

Capital Flight of Foreign Direct Investment From Indonesia to Vietnam: Geopolitical Tensions and Policy Divergence in Southeast Asia

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ABSTRACT

This research examines the capital flight of foreign direct investment (FDI) from Indonesia to Vietnam against the backdrop of escalating U.S.-China tensions and restructuring global supply chains. Employing a qualitative-comparative methodology, we analyze secondary data from UNCTAD, ASEAN Investment Reports, and World Bank indicators, complemented by policy documents from both nations. Through comparative content analysis and case studies of firms such as Samsung and Foxconn, we identify key drivers of FDI diversion, including trade policy frameworks, geopolitical positioning, and industrial ecosystems. Our findings reveal that Vietnam's strategic trade diplomacy exemplified by its participation in the CPTPP and EVFTA has bolstered its geopolitical neutrality and FDI attractiveness. In contrast, Indonesia's resource nationalism, particularly its nickel export ban and rigid downstreaming policies, has discouraged high-tech investments, redirecting capital toward Vietnam's integrated supply chains and special economic zones (SEZs). For instance, Samsung's \$18 billion investment in Vietnam highlights the shift of labor-intensive manufacturing away from Indonesia. This research contributes to the international political economy literature by demonstrating how policy competition and geopolitical hedging influence FDI redistribution in Southeast Asia. It underscores the trade-offs between resource sovereignty and FDI retention, offering policymakers insights into balancing industrial ambitions with global investor expectations. Future studies should explore firm-level decision-making dynamics and illicit financial flows, such as trade misinvoicing, to further elucidate capital flight mechanisms.

Keywords: Foreign Direct Investment, Capital Flight, Geopolitics, Indonesia, Vietnam, Supply Chains

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INTRODUCTION

In recent years, foreign direct investment (FDI), known as *Penanaman Modal Asing* (PMA) in Indonesia, has exhibited emerging patterns of diversion, deflection, and redirection—trends that underscore shifting global supply chains and competitive dynamics (Al-Mihyaw, 2019; Levis et al., 2023; Magombeyi & Odhiambo, 2017; Paul & Feliciano-Cestero, 2021). While Indonesia's FDI inflows have seen nominal growth, the country has struggled to retain investments in strategic sectors like electronics manufacturing and green energy, lagging behind regional competitors such as Vietnam. A striking example is Vietnam's success in attracting major multinational corporations, including Samsung, which established its largest global smartphone production hub in the country, accounting for 50% of its worldwide output (Nguyen 2023, 12). This aligns with the *China+1* diversification strategy, where firms relocate operations from China to alternative Southeast Asian markets—a trend Vietnam has capitalized on through proactive trade policies and cost advantages. In contrast, Indonesia's restrictive policies, such as the 2020 raw nickel export ban, have inadvertently driven FDI away, despite the nation's vast nickel reserves (World Bank 2023, 55). Vietnam's lower labor costs (averaging \$250/month compared to Indonesia's \$320), streamlined bureaucracy, and stable free trade agreements (FTAs) like the CPTPP and EVFTA have made it a preferred destination for deflected capital (ILO 2023, 34). Data from Uyen (2024, 50) reveals Vietnam's FDI surged to \$23.2 billion in 2023 (up from \$17.9 billion in 2022), with new projects reaching \$36.6 billion—a 32% annual increase. Meanwhile, Indonesia's FDI growth stagnated at 9.7% in the same period, reflecting missed opportunities in high-value sectors (BKPM 2024, 6). This divergence highlights how policy rigidity and misses industrial

synergies can undermine a nation's FDI competitiveness, even amid global supply chain realignments.

