical assistance for current and future transport projects in Central Asia, contributing €1.5 billion

allocated by the European Commission and European Investment Bank for the improvement of transport infrastructure in the region. A Coordination Platform will also be established to monitor progress and ensure cooperation in the development of the Trans-Caspian Transport Corridor. A Regional Prosperity-focused Programme will begin in 2024, with the mediation of the International Trade Centre and the OECD, focusing on the practical use of Trans-Caspian transport networks. In addition, the Senior Resident Twinning Advisors initiative will place advisors in transport ministries in five Central Asian republics starting in 2024 (European Commission, 2024d).

When it comes to cooperation in the energy sector according to Kizeková (2022, pp. 1–2) despite potential agreements, the EU has not fully utilized the region's resource potential, partly due to its limited diplomatic presence and competition from global powers such as China, Russia, and others. While the EU has expressed interest in accessing Central Asian energy resources, particularly oil and gas, and bypassing Russia, its gas import goals have not been fully achieved. However, it has had more success with oil imports, notably from Kazakhstan. Supporting alternative energy corridors, such as the Trans-Caspian route/Southern Gas Corridor could address barriers and reinforce energy cooperation.

3.3 Security Cooperation

Security is a key component of the 2019 Strategy, as the EU recognizes the significance of stability and security to its own interests in Central Asia, delineating several domains for cooperation including combating violent extremism and terrorism, addressing drug trafficking (CADAP 7)²⁰ and border management, enhancing online safety, fostering legality in security establishments, and preventing the spread of extremist beliefs.

20 Since 2003, CADAP has supported the governments of Central Asian states in their efforts to reduce drug demand, encourage preventative measures, and improve the treatment that drug users in the area receive from public institutions. The United Nations 2030 Agenda for Sustainable Development will serve as the implementation guide for CADAP 7, which is compliant with pertinent UN Conventions and the Universal Declaration of Human Rights. (Central Asia Drug Action Programme, 2024).

The EU and Central Asia have a long-standing security partnership, as evidenced by regular meetings like the EU-Central Asia High-level Political and Security Dialogue. Seeking to deepen collaboration, the EU addresses underlying issues of insecurity such as poverty and corruption, while integrating environmental concerns into policy discussions across Central Asia. Terrorism and violent extremism present significant challenges, prompting actions to prevent extremism and terrorist financing, with a focus on enhancing community resilience. Cooperation extends to border management, with intensified efforts against organized crime and human trafficking, along with support for legal migration channels and the reintegration of returnees (European Commission, 2019, pp. 5–6).

Border management in Central Asia (BOMCA) stands as the premier and most extensive EU-funded Program in the area. Launched in 2003, its successive phases have concentrated on enhancing capacity and institutions, establishing trade routes, streamlining trade, enhancing border control, and combatting drug trafficking throughout Central Asia. BOMCA includes activities to improve security, for instance by training border guards, providing equipment, and helping to create databases (European External Action Service, 2021).

4. Conclusion

The presence of major international players such as Russia, China, the United States, and the European Union underscores the geopolitical significance of the Central Asian region. The interaction among these actors highlights the enduring geopolitical attractiveness of Central Asia, characterized by historical competition for influence and the region's strategic importance in global affairs. This engagement has led to both complementary and competing visions for Central Asia, with initiatives like the Eurasian Economic Union, China's Belt and Road Initiative, and the United States' strategic realignment in the region ("C5+1"). Due to this competitiveness, the region has seen a rise in investment, infrastructure development, and diplomatic initiatives.

The multi-vector foreign policy approach adopted by Central Asian republics reflects their efforts to balance the influence of major powers. Recent intra-regional changes, including transitions of power (changes in the highest positions of political power occupied by cadres who have replaced those who have governed the country since the nineties) and efforts towards regional integration (consultative meetings of the Heads of State of Central Asia), have also contributed to a new geopolitical dynamic in the region, evidenced by the diplomatic platforms “5+1”, which signal a renewed phase of geopolitical maneuvering in the region. This signifies ongoing efforts by global players to assert influence, underscoring the enduring relevance of Central Asia throughout the wider regional and even global geopolitical context.

The European Union’s (EU) relationship with Central Asia has evolved considerably since the collapse of the Soviet Union. Initially focused on providing humanitarian aid and supporting democratic transition, the EU’s strategy has matured into a multi-level approach encompassing political cooperation, economic development, and security. The establishment of Partnership and Cooperation Agreements (PCAs) in the mid-1990s laid the groundwork for fostering political dialogue, economic cooperation, and development assistance. Over the years, the EU’s approach has adapted to changing geopolitical dynamics, with a greater emphasis on security issues, energy cooperation, and regional connectivity, as reflected in the adoption of strategic documents in 2002, 2007, and 2019.

The increasing institutionalization of relations between the EU and Central Asian nations is another significant indicator of a rising degree of cooperation. By establishing formal structures such as regular summits, ministerial meetings, and working groups, the EU and Central Asian republics create a platform for consistent dialogue, negotiation, and cooperation. The new generation of bilateral Enhanced Partnership and Cooperation Agreements (EPCAs), which the European Union (EU) may sign with Central Asian nations, will be the central component of EU engagement in the region, although some of them have already concluded EPCAs.

The difficulties and opportunities that lie ahead for the EU as it works to strengthen its cooperation with Central Asia highlight the significance of flexible and adaptable strategies to deal with the region's changing geopolitical environment. The 2019 EU Strategy for Central Asia, titled "The EU and Central Asia: New Opportunities for a Stronger Partnership," reflects this shift. It prioritizes three key areas: resilience, prosperity, and regional cooperation. Resilience encompasses socio-economic challenges, democracy, human rights, and environmental issues. Prosperity focuses on fostering economic growth through private sector development, improved investment climates, and regional trade connectivity. The EU actively supports the diversification of Central Asian economies and their integration into the global market. Regional cooperation recognizes the interconnectedness of Central Asia.

