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Opportunities and Challenges for Local
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Implementation of Investment Paradiplomacy

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Opportunities and Challenges for Local Governments to Facilitate the Implementation of Investment Paradiplomacy

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Abstract: Studies on paradiplomacy, specifically concerning investment, are rarely carried out comparatively. However, since decentralization, there have been changes and modernization in the practice of dividing tasks between central and local governments. Paradiplomacy has become a concept and practice for expanding the main tasks and functions of local government relations. Furthermore, it enhances diversity in developing cooperation to realize regional development through investment schemes. In a borderless era with the proliferation of intranet and internet communication channels, local governments have easy access to building a regional internationalization vision. Local governments can also improve the capabilities and capacities of competitive human resources to promote regional potentials that are recognized not only nationally but internationally. However, this study on paradiplomacy uses a qualitative approach through comparative studies. This study focuses on a series of interviews and field observations in South Sulawesi, Indonesia, and Dar es Salaam, Tanzania. Mapping and compiling various references related to paradiplomacy and investment was performed to strengthen the analysis and conclusions. Additionally, since the decentralization policy was implemented, local governments have had a unique opportunity to make formal presentations on resource promotion, investment activities, and human resource development. Therefore, its implementation in South Sulawesi, Indonesia, and Dar es Salaam, Tanzania, was responded with a series of activities that facilitate the implementation of paradiplomacy practices. These practices include the availability of local regulations, development of service and information infrastructure, and promotion of potential regional domestic inactivity and foreign exhibitions. This study also has a long-term target on conceptual dissemination of investment paradiplomacy through factual presentations of best practices in implementing investment paradiplomacy in South Sulawesi, Indonesia, and Dar es Salaam, Tanzania.

Keywords: Paradiplomacy, Local Governments, Investment Paradiplomacy, Decentralization, Indonesia, Tanzania

Introduction

Political dynamics and decentralization policies in Indonesia and Tanzania have significantly influenced local governance practices, both theoretically and practically (Osifo 2013; Prasojo, Putri, and Hariyati 2021; Holzhacker, Wittek, and Woltjer 2016). This is related to advances in information technology, which currently knows no national borders (Hardi and Gohwong 2020; Holzhacker, Wittek, and Woltjer 2016). Furthermore, the practice of building networks and non-rigid cooperation has given birth to many tools and modes of practice to build and expand diplomatic networks that are effective, efficient, and significantly influence local development (Harakan 2020; Utomo 2020).

The traditional phenomenon of cooperation and diplomacy seems highly rigid due to the limited implementation by a group of people who have attended various training and are officially appointed by the government of a country. These groups of people are known as

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diplomats who have found an alternative with the emergence of non-state actors (Dubrovina and Salamov 2019). This phenomenon is the cause of the emergence of modern diplomacy that is more flexible and gives birth to various diplomatic actors that play a role in it, including local governments (Dubrovina and Salamov 2019).

In the Republic of Indonesia, specifically in South Sulawesi, and Dar es Salaam in Tanzania, which have a geographical location dominated by islands and oceans, the government faces challenges in realizing equitable development and community welfare. This occurs in all sectors and regions during massive development competition (Fathun 2016; Harakan 2018; Jackson 2018; Mkunde 2019). The decentralization policy that was rolled out is believed to be one of the efficient and effective solutions for equitable development in every region in Indonesia and Tanzania. Furthermore, the concrete manifestation of the decentralization policy involves carrying out the mandate of reform and bureaucratic development by realizing the regional motto, “by the region, and for the region” (Mkunde 2019; Novialdi and Rasanjani 2020).

Decentralization is a form of delegation in the fulfillment of rights, powers, and obligations by the central government to local governments, to manage the interests of their respective regions in accordance with the stipulated constitution. Downstream policies are expected to realize authoritative, efficient, and effective governance in realizing public services to the community (Talitha, Firman, and Hudalah 2020). In this more egalitarian and flexible situation, the emergence of a new actor called a local government affects the development of international relations (Mukti et al. 2018; Mursitama and Lee 2018).