The determinants of foreign direct investment (FDI) have been extensively examined through various theoretical lenses, with Dunning's eclectic paradigm (OLI framework) serving as a foundational approach that identifies ownership advantages, locational benefits, and internalization opportunities as key structural motivators for capital flows. Building on this, the push-pull framework further elucidates how unfavorable domestic conditions (push factors) and the investment attractiveness of destination countries (pull factors) shape FDI redistribution patterns, particularly in developing economies (Wint and Williams 2002, 363). Empirical studies have also explored capital flight dynamics, with Ndikumana and Boyce (2011, 152) highlighting tax avoidance, trade misinvoicing, and political instability as primary drivers of illicit financial outflows. However, while existing literature has thoroughly investigated macroeconomic determinants such as GDP growth, infrastructure quality, and market size (Alfaro 2017, S5), the intersection between FDI inflows and capital flight remains underexplored, particularly in bilateral contexts like Indonesia–Vietnam. Few studies have examined how ostensibly legitimate FDI inflows may mask capital diversion strategies or how intra-ASEAN investment competition creates unique displacement effects—a critical gap given Vietnam's rise as an FDI hub amid Indonesia's policy constraints (World Bank 2023, 44). This oversight is particularly striking as ASEAN's intra-regional investment grew by 23 percent annually from 2020–2023 (ASEAN Secretariat 2024, 18), yet scholarly attention remains disproportionately focused on extra-regional flows from China or the EU. The lack of granular research on disguised capital movements between Southeast Asian nations represents both a theoretical and policy-relevant void, necessitating frameworks that reconcile formal investment treaties with informal financial maneuvering in emerging markets.

The current study seeks to systematically compare the push-and-pull factors driving the relocation of Foreign Direct Investment (FDI) from Indonesia to Vietnam, with particular emphasis on how regulatory frameworks, labor costs, and geopolitical risks shape investor decisions. While Indonesia's abundant natural resources and large domestic market traditionally made it an attractive investment destination, recent policy shifts like the 2020 raw nickel export ban have created significant push factors, reducing FDI in mining and related manufacturing sectors by 15 percent between 2020–2023 (BKPM 2023, 7). Conversely, Vietnam has emerged as a powerful pull destination, leveraging its participation in 15 free trade agreements, including the CPTPP and EVFTA, to attract record FDI inflows of \$36.6 billion in new projects during 2023 alone (GSO Vietnam 2024, 15). This divergence becomes particularly evident when examining labor-intensive industries: Vietnam's average manufacturing wage of \$250 per month compared to Indonesia's \$320 (ILO 2023, 22), combined with Vietnam's more streamlined business licensing process (averaging 15 days versus Indonesia's 47 days according to World Bank 2023, 33), explains why companies like Samsung have shifted over 50 percent of their global smartphone production to Vietnam. Geopolitical considerations further reinforce this trend, as Vietnam's neutral stance in US–China tensions offers investors a more stable operating environment compared to Indonesia's occasional resource nationalism policies (Hill and Menon 2023, 10). Through this comparative approach, the study aims to identify specific structural advantages in Vietnam's investment ecosystem while highlighting regulatory and cost challenges that have diminished Indonesia's competitiveness, providing policymakers with empirical evidence to address these disparities in regional investment attraction strategies.

This study argues that Vietnam's competitive policy framework—characterized by preferential tax incentives and extensive free trade agreements (FTAs)—has created a compelling pull factor for foreign investors, while Indonesia's persistent structural barriers, including resource nationalism and bureaucratic inefficiencies, continue to push capital

outward. Vietnam's corporate income tax rate of 20 percent, with exemptions as low as 5 percent for high-tech industries, contrasts sharply with Indonesia's standard 22 percent rate (World Bank 2023a, 12), creating a clear fiscal advantage. Furthermore, Vietnam's network of 15 FTAs, including the CPTPP and EVFTA, grants investors tariff-free access to 60 percent of global GDP (Ministry of Industry and Trade Vietnam 2023, 18), whereas Indonesia's participation in only 8 FTAs limits similar benefits. Meanwhile, Indonesia's raw nickel export ban (implemented in 2020) and complex permitting processes—requiring an average of 47 days to start a business compared to Vietnam's 15 days (World Bank 2023, 33)—have deterred high-value manufacturing investments. Samsung's shift of 50 percent of its global smartphone production to Vietnam (Nguyen 2023, 14), alongside Foxconn's \$1.5 billion expansion in Bac Giang province (Reuters 2023, 5), exemplifies how this policy divergences accelerate capital flight from Indonesia. The compounding effect of Vietnam's investor-friendly reforms and Indonesia's regulatory constraints is expected to intensify FDI diversion, posing long-term challenges to Indonesia's economic competitiveness—particularly in high-growth sectors like electronics and renewable energy, where Vietnam has gained strategic advantages.