The EU's commitment to Central Asia is further demonstrated by its growing economic engagement. The EU is a major investor and trading partner for the region, and it actively supports infrastructure development, particularly in the transport sector. Security cooperation remains a crucial aspect of the EU-Central Asia partnership. The EU recognizes the importance of stability in Central Asia and cooperates with regional partners to address issues like terrorism, drug trafficking, and border management.

The EU faces competition from other global powers in the region, and its ability to fully utilize Central Asia's potentials is limited, especially when compared to the power of influence of Russia and China. Additionally, progress on human rights and democratic reforms in Central Asia continues to be a concern for the EU.

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The Future of European Union—Vietnam Economic Relations from a Perspective of Global Value Chains

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Abstract: The European-Vietnam Free Trade Agreement (EVFTA) was ratified on the 8th of June 2020, marking the in-depth trade relations between Vietnam and the European Union (the EU) in light of COVID-19. Moreover, it is noticeable that there was a rising tendency of inflow foreign direct investment (FDI) moving to the developing East Asia region. Vietnam is gaining tremendous attention in relocating multinational companies', factories, or other facilities. Recently, Vietnam granted the highest partnership level for South Korea and the United States (the US), while Japan and Australia are the following two potential countries in the initial meetings and negotiations. These events implied the remarkable fast cooperation in the region. The Asia-Pacific region is gaining popularity from external countries.

Nevertheless, the EU's economic international relations with Vietnam remain moderate even though the country is the second to establish a Free Trade Agreement (FTA) with the EU. The FTA is expected to boost trade and economic cooperation between Vietnam and the EU by stimulating investment and contributing to the overall economic development of Vietnam and the EU member countries. This paper revisited the policies of Vietnam and the situation of the EVFTA implementation. This paper employed the method of the critical literature review, including an analysis of the relevant previous literature, Vietnam's national policies, and reports on the implementation of EVFTA. The future baseline indicated that the EU is shifting its focus on international economic development to the Asia-Pacific, especially with Vietnam, to ensure the durability of its value chains.

Conversely, Vietnam will use the privilege of partnership upgrade to enhance its technological and innovative advancement to increase its global value chain capabilities. This enhancement of Vietnam's participation in

the global value chains attracts Foreign Direct Investment from the EU countries. This is due to the strategy of diversifying partnerships and reducing dependency on China. Therefore, the state of international economic relations between Vietnam and EU countries could be forged. This paper is expected to serve as a case study in the section “Economic Relations of Europe and Asia.”

Keywords: Future, Vietnam, European Union, EU-Vietnam Foreign Trade Agreement, International Economic relations, global value chains

JEL: F02, F13, F55, F21

1. Introduction

The world is rapidly changing regarding the global economy, which brings both opportunities and challenges to businesses. However, globalization has increased uncertainties that are emerging due to international conflicts. This matter could affect the global value chains. For example, the COVID-19 pandemic caused production and supply chain disruption. Lately, the world has witnessed another conflict which caused the movement of FDI from China to other countries in the region. This is due to the trade wars between the United States and China.

Moreover, the instability in economic development in the EU during the post-COVID-19 also contributed enormously to the movement of FDI. From this point, many companies tend to shift their pattern of offshoring, such as moving parts of their operation back to the neighboring countries close to their home countries. Another example is that companies execute friend-shoring in close countries considered friendly to their home world. In this sense, multinational corporations need to continue diversifying operations to prevent production disruptions and reduce expenses. The tendency becomes more apparent across Asian regions as these companies choose countries in the Asian region as their business destination. With the rise of the dynamics and innovative capabilities in Southeast Asian countries, countries in the area are attracting more foreign direct investment (FDI).

Recognizing this opportunity, Vietnam must act to capture it. The Vietnamese business community has made breakthrough developments in quantity and quality, making an essential contribution to liberating production capacity and promoting the development of the scale of the economy. The country is mobilizing resources for socio-economic development, stability maintenance, and economic growth. In this way, the country will attract FDI and increase export turnover. Thus, with its essential role in the global value chains, Vietnam is in a favorable position for this development in the future. Recently, Vietnam has been deepening its international economic integration. One of the main strategies Vietnam must aim at is improving its position in the global value chains (GVC). Vietnam continues to attract significant FDI inflows from the US and Europe, especially in industries with high-added value, such as

manufacturing, technology, and pharmaceuticals. The EU-Vietnam Free Trade Agreement (EVFTA) has increased business interest in investing in computers, electronics, phones, etc. EVFTA ratification is a positive signal for Vietnam's economic development and international cooperation, and a clear demonstration of Vietnam's efforts to enhance its position on the GVC. Moving higher up the GVC will also make the country an attractive destination to diversify or reposition part of the company's production chains. It is because infrastructures have been developed along with good trade policies. This matter opens up to attract FDI and factors related to the GVC, such as institutions, customs, etc. Free Trade Agreements (FTAs) play a vital role in this stage. However, EVFTA is only effective at the stage of facilitating export and import trade between EU countries and Vietnam. It means that Vietnam could increase exports to the EU market because of tariff preferences and the elimination of trade barriers. Understandably, the EU market demands a very high standardized process of production as well as adequate domestic capacity. However, in the economic integration process, Vietnamese businesses still face difficulties and significant barriers when participating in regional and GVC due to low competitive capacity. Therefore, EVFTA is expected to assist Vietnam in transitioning to a higher stage in the GVC through technology transfer, education, and research and development (R&D) projects, etc.