Decentralization policies and the phenomenon of new actors in government relations with foreign actors are contained in the paradiplomacy concept (Issundari 2018). Paradiplomacy is still a relatively new phenomenon in the study of government and international relations. This refers to the situation of action and legality to conduct relations with foreign parties by sub-state entities, namely local governments in the context of special interests that they have regulated (Surwandono and Maksum 2020). In this era that demands collaboration, paradiplomacy is certainly an interesting and unique phenomenon alongside the availability of rules, access, and influence of sub-state entities in the arena of intergovernmental relations (Mukti et al. 2021). In this context, paradiplomacy promotes local action with the aim of realizing actor participation in global interactions (Wolff 2007).

The series of narratives that have been described previously have formed a framework for the urgency and rationality of this study. This study designed an alternative investment development model through a paradiplomacy scheme and mapped out a comparison of its implementation in two different places. Therefore, it is expected that a best practice model of investment paradiplomacy can be formed in Local Government Practices.

Literature Review

State of the Art

Studies and publications on paradiplomacy in Indonesia are dominated by various themes, such as paradiplomacy, the combatant movement and local politics (Mukti et al. 2019), paradiplomacy and investment (Alam and Sudirman 2020; Harakan 2020; Harakan, Mustari, and Kinyondo 2021b; 2021a; Putri 2020), paradiplomacy and smart city (Mursitama and Lee 2018), paradiplomacy and tourism (Pratama 2020; Surwandono 2019), paradiplomacy and disaster (Resty 2018), and paradiplomacy and borders (Clemente 2018; Surwandono 2019).

This is different from the study of paradiplomacy in Tanzania, which has not been applied conceptually and in terms of practice. However, the availability of a legal umbrella has been in accordance with the practice of paradiplomacy applied by various countries. This practice is carried out through strengthening the role of the local government and decentralizing policy participation in improving the quality of development in Tanzania (Conyers 1981; Frumence et

al. 2013; Kessy and McCourt 2010; Kumburu and Pande 2018; Mollel and Tollenaar 2013). Furthermore, there is study on provincial health diplomacy in the health sector (Shen and Fan 2014), and diplomacy in the local economy (Kamata 2012).

From various studies and publications on paradiplomacy, the investigation and discussion of this study examines and analyzes the various views that exist in study of Government Science and International Relations. During discussions, studies, and publications on paradiplomacy, it is rarely examined in comparison to the proper way for local governments to utilize the concept of paradiplomacy by carrying out a series of practices related to investment.

In explaining the reasons for the existence of local governments being involved as actors of cooperation on an international scale, a different perspective is required in study of Government Science and International Relations which is used to explain the variables of the analytical level of the phenomenon. This involves mapping and analyzing study reference sources and publications that are already available as well as observations at the study location.

Literature Review

In this era, the situation that dominates various interactions of the international community after the Westphalian regime turns out to be more participatory, both at the state, sub-state, institutional and individual levels (Chatterji and Saha 2017). International relations do not necessarily negate the main pillars of a country's sovereignty but create regulatory demands for a commitment to share sovereignty within constitutional boundaries (Mukti et al. 2021). This phenomenon is a local movement in a competitive global platform that is expected to increase competitiveness, not only for the state but also for the regions at district/city, and provincial levels (Dubrovina and Salamov 2019).

Paradiplomacy is a phenomenon of the latest conceptualization of international relations and government studies. The term "paradiplomacy" was invented in the 1980s by the scientist Panayotis Soldatos who came from Basque, Spain. Furthermore, Soldatos amalgamated the term "parallel diplomacy" into paradiplomacy. According to Crikemans (2008), Boyer, Aldecoa, and Keating considers that the term refers to "non-central government foreign policy," while another term popularized by Duchacek is "micro-diplomacy" (Crikemans 2008).

Other academics have emphasized that in a climate of globalization and democracy, paradiplomacy is a form of empowering local governments in the practice of foreign cooperation. This is significantly connected with the acceptance of the multitrack diplomacy concept in the study of international relations (Damayanti 2012; Mukti 2013). However, the architecture of paradiplomacy in Indonesia seems administrative, procedural, and technical. This produces the inability to accelerate the implementation of paradiplomacy practices by local governments in Indonesia to achieve progressive regional and national interests (Surwandono and Maksum 2020).