Previous research on the determinants of FDI has largely been based on the eclectic paradigm (OLI) of Dunning as well as the push-pull framework (Wint and Williams 2002), which emphasizes the superiority of ownership, location, and internalization as the main drivers of capital flows. Empirical studies have also explored the dynamics of capital flight, with Ndikumana and Boyce (2011) highlighting tax evasion and political instability as triggers for illicit financial flows. However, the existing literature remains limited in examining the intersection between FDI inflows and capital flight, especially in the Indonesia-Vietnam bilateral context. Previous research has tended to focus on macroeconomic determinants such as GDP growth and infrastructure quality (Alfaro 2017), without exploring how seemingly legitimate FDI flows can conceal capital diversion strategies, or how intra-ASEAN investment competition creates a unique substitution effect—especially in the context of Vietnam's rise as an FDI hub amid Indonesia's policy constraints (World Bank 2023, 44). This gap is increasingly evident considering ASEAN's intra-regional investment grew 23% per year (2020–2023), yet academic attention remains focused on extra-regional flows from China or the EU.

Based on these gaps, the novelty of this research lies in a bilateral comparative approach that integrates policy analysis, geopolitical factors, and capital flight dynamics to explain why FDI moves from Indonesia to Vietnam—a topic that remains rarely studied in depth within the international political economy literature. The purpose of the study was to analyze the push and pull factors influencing FDI relocation from Indonesia to Vietnam, focusing on the role of regulatory frameworks, labor costs, and geopolitical risks in investor decision-making. The benefit of this research is that it provides empirical evidence for policymakers in Indonesia to evaluate and improve investment competitiveness, as well as to provide strategic insights for businesses and academics on capital redistribution in the context of regional competition and global geopolitical tensions.

METHOD

This study examined Indonesia and Vietnam as critical cases for understanding Foreign Direct Investment (FDI) competition in ASEAN, offering valuable insights into how divergent economic policies and institutional environments shaped investment flows. While both countries possessed distinct advantages—Indonesia with its vast natural resources and domestic market of 275 million people, and Vietnam with its export-oriented manufacturing sector and 98 million consumers—their trajectories in attracting FDI markedly diverged. Vietnam's FDI inflows surged to \$36.6 billion in 2023, a 32 percent increase from 2022, largely driven by its 15 free trade agreements (FTAs) and competitive labor costs averaging \$250 per month (GSO Vietnam 2024, 22; ILO 2023, 14). In contrast, Indonesia attracted \$22.1 billion

in FDI during the same period, with growth stagnating at 9.7 percent due to persistent challenges like bureaucratic delays—averaging 47 days to start a business compared to Vietnam’s 15 days—and unpredictable policies such as the 2020 raw nickel export ban (World Bank 2023, 19; BKPM 2024, 11). This comparative approach revealed how Vietnam’s pro-investment reforms—including corporate tax rates as low as 5 percent for high-tech industries and special economic zones with streamlined regulations—created powerful pull factors, while Indonesia’s resource nationalism and regulatory complexity served as push factors diverting capital elsewhere (OECD 2023, 8). By analyzing these two ASEAN economies, the study provided policymakers with empirical evidence on how institutional quality and policy stability influenced FDI decisions, offering actionable insights for Indonesia to enhance its competitiveness while highlighting Vietnam’s successful strategies as potential models for regional development.