Improving competitiveness, autonomy, and labor productivity has always been a top priority of the Vietnamese government. In particular, the manufacturing industry in Vietnam is currently a key industry in Vietnam's development strategy for the GVC position. The key achievable benefit is to gain higher profit margins from manufacturing more complex products and participating in further production stages with advanced technology applications. At the same time, many new business opportunities emerge with growth and expanded market penetration through economic diversification into new or adjacent industries. However, the manufacturing industry is mainly linked to the lowest added value in GVC. The Vietnam manufacturing industry is primarily at the final stage of the production process which requires labor-intensive and technical requirements. In short, Vietnam is considered as an assembling agent. Therefore, the manufacturing industry needs to quickly improve its capacity and transition to a higher stage in the GVC. In their report, KPMG in Vietnam (2023) analyzed that Vietnam is at the stage of limited

manufacturing, which comprises a medium level of domestic value-added products and engages in low-level linkage. Gereffi and Fernandez-Stark (2018) also identified that developing countries are mainly at the bottom of the GVC smiling curve. This case also applies to Vietnam.

Furthermore, Nguyen et al. (2021) argued that Vietnam is still lagging in advanced sectors of high technology, and EVFTA could help the country advance in this regard. Nevertheless, there are many challenges to utilizing EVFTA to level up Vietnam's position in GVC (Nguyen et al., 2021). This paper will dive deeper into how the enhancement of international economic relations between Vietnam and the EU could help Vietnam in terms of the GVC' position.

2. Literature review

2.1 Global Value Chains

Globalization boosts the international trade and cross-country investment (Yanase and Long, 2021). This occurrence paves the way for the shift in the production value chain from one country to another (Beugelsdijk, Pedersen, and Petersen, 2009). Global value chains play an essential role in this regard. Global value chains involve multiple companies from many countries in the production chain and other business activities. Firms may choose privileges offered by different countries, such as cost, tax, etc.

In some cases, different stages of production may be carried out in various countries depending on factors, such as labor costs or the geographical characteristics of the market, etc. By offshoring or outsourcing, companies can segment any part of their production chains to move to a predetermined location (Mudambi, 2008). Globalization has created greater interconnectivity among physical and digital platforms (Oliveira, Nguyen, Liesch, Verreyne, and Indulska, 2021).

In research published by the World Bank, Qiang et al. (2021, p. 110) claimed that there were four ways of participating in the GVC for local companies such as "Supplier linkages with international firms", "Strategic alliances with MNCs (coproduction)", "Direct exporting", and "Outward foreign direct investment (OFDI)". The participation of local companies in GVC is

generally regarded as an outstanding contribution by a country. However, the extent of domestic companies' participation in GVC depends on how products are produced. In this sense, domestic- and foreign value-added inputs are two vital channels that could address participation in GVC.

Domestic value-added (DVA) inputs are considered inputs for production processes provided by countries at different stages of the production process. Inputs produced domestically are considered domestic values (Aggarwal, Chakraborty, and Bhattacharyya, 2021). In exports, DVA contribution is an essential metric of trade revenue. Therefore, DVA in export serves as an important guideline for trade development and GVC policies (Caraballo and Jiang, 2016). A greater DVA indicates a nation's higher contribution (Ahmad and Ribarsky, 2014). From this point on, the development of increasing DVA creates many opportunities in terms of employment, productivity, technological advancement, etc. DVA exists in two forms: direct intermediate goods and indirect intermediate goods. The direct intermediate goods describe the DVA level in the domestic goods exported to the partner countries to continue production (Flores, Rodríguez, and König, 2021). Conversely, the indirect intermediate goods show the integration of DVA in exporting the intermediate items rather than the final goods, which are exported to the third country (Flores et al., 2021).

Foreign value-added (FVA) input refers to the foreign inputs in the goods and services. This term implies the extent to which a country might import materials or parts from foreign countries to process the production (Choi, Sung, and Song, 2019). Countries with high FVA tend to be more condensed by specializing in some parts of the production chains (Amendolagine, Presbitero, Rabellotti, and Sanfilippo, 2019). However, the significance of each channel is different. As in the research, the DVA was unrelated to the export revenue (Durongkavoroj, 2022). Athukorala and Patunru (2022) claimed that industries with high DVA values did not constitute a high proportion of total DVA. Durongkavoroj (2022) proposed that policy should promote a country's participation in global production networks, which could grant that country a high position in GVC. In the same vein, Athukorala and Patunru (2022) stated that policymakers should focus on the export potential of industries when constructing export development policies.

2.2 Developing Countries and their Participation in GVC

Globalization assists firms in accessing the market in a better sense and complying with international standards (Zhang, Meng, Zheng, Zhu, Du, and Guan, 2020). It is visible that cross-countries production and global supply chain systems offer opportunities for developing countries' local firms and labor forces (Malesky and Mosley, 2021). Local firms participate in GVC by producing parts, materials or services from contracts. Besides enhancing orders and profits, local firms improve their production and technology capacities. The extent of improvement depends on the role of developed and developing countries. Their roles are distinctive in GVC. Companies in developed countries often rely more on foreign sources and provide a more significant proportion of their total exports as intermediary goods (OECD, 2015). On the other side, companies in developing countries could embrace business opportunities by accessing foreign markets (Bıçakcıoğlu-Peynirci, 2023; Samiee and Chirapanda, 2019). Firms could recognize a higher profit margin, leading to economies of scale. Scholars in the field intensively emphasize the advantage of participation in GVC towards firms' performance, especially those firms in emerging markets (Meyer and Sinani, 2007; Tian, Dietzenbacher, and Jong-A-Pin, 2022). Firms operating in developing countries contribute mainly to the development of globalization and benefit by participating in globalization as well (Le and Chu, 2023).