Duchacek academics explain paradiplomacy in three types (Cornago 2018; Jatmika 2001). The first is cross-border paradiplomacy, which refers to institutional, formal, and informal relations implemented by subnational governments that are different from the country but with natural geographical boundaries. This is enhanced by the cultural and emotional connection between history, character, and culture. The second type is transregional paradiplomacy, specifically diplomatic relations carried out by sub-national governments in different countries that do not have direct borders. However, the country where both subnational governments are located is currently based in the same region. The third type, global paradiplomacy, is a sub-national government that carries out diplomatic relations in various countries, from other regions, and various parts of the world (Cornago 2018; Jatmika 2001).

The conceptualization of paradiplomacy also impacts investment studies and practices (Alam and Sudirman 2020; Harakan 2020; Harakan, Mustari, and Kinyondo 2021b, 2021a). Investment paradiplomacy is the ability of local governments to attract investment based on regional regulations and the concept of paradiplomacy in which non-state actors (local

governments, etc.) play a role in the diplomatic framework (Harakan 2020; Harakan, Mustari, and Kinyondo 2021b, 2021a).

In investment studies, paradiplomacy is very closely related to capital as a prerequisite for regional development. Capital is obtained from parties that invest in the region, one of which is through foreign investment schemes (Rugman, Lecraw, and Booth 1985). Foreign investment has a vital urgency for development, which is very basic for understanding the concept of investment in the reality of development (Kis-Katos and Sjahrir 2017). The potential for strength in the economic field that is abundant in all corners of the country that has not been exploited can be a real economic strength (Lindblad 2015). However, the basic problems include limited capital, the adequate experience of human resources, and technology. This causes all the potential and real economic power to not be adequately used (Lindblad 2015).

The urgency of the importance of capital related to the rationality of physical and social infrastructure development requires local governments to have creativity in building investment cooperation networks. The conceptualization of paradiplomacy promotes the government to not only think and act locally. This is because the massive changes in the current era when viewed in the framework of cooperation have promoted local governments to think and act globally (Mukti 2019).

Research Methods

This study on paradiplomacy uses a qualitative approach through comparative studies. Qualitative studies involve the exploring and understanding of social problems (Creswell 2012). Meanwhile, comparative studies focus on the desire to find answers through causal analysis of the emergence of certain phenomena (Nazir 2005). Qualitative studies lead to the need for limitations on the basis of focus that arises as problems in a study. Therefore, this study focuses on Investment Paradiplomacy in Local Government Practices in South Sulawesi, Indonesia, and Dar es Salaam, Tanzania.

The technique of determining informants involved the use of purposive sampling through key persons. This involves determining the group of participants who become informants according to selected criteria that is relevant to the study problem (Bungin 2007). Meanwhile, observation, interviews, and documentation are data and information collection techniques used in this study.

The interview technique used was an in-depth interview through a semi-structured approach to finding problems more openly (Sugiyono 2016). Furthermore, information was obtained from an individual by asking questions, based on the study objectives (Mulyana 2010). Participatory observations and in-depth interviews were also supplemented with documents. These show how the subject defines himself, the environment, and the situation he faces at a given moment, and how these definitions relate to people around him and his actions (Mulyana 2010).

Data analysis refers to the flow of activities used by Miles and Huberman (2007), namely data collection, data reduction, display, and drawing conclusions or verification. Furthermore, the study team held a limited focus group discussion with academics and experts to discuss the data obtained for drawing conclusions. This study also uses qualitative data analysis with the Nvivo 12 Plus computer programming assistant. Data translation involved the use of Nvivo 12 Plus as a qualitative analysis tool that translates data through several stages, (1) creating a new project, (2) compiling documents, (3) coding the data, (4) analysis (AlYahmady and Al Abri 2013), and (5) comparison (Woolf and Silver 2017).