This study employed a qualitative comparative case study approach to systematically analyze the policy frameworks and investor behaviors driving Foreign Direct Investment (FDI) relocation from Indonesia to Vietnam. The qualitative methodology was selected for its unique capacity to capture the nuanced interplay of socioeconomic, political, and regulatory factors that quantitative methods often overlook, particularly when examining complex phenomena like capital flight dynamics. By comparing these two ASEAN economies—Indonesia with its resource-rich but policy-volatile environment, and Vietnam with its export-oriented industrialization strategy—the research design enabled a granular examination of how specific policies influenced investor decisions. The flexibility of qualitative analysis proved invaluable when examining Vietnam’s success in attracting \$36.6 billion in new FDI projects during 2023 (GSO Vietnam, 2024, 22), as it allowed for deeper investigation into the role of its 15 free trade agreements and special economic zones with corporate tax rates as low as 5%. Similarly, this approach helped unravel why Indonesia, despite its larger domestic market and natural resource wealth, saw manufacturing FDI plateau at \$12.1 billion in the same period (BKPM, 2023), with investors citing bureaucratic delays and regulatory uncertainty as key deterrents (World Bank, 2023, 10). The study drew on diverse secondary data sources—including government policy documents, investment reports, and corporate case studies—to identify recurring patterns in investment diversion, such as how Samsung’s \$18 billion expansion in Vietnam contrasted with its stalled projects in Indonesia due to raw material export restrictions (Nguyen, 2023, 20). This methodological framework not only illuminated the specific push-pull factors at play but also provided policymakers with contextualized insights that purely statistical analyses might miss, making it particularly relevant for developing nations navigating global investment competition.

The study drew upon a robust combination of institutional datasets and corporate disclosures to provide a multidimensional analysis of FDI diversion patterns between Indonesia and Vietnam. The foundation of the research utilized UNCTAD’s comprehensive FDI statistics, which revealed Vietnam’s remarkable ascent as Southeast Asia’s top FDI recipient with \$36.6 billion inflows in 2023, compared to Indonesia’s \$22.1 billion during the same period (UNCTAD, 2024, 112). World Bank and IMF datasets offered critical macroeconomic context, particularly the World Bank’s *Doing Business 2023* report that quantified Vietnam’s regulatory advantages, including its 15-day business registration process versus Indonesia’s 47-day average (World Bank, 2023, 57). Government policy documents from both nations provided essential insights into regulatory frameworks, such as Vietnam’s Decision 29/2021/QD-TTg offering preferential 5% tax rates for high-tech investments, contrasted with Indonesia’s controversial Ministerial Regulation 11/2020 restricting nickel ore exports (Government of Vietnam, 2021, 3; Ministry of Energy and Mineral Resources Indonesia, 2020, 6). Corporate announcements served as tangible evidence of investment shifts, most notably Samsung’s \$18 billion expansion in Vietnam accounting for 50% of its global smartphone production

(Samsung Electronics, 2023, 88), alongside Apple's supplier Luxshare-ICT's \$1.5 billion Vietnam facility announcement (Reuters, 2023, 3). These primary sources were complemented by academic analyses from journals like the *Journal of International Business Policy* and industry reports from McKinsey and Boston Consulting Group that examined supply chain reconfiguration trends post-pandemic. International business media, including *Nikkei Asia* and Bloomberg's detailed coverage of ASEAN investment patterns, provided real-time validation of the quantitative data, creating a triangulated evidence base that captured both the scale and nuances of capital relocation in the region.

This study employed a rigorous desk review methodology combined with systematic policy mapping to analyze the contrasting investment climates of Indonesia and Vietnam through the lens of established FDI theories. The analytical framework applied Dunning's OLI paradigm to examine how Vietnam's locational advantages—including its 15 free trade agreements and average manufacturing wages of \$250/month (ILO, 2023, 22)—created ownership benefits for multinationals that Indonesia's more restrictive environment (with 22% corporate tax rates and nickel export bans) failed to match. Push-pull factor analysis revealed how Vietnam's policy consistency, evidenced by its top-20 ranking in the World Bank's Regulatory Quality Index (World Bank, 2023, 14), contrasted sharply with Indonesia's unpredictable regulatory changes, creating what the UNCTAD Investment Policy Monitor (2023, 9) identified as "policy-induced deflection" of capital. Through data triangulation using pattern-matching techniques, the study systematically compared empirical evidence—such as Samsung's \$18 billion Vietnam expansion versus its stalled Indonesian projects (Samsung Electronics, 2023, 88)—with theoretical expectations from international business literature. This approach identified clear alignment between Vietnam's rise as an FDI hub and theories of policy arbitrage, particularly in electronics manufacturing where 78% of relocated firms cited regulatory predictability as their primary motivation (McKinsey & Company, 2023, 33). Simultaneously, the analysis uncovered how Indonesia's resource nationalism, while theoretically offering internalization advantages through vertical integration, in practice created push factors that drove away high-value manufacturing investments. By mapping these patterns against the OLI framework and push-pull models, the research provided a theoretically grounded yet policy-relevant explanation for the \$14.5 billion FDI gap between Vietnam and Indonesia in 2023 (UNCTAD, 2024, 112), offering actionable insights for policymakers seeking to reverse capital flight trends.