2.3 The Role of FDI in GVC

The inflow of FDI is essential for developing countries to participate in GVC (Lwesya, 2022). Gnatenko et al. (2019) showed a correlation between GVC participation and FDI inflows. It helps elevate business practices, such as production and processing, and enhances productivity and technologies (OECD-UNIDO, 2019). Aggarwal et al. (2021) viewed that FDI greatly impacted the DVA in general. Moreover, scholars also claimed that FDI inflows tend to move towards industries characterized by "high skill-intensity and high-relative growth rate" (Aggarwal et al., 2021, p. 1). FDI inflows tend to find locations that could provide efficient resources, high productivity, low operational costs, etc. (Grossman and Rossi-Hansberg, 2008; Kurtishi-Kastrati, 2013). Thus, production could be divided into several steps processed in different countries based on optimization.

Hence, this paper aims to answer the following research questions:

1. How does EVFTA assist Vietnam in enhancing the country's position in the global value chains?
2. How does FDI from FTA partner countries, especially EVFTA, affect Vietnam's position in the global value chains?
3. What are the implications for domestic businesses as well as policymakers in Vietnam?

3. Methodologies

This paper will use a qualitative approach, analyzing previous literature and governmental reports from the ministry. Another source is from the Trade in Value Added (TiVA) database produced by OECD. Moreover, semi-structured interviews will be conducted to gain insight into how policymakers and other supporting stakeholders view the possibility of the GVC position enhancement. The authors of this paper have tried to reach people with expertise in the field. Notably, interviewees have experience consulting for policymakers, and foreign businesses investing in Vietnam and domestic firms. Researchers in academia are also included as interviewees because they have done many studies in this regard. The profile of the interviewees is as follows:

Table 1: Profile of interviewees

Code	Sector of working	Position	Responsibilities/ expertise	Location
Interviewee 1	Ministry	Head	Investment promotion division	Vietnam
Interviewee 2	Non-governmental organization	Country director	Promoting international economic relations	Germany
Interviewee 3	Education	Vice-rector	Global value chains	Vietnam
Interviewee 4	Education	Assistant professor, researcher	Economics of Southeast Asia	Taiwan (China)
Interviewee 5	Education	Lecturer, consultant	Foreign Direct Investment in Vietnam	Vietnam

Source: Compiled by the authors.

4. Results

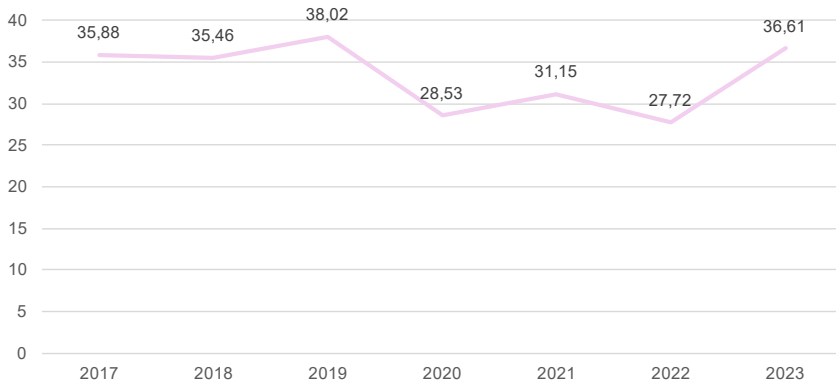
4.1 FDI inflow to VN and the contribution of EVFTA

FDI has played a critical role in the economic development of many countries worldwide (Lwesya, 2022). FDI capital promotes economic growth, creating jobs, increasing income, and promoting science and technology transfer (Goldar, Das, D, Das, P-C, and Gupta 2022; Kordalska and Olczyk, 2023). For more than 35 years of national innovation with correct and appropriate policies, Vietnam has attracted a large amount of FDI capital, making an essential contribution to the country's industrialization and modernization process. Nevertheless, Nguyen et al. (2023) pointed out the modest extent of Vietnam's GVC position despite the recent fruitful inflow of FDI. This consequence is because the country depends strongly on FDI enterprises in several vital industries are still at the processing capacity of GVC (Nguyen et al., 2023; Nguyen and Chaudhary, 2023). However, EVFTA is expected to elevate GVC' position in Vietnam by attracting FDI from the FTA's country members (Nguyen, 2023).

For more than 30 years, Vietnam has gradually opened its economy from a closed economy to becoming one of the most integrated economies in the world by achieving remarkable economic and social progress after the Doi Moi era (OECD, 2020). By successfully tackling COVID-19 and returning from the pandemic, the country has strongly promoted its position in the international arena. In this sense, Vietnam is considered one of the most dynamic economies with fast-paced development (World Bank, 2023). Furthermore, Vietnam's economy is one of the most open one due to its trade and gross domestic product (GDP) ratios. During the past years, the economic integration process has recorded many bold remarks, notably the negotiation and signing of FTAs and tasks related to international economic integration. Currently, Vietnam has negotiated, signed and implemented 17 FTAs, especially new-generation free trade agreements, including The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), FTA between Vietnam and the EU (EVFTA), FTA between Vietnam and the United Kingdom of Great Britain and Northern Ireland (UKVFTA), and the Regional Comprehensive Economic Partnership (RCEP) (VCCI, n.d). These FTAs have forged a solid foundation for strengthening and promoting bilateral trade and investment exchanges and enhancing international economic integration in regions.

As Interviewee 1 indicated, FTAs are crucial to the integration process in Vietnam. FTAs could attract their members' FDI moving out of China due to the trade wars and events after the movement. Moreover, it was also meant to show the world that Vietnam was a stable and fast-developing country that always welcomed host FDI, according to Interviewee 1. In light of Interviewee 1's words, Interviewee 5 supplemented tremendous benefits of FTAs related to tax, which would be subject to tax exemptions, tax reduction, or tax of 0 percent. Moreover, it results in an increase in FDI flowing into Vietnam.