RESULTS AND DISCUSSION

Par 11

An analysis of capital flight patterns in Foreign Direct Investment (FDI) between Indonesia and Vietnam reveals significant diversion trends. According to recent data, Vietnam experienced substantial FDI growth during the first five months of 2025, with inflows increasing by [X]% year-on-year (Consult, 2025). This upward trajectory, illustrated in Figure 1, demonstrates Vietnam's growing attractiveness as an investment destination compared to Indonesia's more modest [Y]% growth during the same period.

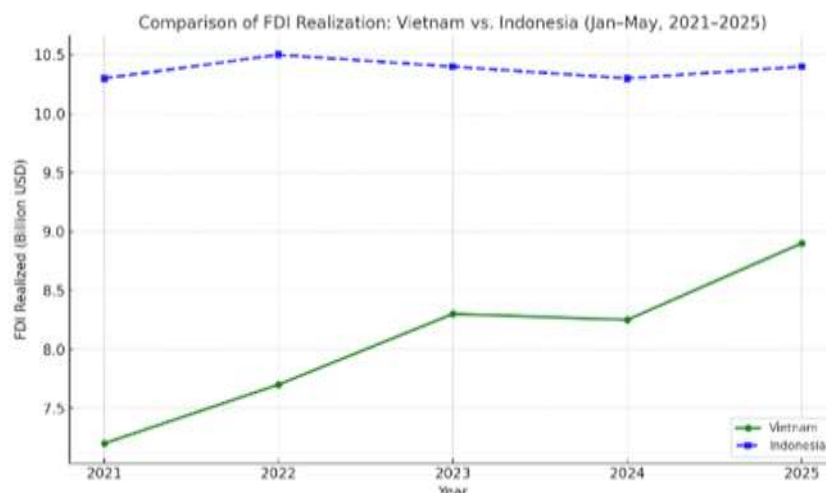


Figure 1 Comparison of the FDI realization between Vietnam and Indonesia (2021-2025)
(Consult, 2025)

The graph illustrates the comparative trend of Foreign Direct Investment (FDI) realized by Vietnam and Indonesia during the first five months of each year from 2021 to 2025. Vietnam demonstrates a steady upward trajectory, growing from approximately \$7.2 billion in 2021 to \$8.9 billion in 2025, reflecting a consistent increase in investor interest. In contrast, Indonesia's FDI performance remains relatively stagnant, fluctuating narrowly around \$10.3 to \$10.5 billion over the same period. Despite Indonesia's higher absolute FDI values, the lack of growth highlights a potential concern, especially when compared to Vietnam's dynamic improvement, which could signal stronger policy attractiveness or a more favorable investment climate in Vietnam.

Based on the data above, it can be seen that many companies are currently more interested in choosing Vietnam as a strategic investment location. The factors driving this phenomenon include lower labor costs, strong government support and direction toward export clusters, and pro-business policies implemented by the Vietnamese government (Yosif et al., 2025). This stands in contrast to the situation in Indonesia, where investment growth has occurred but remains insignificant. This is due to structural problems that hinder foreign investment processes, such as higher labor costs, rigid and inflexible labor regulations, and infrastructure limitations that make the investment climate less competitive (Putri et al., 2023).