Figure 1: New FDI registered in Vietnam from 2017 to 2023 (billion US\$)

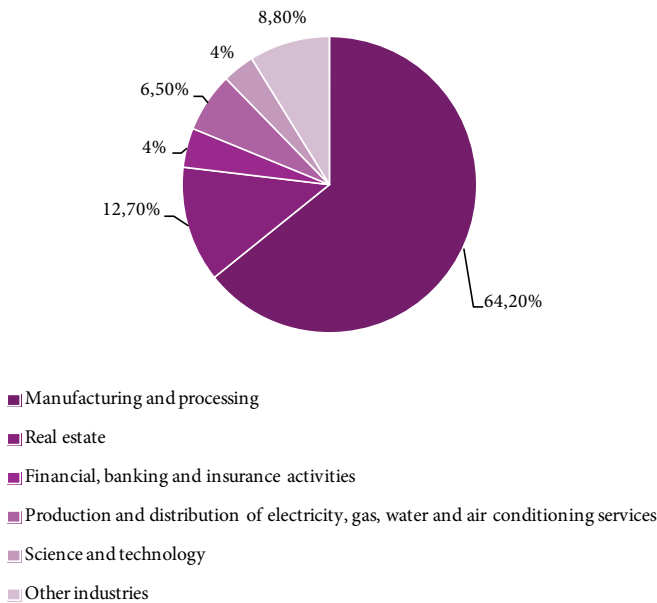


Source: Ministry of Planning and Investment.

Figure 1 shows the gradual increase in FDI flowing into Vietnam from 2017 to 2023. Vietnam peaked in FDI inflow in 2019. This inflow of FDI occurred during each member's gradual Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) ratification. However, the restriction and the halt of business activities were caused by the COVID-19 pandemic. It was visible from Figure 1 that FDI flowing into Vietnam decreased three years later. EVFTA was ratified in 2020, marking the transition of Vietnam's focusing exports to the European countries (Vu, Nguyen, D-B, Nguyen X-D, Nguyen T-P-L, and Tran, 2022). EVFTA was expected to attract FDI from the EU's member countries. The regional FTA, the Regional Comprehensive Economic Partnership, has played a role in drawing FDI in the region while CPTPP expanded

the economic markets to South America. Vietnam's ratification of these new-generation FTAs implies the readiness of the country to alter its business environment, such as investments and regulations towards the promotion of FDI (Nguyen et al., 2023; Tran, 2023). It was expected that FTAs would contribute mainly to the tendency of the FDI movement from China to Vietnam. It means that Vietnam could have the capacity to host intentional FDI. Hence, the number of FDI enterprises accounts for a small proportion of general enterprises operating in Vietnam. According to the White Book on Vietnamese Businesses issued by the Ministry of Planning and Investment (2021), there were 22,242 FDI enterprises, accounting for 3.3 percent of the country's enterprises. In this sense, Vietnam witnessed an 18.6 percent increase in FDI enterprises compared to 2019 (Ministry of Planning and Investment, 2021). However, Enterprises with foreign direct investment (FDI) accounted for 68.45 percent of the country's import-export turnover in 2023 (Thai Binh, 2024). This matter implied the high dependence on FDI enterprises despite the low appearance ratio compared to other enterprise types.

Figure 2: Structure of FDI inward stock in 2023 by industry



Source: Foreign Investment Agency - Ministry of Planning and Investment, 2023.

Figure 2 describes the inward FDI stock distributed by industries. From Figure 2, manufacturing and processing account for a large proportion of the whole FDI structure, with 73.1 percent. This result could explain the increase in goods exported after processing. The production of goods was based on orders placed by international customers.

Table 2 describes historical changes in Vietnam's inward FDI stock. As in the Foreign Investment Agency –Ministry of Planning and Investment public reports, after EVFTA became effective, this agency specified the breakdown of industries receiving FDI, especially in 2021 and 2022 (see Table 2). However, according to government orientation, key sectors are manufacturing and processing; production and distribution of electricity, gas, water, and air conditioning services; real estate; wholesale and retail; cars, motorcycles, and machinery repairing; and science and technology. However, this industry breakdown is not specified in previous reports; it details all industries from 2020. This act showed that transparency is being improved to attract more FDI. The manufacturing and processing sector is still the critical sector that contributes to exporting turnover and elevates Vietnam's GVC position in the future. The science and technology sector plays a bridging role via technological and knowledge transfer and competency building.

Despite receiving much positive information from investors from major countries, due to the impact of the COVID-19 epidemic and the slow recovery of economies, new investment decisions and expanding the scale of FDI projects continue to be affected. The number of new projects, capital adjustments, capital contributions and share purchases by foreign investors all decreased over the same period, but the decrease also gradually improved.

Attracting FDI associated with sustainable development has become an essential goal in Vietnam's socio-economic development strategy in recent years. Several policies have been issued. Furthermore, the Ministry of Planning and Investment and the Vietnam Chamber of Commerce and Industry (VCCI) were appointed to assist companies in embracing the FDI inflow through connection, legal documentation, and trade promotions. The growth rate of registered and implemented FDI capital in Vietnam in recent years is due to Vietnam's active integration and participation in many FTAs with countries in the region and internationally. However, this also poses many risks to the economy.