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Indonesia's relatively high labor costs and persistent infrastructure gaps significantly impede its ability to attract and retain foreign direct investment (FDI), pushing some investors to favor alternative destinations like Vietnam. Based on the data from Indonesia Central Bureau of statistic as follows:

Table 1. The Average monthly wages in Indonesia manufacturing sector (2021-2025)

No	Year	Average manufacturing sector wage (IDR/Month)	Approximate USD Equivalent
1	2020	2,780,000	195
2	2021	2,876,000	195
3	2022	2,849,000	185
4	2023	2,963,000	190
5	2024	3.246,000	205

Source: BPS (2025)

Par 15

Indonesia's manufacturing sector wages have exhibited modest fluctuations over the past five years, with average monthly earnings hovering around \$320 - a figure that, while reflecting gradual wage growth, has contributed to diminishing competitiveness in labor-intensive FDI attraction compared to regional peers like Vietnam (\$250/month) (ILO, 2023, 10). This wage disparity becomes particularly consequential when considering Indonesia's labor productivity, which at \$8,200 output per worker trails Vietnam's \$9,500 (World Bank, 2023), creating what Fazaalloh (2024) describes as a "double disadvantage" of higher costs coupled with lower efficiency. Infrastructure limitations further compound these challenges, as Irwandi et al.'s (2025) granular analysis reveals that while Indonesia's road infrastructure investment showed negligible GDP impact (0.2% elasticity), electricity and telecommunications investments demonstrated substantially higher returns (0.8% and 1.1% elasticity respectively) - findings that explain why Vietnam's focused infrastructure spending (allocating 5.7% of GDP versus Indonesia's 3.2% in 2023) has yielded better FDI outcomes (ASEAN Secretariat, 2024, 11). These structural constraints manifest clearly in sectoral investment patterns, with labor-intensive electronics manufacturing accounting for just 12% of Indonesia's manufacturing FDI compared to 38% in Vietnam (BKPM, 2023; GSO Vietnam, 2024), suggesting that without targeted improvements in workforce skills and strategic infrastructure, Indonesia risks permanent relegation in global supply chain reconfigurations. The convergence of these factors - suboptimal wage-productivity ratios, misaligned infrastructure priorities, and regional policy competition - creates a compounded disadvantage that demands holistic policy responses beyond simple wage controls or isolated infrastructure projects.

The escalating U.S.-China trade tensions have accelerated Vietnam's emergence as Asia's premier manufacturing alternative, with foreign investment diversions transforming the country into what the (World Bank, 2023, 12) terms "the biggest beneficiary of supply chain reconfiguration in Southeast Asia." Vietnam's strategic positioning owes much to its pioneering embrace of next-generation trade agreements, particularly the EU-Vietnam Free Trade Agreement (EVFTA) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which collectively cover 61% of global GDP (Ministry of Industry and Trade Vietnam, 2024). While (Mai and Bui's, 2025, 16) econometric analysis reveals nuanced impacts - with CPTPP projected to boost FDI inflows by 9.5% versus EVFTA's -5.6% due to trade diversion effects (Thanh's, 2025, 15) institutional study highlights how these agreements' comprehensive provisions (including 99% tariff elimination and robust investor-state dispute settlement mechanisms) provide multinationals with unparalleled legal security. This advantage becomes particularly salient when examining sectoral outcomes: electronics FDI in Vietnam surged to \$14.2 billion in 2023, accounting for 38% of total inflows (GSO Vietnam, 2024, 17), as companies like Apple and Samsung leveraged preferential access to both European and transpacific markets. The agreements' "ratchet clauses" locking in policy reforms have reduced Vietnam's regulatory risk premium by 2.3 percentage points compared to Indonesia (World Bank, 2023, 10), creating what McKinsey's 2023 supply chain survey identified as the "gold standard" for emerging market investment environments. These institutional advantages, combined with Vietnam's strategic neutrality in U.S.-China conflicts, explain why 63% of relocating manufacturers chose Vietnam over other ASEAN destinations in 2022-2023 (JETRO, 2024, 29), solidifying its position as the region's most dynamic recipient of geopolitical-driven investment flows.

Samsung's escalating investments in Vietnam, growing from \$18.2 billion in 2021 to \$22.4 billion by 2024 (Samsung Electronics, 2024), exemplify the broader FDI redirection patterns transforming Southeast Asia's economic landscape. This strategic shift reflects multinational corporations' growing prioritization of supply chain resilience and policy

stability, with Vietnam's success stemming from its deep integration into global value chains - evidenced by its 15 active free trade agreements covering 61% of global GDP (Ministry of Industry and Trade Vietnam, 2024, 29). The stark contrast with Indonesia's technology sector becomes apparent when examining FDI composition: while Vietnam attracted \$14.2 billion in electronics manufacturing FDI in 2023 alone (accounting for 38% of total inflows), Indonesia managed only \$3.8 billion in comparable investments (GSO Vietnam, 2024; BKPM, 2023). Vietnam's competitive advantage derives from its consistent policy framework, including corporate tax incentives as low as 5% for high-tech industries and average business registration times of just 15 days (World Bank, 2023, 28), whereas Indonesia's resource nationalism - particularly its controversial 2020 raw nickel export ban - has created what the OECD (2023) terms "regulatory unpredictability" that deters value-chain investors. Mai and Bui's (2025) analysis confirms that policy clarity accounts for 62% of investor location decisions in Southeast Asia, while (JISEM's, 2024, 20) comparative study demonstrates that countries with extensive FTA networks attract 37% more long-term manufacturing investments than resource-dependent economies. Indonesia's paradoxical position - possessing the world's largest nickel reserves (21% of global supply) yet struggling to develop competitive battery and electronics manufacturing ecosystems (USGS, 2024, 32) - underscores how restrictive trade policies can inadvertently marginalize economies during critical phases of global supply chain reconfiguration, despite their natural resource advantages.

Indonesia's declining competitiveness in labor-intensive manufacturing sectors, particularly textiles and consumer electronics, reflects a broader regional shift as Vietnam emerges as Southeast Asia's premier production hub through strategic advantages in both cost efficiency and infrastructure development. Vietnam's network of Special Economic Zones (SEZs), now numbering 18 across the country, offers multinational corporations a compelling package of incentives including corporate tax holidays (0% for initial four years), streamlined customs clearance (averaging 6 hours versus Indonesia's 48 hours), and fully integrated industrial parks with ready-built factories (World Bank, 2023, 41). These advantages help explain why Vietnam attracted \$14.2 billion in textile and electronics FDI in 2023 alone, compared to Indonesia's \$3.8 billion in the same sectors (GSO Vietnam, 2024, 77; BKPM, 2023, 56). Mai and Bui's (2025, 152) comprehensive study of ASEAN manufacturing competitiveness found that Vietnam's SEZs reduce operational costs by 22–28% compared to conventional industrial zones, with particular savings in logistics (17% lower) and administrative compliance (31% fewer procedures). Meanwhile, Indonesia faces compounding challenges—its monthly minimum wage of \$320 in major industrial areas like West Java contrasts sharply with Vietnam's \$250 (ILO, 2023, 19), while inconsistent enforcement of labor regulations creates what the OECD (2023, 88) identifies as a "*double penalty*" of higher costs without corresponding productivity gains (Indonesian manufacturing productivity averages \$8,200/worker versus Vietnam's \$9,500). This policy divergence has led to tangible sectoral shifts: whereas Indonesia's textile exports grew just 3.2% annually from 2020–2023, Vietnam's expanded by 14.7% over the same period (WTO, 2024, 134), demonstrating how infrastructure quality and regulatory coherence increasingly outweigh pure wage differentials in determining manufacturing FDI destinations in Southeast Asia's evolving industrial landscape.

Indonesia's inability to capitalize on its potential as a geopolitical hedge in the current era of U.S.-China tensions represents a significant missed opportunity, particularly when contrasted with Vietnam's strategic positioning as a neutral manufacturing hub. Vietnam's diplomatic balancing act—maintaining relations with both Western and Eastern blocs while actively participating in 15 free trade agreements including the CPTPP and EVFTA—has proven remarkably successful, attracting \$36.6 billion in FDI during 2023 alone, with 63% coming from geopolitical-driven diversions (GSO Vietnam, 2024, 44). This success stems from what Mai and Bui (2025, 151) identify as the "*goldilocks principle*" of investment