Table 2: Changes in inward FDI stock from 2019–2022 by industry

Year	2019		2020		2021		2022	
	Industry	Pro-portion	Industry	Pro-portion	Industry	Pro-portion	Industry	Pro-portion
1.	Manufacturing and processing	64.6%	Manufacturing and processing	47.7%	Manufacturing and processing	58%	Manufacturing and processing	60.6%
2.	Real estates	10.2%	Production and distribution of electricity, gas, water and air conditioning services	18%	Production and distribution of electricity, gas, water and air conditioning services	18%	Real estates	16.1%
3.	Other industries	25.2%	Real estates	14.7%	Real estates	9%	Production and distribution of electricity, gas, water and air conditioning services	8.2%
4.	-	-	Wholesale and retail; cars, motorcycles and machinery repairing	5.6%	Wholesale and retail; cars, motorcycles and machinery repairing	5%	Science and technology	4.7%
5.	-	-	Other industries	14%	Science and technology	3%	Wholesale and retail; cars, motorcycles and machinery repairing	3.6%
6.	-	-	-	-	Other industries	7%	Other industries	16.1%

Source: Foreign Investment Agency - Ministry of Planning and Investment, 2020; 2021; 2022; 2023

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The EU's FDI only accounts for a small proportion of the EU's total investment capital abroad, which is not commensurate with the two sides' potential. The World Trade Organization (WTO) Centre of VCCI (2022) stated that there has been an increase in the EU member countries' FDI to Vietnam since the beginning of EVFTA. Nguyen et al. (2021) claimed that EVFTA created growth potential for its members' FDI from the EU to Vietnam concerning highly qualified projects. These high-quality projects could assist in leveraging Vietnam's position in GVC. While EVFTA has many strict regulations to comply with, Vietnam must improve its business environment to create favorable conditions for investors to enter Vietnam quickly. Furthermore, upcoming policies must diversify forms of investment support, especially after-tax support measures, in accordance with international commitments and EVFTA's regulations.

4.2 Vietnam's Participation in GVC and how EVFTA Affects

To this date, FTAs have played a significant role in upgrading Vietnam's GVC position by leveraging exporting ability and attracting more members' FDI to the country. 17 FTAs were signed, including mega FTAs such as EVFTA, RCEP and CPTPP. It expresses the willingness of Vietnam to open its economy and adjust its business environment and regulations to attract foreign investors.

Table 3: Contribution of FDI

Fiscal years	Share in economic growth rate (%)	Export (million US\$)	Share in export (%)	proportion in the total state budget revenue (%)
2011–2015	21.52	86,217.34	64.96	12.65
2016	22.12	126,235.6	71.5	14.4
2017	30.45	154,910.2	72.0	13.31
2018	29.69	173,963.7	71.4	13.29
2019	20.45	185,277.9	70.1	13.66
2020	22.7	204,432.1	72.3	13.84
2021	14.39	246,876.8	73.4	13.85
2022	-	276,762.4	74.4	-

Source: Vu (2023).

Table 3 demonstrates the contribution of FDI to Vietnam's economic and social development. These contributions demonstrate the vital role of FDI in Vietnam's growth. Tran and Do (2019) stated that FTAs were expected to promote their members' FDI moving to Vietnam as well as to boost the business activities of FDI enterprises because of the increase in export demands. This expectation is due to the participation of Vietnam in new-generation FTAs, such as CPTPP and RCEP. EVFTA is expected to have the same effect as it allows Vietnam to access 27 EU member states' markets. The most active EVFTA members who have increased their outward FDI to Vietnam include the Netherlands, Germany, Sweden, Denmark, Italy, France, Belgium, and Luxembourg (Le, 2024; Vietnam Institute for Economics and Policy Research and Konrad-Adenauer-Stiftung Foundation, 2022).

Nevertheless, according to Interviewees 1, 3, 4, and 5, EVFTA primarily contributes to the growth of exporting activities in Vietnam. These arguments are because EVFTA moves deeper towards tariff elimination and reduces trade barriers. Exporting goods from Vietnam has more competitive advantages, including access to wider industrial business networks among members. EVFTA demands the originality and transparency of highly qualified goods, leading to the advancement of the business environment and regulations following EU regulations. However,

DVA in trade has a low content in total exports. Vietnam's companies are focusing mainly on the domestic market by using domestic inputs to produce goods and services for the domestic market (Interviewee 5). This statement marked a large proportion of FVA in trade more than DVA. This statement aligns with Interviewee 3's opinion that Vietnam created more backward linkage than forward linkage, which means the country's inputs are used to assemble and export products.

DVA in trade has been increasing since 2016. This result assists Vietnam in becoming a location for intensive processing and assembly in the final stages of production in many value chains such as textiles, garments, furniture, electronics spare parts, etc. When analyzing the value-added of Vietnam's domestic companies according to industry, DVA in trade in the food industry is higher than in other sectors (Vu et al., 2022). Nevertheless, Vietnam aims to transfer from an assembling agent to a world factory with a high capacity for manufacturing goods to export. The Vietnamese government has been promoting the transition from low-tech manufacturing to high-tech manufacturing. Vietnam's electronics industry has unprecedentedly favorable conditions and prospects for development thanks to FTAs by expanding export opportunities to foreign markets and attracting intensive FTA members' FDI. This action is to host the FDI movement from China to other Southeast and East Asian Countries due to the potential of a trade war. However, the country could not absorb all the production from companies leaving China, especially production processes requiring high technologies. The position of Vietnam is a country with a highly stable political environment. Nguyen and Chaudhary (2022) stated that Vietnam has a solid backward linkage and weak forward linkage, leading to the fact that Vietnam serves as an assembling platform by apprehending the "import-to-export" (I2E) model. Secondly, the inclusion of surplus foreign companies leads to less DVA in trade (Nguyen and Chaudhary, 2022). This action is related to the lack of manufacturing capabilities, mainly due to the development of high-production technologies. Nguyen et al. (2023) pointed out that although Vietnam has been successfully attracting high-technology sector investors to move part of their production to the country, Vietnam is still lagging in the high-technological development sector (Ngo, To, and Hoang, 2023). Interviewee 1 and 2 stated their reasons, which was the fact that Vietnam still does not have enough capacity to capture these high technologies.

Capacity includes highly qualified workforces and infrastructure. Interviewee 5 stated that FDI companies dominated the high-technology sector in terms of machinery, household electrical appliances, computers, etc. It is obvious that although Southeast Asian and East Asian countries are becoming attractive FDI destinations, especially Vietnam, which is close to China, Vietnam is still at a low level of GVC with the downstream assembly ability. Another reason is the lower contribution of EVFTA to Vietnam's GVC. Nguyen et al. (2021, p. 57) stated that Vietnam tends to value low-hanging goods and production due to slow legislative changes that could help the country's companies access diverse industries in the EU market. According to the TiVA database (OECD, 2023), FVA in trade has a large portion of the general trade turnover. It also indicated that the DVA in trade is at the lowest level compared to other ASEAN countries. Moreover, the EU member countries' FDI to Vietnam is low. The above factors demonstrated that Vietnam prioritizes attracting FDI to aim at knowledge and high technology transfers.

Table 4: Situation of attracting EU investment into Vietnam in the period 2016–6/2023

YEAR	Proportion of total inward FDI Stock	Total new registered EU FDI
2016	3.1%	1,061.5
2017	4.8%	2,029.9
2018	4.4%	1,805.9
2019	4.0%	3,058.1
2020	4. %	1,375
2021	4.5%	1,405.4
2022	6.41%	2,759
6/2023	6.42%	2,891

Source: Compiled from Nguyen, 2024; Vietnam Institute for Economics and Policy Research and Konrad-Adenauer-Stiftung Foundation, 2022; Vietnam Chamber of Commerce and Industry; Konrad-Adenauer-Stiftung Foundation, 2022.

Table 4 shows that the FDI of the EU member countries has increased dramatically from 2017 until now compared to the previous period. The FDI from EVFTA's member countries decreased significantly in 2020, which could be a consequence of the COVID-19 pandemic. The country witnesses new registered FDI returning to Vietnam dramatically.

Table 5: Top foreign investment in 2022 by partner

Year	2017	2018	2019	2020	2021	2022	2023
1.	Japan	Japan	Hong Kong (China)	Singapore	Singapore	Singapore	Singapore
2.	South Korea	South Korea	South Korea	South Korea	Netherlands	South Korea	Japan
3.	Singapore	Singapore	Singapore	China (Mainland)	South Korea	Japan	Hong Kong (China)
4.	China (Mainland)	Hong Kong (China)	Japan	Japan	Cayman Islands	China (Mainland)	China (Mainland)
5.	British Virgin Islands	China (Mainland)	China (Mainland)	Taiwan (China)	Japan	Hong Kong (China)	South Korea
6.	Hong Kong (China)	British Virgin Islands	Taiwan	Hong Kong (China)	China (Mainland)	Taiwan (China)	Taiwan (China)
7.	Taiwan (China)	Taiwan (China)	British Virgin Islands	Thailand	Hong Kong (China)	Denmark	Samoa
8.	Netherlands	Thailand	Samoa	British Virgin Islands	Taiwan (China)	United States of America	Thailand
9.	United States of America	Australia	Netherlands	Netherlands	British Virgin Islands	Netherlands	Netherlands
10.	Thailand	France	Thailand	Cayman Islands	Thailand	British Virgin Islands	United States of America

Source: Foreign Investment Agency - Ministry of Planning and Investment, 2022; Trang thông tin điện tử về tài sản công [Public Property Portal], 2022; Than 2024.

Table 5 shows the demonstrated ranks of inflow FDI by countries. It is visible that EVFTA member countries are not presenting powerfully regarding facilitating FDI to Vietnam. According to Table 5, the Netherlands is more active in investing in Vietnam. Table 4 and Table 5 imply a positive expectation of attracting FDI from EU member countries when EVFTA is in effect. However, this is a tiny percentage compared to the potential cooperation between Vietnam and the FTA's members concerning total inward FDI stock. According to Nguyen (2022), EU FDI projects in Vietnam focus mainly on the manufacturing and processing industry. EU businesses have invested in 18/21 industries in the national economic structure in Vietnam (Nguyen, 2022).

Hence, attracting FDI from the EU will be Vietnam's long-term strategy and appropriate solutions. That strategy aims to increase GVC' position in Vietnam. The country must invest in research and development (R&D) for new applied technologies, education for highly qualified human resources to operate, technology transfers, and infrastructural development for a higher GVC position. It is expected that EVFTA could help attract more foreign investors from the EU's market. If there is an increase in EU trade activities in Vietnam, the EVFTA will likely trigger a new wave of partnering members' FDI into Vietnam. Investment from the EU is of top quality.

European companies bring high skills, competencies, and world-leading technologies to Vietnam. FDI from the EU countries comes with high corporate social responsibility standards in protecting and training workers and employees, as well as respecting and protecting the environment. These spillover effects are essential for economies like Vietnam to avoid the middle-income trap. Interviewee 2 mentioned the possible neglect of the middle-income trap due to the waves of FDI, which made Vietnam a world factory. However, it is not sustainable as it would halt socio-economic development regarding salary and living conditions (Interviewee 2). The EU's FDI is of high quality and is on a fair and win-win basis. It allows Vietnam to promote economic growth and create better jobs while ensuring sustainable development. In the long term, Vietnam could increase DVA in trade by possessing good technology-transfer policies. From this point, the country's position in the GVC will be enhanced.

5. Implications

5.1 Policy Implications

Although EVFTA contributes significantly to Vietnam's export turnover, the facilitation of FDI is still moderate. Interviewees 1, 3, and 4 affirmed that EVFTA also helps increase the transparency and manufacturing capacity of Vietnam's companies due to the strict terms. The terms encourage domestic companies to improve their innovative dynamics and be more transparent in reports and the originality of goods. It must be noted that EVFTA will only be effective in 2020. Hence, it is too soon to realize the effect of EVFTA on facilitating members' FDI. Interviewee 2 stated that the EU's regulations are usually stricter for market entry of goods and services.