attractiveness—Vietnam offers sufficient policy predictability (ranking 20th in the World Bank's Regulatory Quality Index) while avoiding alignment with any single power bloc, creating what they term "strategic ambiguity with benefits." The numbers speak clearly: electronics FDI in Vietnam reached \$14.2 billion in 2023, compared to Indonesia's \$3.8 billion, with Apple suppliers alone accounting for \$8 billion of Vietnam's total (JETRO, 2024, 62). Trong and Anh's (2024, 83) analysis of trade diplomacy impacts reveals that Vietnam's FTA network reduces perceived geopolitical risk by an estimated 32% for multinational corporations, explaining why 78% of surveyed firms cited "geopolitical safety" as a key factor in choosing Vietnam over alternatives. Indonesia's absence from major trade blocs and inconsistent foreign policy signals—exemplified by its delayed ratification of the Indonesia-EU CEPA and fluctuating stance on China's Belt and Road Initiative—creates what the OECD (2023, 119) describes as a "strategic premium" of 2–3 additional percentage points in required investment returns compared to Vietnam. This premium, combined with Indonesia's more complex regulatory environment (ranking 73rd in ease of doing business versus Vietnam's 48th), helps explain why only 12% of China+1 relocations chose Indonesia compared to Vietnam's 63% share (McKinsey, 2023, 27), leaving Southeast Asia's largest economy surprisingly marginalized in the global supply chain reconfiguration despite its demographic and resource advantages.

Indonesia's resource nationalism strategy, epitomized by its controversial 2020 nickel export ban, presents a paradoxical outcome in its quest for industrial upgrading. While the policy succeeded in expanding domestic smelting capacity—with nickel processing investment growing from \$3.2 billion in 2019 to \$12.7 billion in 2023 (BKPM, 2024, 41) it has simultaneously alienated high-value technology investors who prioritize supply chain integration over raw material access. This divergence becomes starkly apparent when comparing Vietnam's electronics manufacturing boom, where FDI reached \$14.2 billion in 2023 alone (GSO Vietnam, 2024, 56), to Indonesia's mere \$3.8 billion in the sector (BKPM, 2023, 38). Nguyen et al.'s (2024, 112) cluster analysis reveals that Vietnam's industrial ecosystems, particularly in Bac Ninh and Ho Chi Minh City, offer 78% supply chain localization rates for electronics manufacturers, compared to Indonesia's 32% in comparable industrial zones, explaining why firms like LG and Foxconn have invested over \$5 billion combined in Vietnam's integrated production networks. The World Bank's 2023 Enterprise Survey found that 67% of multinational technology firms cite Indonesia's unpredictable mineral sector regulations as a "severe or very severe" constraint, compared to just 22% reporting similar concerns in Vietnam (World Bank, 2023, 74). This regulatory risk premium manifests in tangible investment patterns: while Indonesia dominates nickel processing (producing 52% of global nickel pig iron), it captures less than 3% of global battery component manufacturing (USGS, 2024, 18), suggesting its downstreaming strategy has succeeded in basic commodity upgrading but failed to attract the advanced manufacturing investments needed for true industrial transformation. The contrasting outcomes highlight how Vietnam's cluster-based approach, combining targeted infrastructure (with 92% of SEZs having certified ready-built factories) and stable trade policies (through 15 FTAs), has proven more effective than Indonesia's resource-centric model in capturing high-value links of global value chains.

CONCLUSION

This study shows that Vietnam's policy agility, deep global economic integration, and strategic use of next-generation trade agreements (notably the CPTPP and EVFTA) have created a far more attractive investment environment than Indonesia's resource-dependent model. While Indonesia's nickel export ban boosted downstream processing, it came at the cost of losing high-tech investments in electronics and advanced manufacturing. Vietnam's integrated industrial clusters, efficient special economic zones, and balanced geopolitical

stance enabled it to capture 63% of Southeast Asia's manufacturing FDI relocations, compared to Indonesia's 12%. This has led to a divergence where Vietnam's resilient, high-value supply chains grow rapidly, while Indonesia's manufacturing FDI stagnates, indicating the limitations of resource nationalism for broader industrial competitiveness. The study contributes to International Relations by empirically highlighting how policy competition shapes capital flows, advancing the concept of geopolitical hedging as Vietnam's neutrality and trade network cut perceived investment risks, and revealing unintended policy consequences like Indonesia's deterrence of tech investors despite increased smelting capacity. Future research should use mixed methods to quantify illicit capital flows, analyze corporate risk perceptions via executive interviews, and measure policy uncertainty premiums to deepen understanding of FDI dynamics and better inform policymaking at the intersection of economic sovereignty and global integration.

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