Furthermore, there are not many large, capitalized companies in the EU, so they must be cautious when doing market research. The WTO Center of VCCI (2022) reported that the FDI from the EU countries has a low proportion in total FDI density. However, An Nhi (2022) noted in the Ministry of Industry and Trade report that there was an increase in the EU member countries' FDI flowing to Vietnam. It signifies the interests of companies from EU countries through EVFTA. In fact, from the results of implementing the EVFTA Agreement, it is also noted that local authorities of provinces and cities throughout the country still do not pay enough attention to taking advantage of FTAs to attract FTA member countries' FDI to their localities. It is recommended that ministries and branches increase the effectiveness of attracting FDI from EVFTA's member countries, strengthen market research regarding demands and needs, and implement propaganda and dissemination of EVFTA for Vietnam's companies. From the EVFTA requirement for environmentally friendly production and product originality, policymakers could expect technological and knowledge transfers as EVFTA member countries possess high-quality and environmentally friendly production.

Moreover, Vietnam needs many institutional reforms to improve the quality of the investment and business environment, as well as services and investment facilitation for foreign companies. Local authorities should open a dialogue with local companies to understand their needs

and desires which could help reform with appropriate policies. Ministries should outline the guidelines that emphasize human resource training and infrastructure building as they are critical for showing the logistics network and capacity of the countries.

5.2 Business Implications

The participation of domestic enterprises in the value chain is crucial not only for Vietnam's position in GVC but also for national socio-economic development. However, this is very limited. From the result of this article, Vietnam's local businesses are very passive in finding foreign partners and participating in the value chain network (Interviewees 1 and 5). These statements are made because these companies see those regulations of FTAs in general and EVFTA in particular are stringent. From the TiVA data, the DVA in Vietnam's trade is very weak, while the FVA is high. Understandably, FDI companies take a large portion of export turnover. Nguyen (2023) indicated that Vietnam's companies mostly used domestic inputs to produce for the domestic market which resulted from their weak capabilities. It is recommended that Vietnam's businesses take advantage of the outstanding FDI flowing into Vietnam which will lead to an increase in innovative dynamics and capital resources. EVFTA member countries with a low FDI are stalled, having a large capacity for domestic companies to attract. Mainly, EVFTA's member countries demand high-quality and environmentally friendly production.

Moreover, these countries are intensive and innovative in green technologies which could contribute to technological and knowledge transfers. They must proactively connect with the EU businesses. The EU member countries' business associations are strongly present in Ho Chi Minh City (Tran, 2023), leading to new business opportunities. Vietnam's institutional reforms are to enhance domestic capacity, and domestic companies could exploit these supporting policies to capture opportunities.

6. Conclusion

In light of the potential of attracting FDI from EVFTA's member countries, the number and value of EU FDI projects in Vietnam tend to increase. However, these values only account for a small proportion of the EU's total outward investment capital. This matter demonstrated that the inflow of FDI into Vietnam from the EU is not commensurate with the potential that EU businesses can bring. This research outlined the possibility of upgrading the position of Vietnam in the GVC. EVFTA brings excellent opportunities for Vietnamese companies.

More than 70 percent of tariffs on Vietnam's exports to the EU will be eliminated as soon as EVFTA takes effect and will be raised to 99 percent of tariffs within the next seven years. Vietnamese products such as seafood, agricultural products, textiles, footwear, furniture, and leather goods will become more competitive in the EU market. This Agreement will promote Vietnam's export of goods to the EU and contribute significantly to Vietnam's export growth. In light of the EVFTA, it is expected that more FTA members' high-quality FDI could be attracted to be moved to Vietnam. The instability of geopolitics, especially global conflicts, has created the tendency to diversify production chains. Many countries must diversify their source of producing products to cope with uncertainty. However, the result showed that EVFTA increased trade in goods activities between EU member countries and Vietnam. Although FDI from the EU has increased, it is still limited. This consequence is due to the slow legislative changes. Looking at the current situation with global conflicts and inflations, Vietnam's reforms to meet the requirements of the EVFTA will become increasingly complex and slower. Moreover, the relative advantage of EVFTA compared to other countries in the region will decrease faster as other ASEAN countries also boost their FDI attraction strategies.

Furthermore, DVA in the trade of Vietnam is relatively lower than in other countries, while FVA possesses a large proportion. This consequence leads to the issue of low domestic manufacturing capacity. Without developing a highly technological sector, Vietnam will still be a world-assembling agent. Additionally, the middle-income trap is realized if the GVC position of the country remains the same. The result demonstrated that the Vietnamese

government plans to exploit emerging opportunities by attracting high-quality FDI for the manufacturing sector and infrastructure and focus on developing high-quality human resources from EVFTA to capture these opportunities. Besides, Vietnam is oriented to become a financial hub in the region, and many EU business associations have been established (Tran, 2023). This strategy facilitates more FDI with the government's support. Vietnam focuses on attracting FDI projects that can create spillover effects and positive externalities for domestic businesses. This act advances domestic businesses' capacity, which helps them participate more deeply in essential links in the GVC. Hence, despite the many harsh demands of EVFTA in exports, FTA members' FDI is expected to enhance the DVA in trade in high technology and manufacturing sectors. In addition, the R&D, vocational training, and education industries are crucial to reinforcing capabilities and innovative dynamics. From this point, Vietnam is on the right track to pursue the enhancement strategy for its position in the GVC. Nevertheless, this is a long-term vision and mission, while Vietnam has to overcome many other challenges in the short term.

EVFTA is a catalyst for attracting FDI from Europe to Vietnam in a relatively positive direction, as shown by the significant increase in newly registered investment flows from the EU region into Vietnam. This increase is reflected not only in the total capital but also in the average scale of projects. Additional capital is also provided by the government channel, including the European Union and the governments of EU member countries, to support Vietnam in improving its capacity to meet the EU market's trade and investment standards. What EVFTA brings to Vietnam is only short-term when rivals in ASEAN are actively negotiating FTAs with the EU, and at the same time, the EU is also aiming for a standard FTA in the ASEAN region.

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