Result and Discussion

Autonomy is a condition or trait that cannot be controlled by other parties or outside forces. An autonomous government has sufficient income to determine its own destiny, fulfill its welfare, and achieve its life goals legally (Jatmika 2001; Yakub, Abdul Ghani, and Anwar 2018). Regional autonomy and decentralization involve the authority of autonomous regions to regulate and manage the interests of local communities. This is conducted according to their initiatives based on community aspirations in accordance with laws and regulations (Rodiyah, Arifin, and Steven 2020; Syaukani, Gaffar, and Rasyid 2002).

Ove the last few years, South Sulawesi Province has become the main destination for economic, educational, and social activities in Eastern Indonesia. This province is marked by consistent economic growth showing positive trends and statistics, stretching of infrastructure development, facilities, infrastructure to support the economy, and investment activities (Fathun 2016). The government’s strong progress and commitment to promote the acceleration of the regional economy is to expand cooperative activities through policies (Harakan 2020). This is fundamental because the Provincial Government of South Sulawesi realizes the urgency of promoting and building networks due to a series of obtainable benefits (Harakan 2020).

The main point that needs to be clarified is the availability of the rule of law in Indonesia with indicators of central and local government coordination, local government involvement, investment openness, and a work plan with an international vision as shown in Figure 1. The indicators visualized in Figure 1 are sourced from regulations. The following are important foundations for the implementation of paradiplomacy by local governments (Mukti 2020): Law Number 37 of 1999 concerning Foreign Relations; Law Number 24 of 2000 concerning International Agreements; Law Number 25 of 2007 concerning Investment; Law Number 23 of 2014 concerning Local Government; Government Regulation Number 28 of 2018 concerning Regional Cooperation; Minister of Foreign Affairs Regulation Number 3 of 2019 concerning General Guidelines for Foreign Investment; and Local Government Relations, Minister of Home Affairs Regulation Number 25 of 2020 concerning Procedures for Foreign Cooperation of Local Governments with Local Governments Abroad.

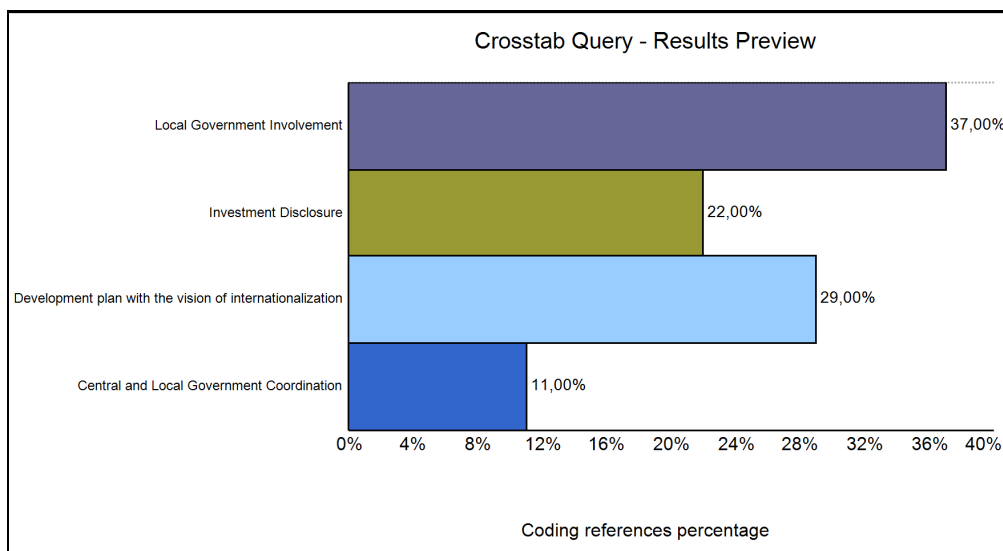


Figure 1: Percentage of Availability of Laws, Regulations, and Regional Development Plans

Source: Harakan et al.

Regulations passed at the central level were then responded to with paradiplomacy-friendly regional regulations such as South Sulawesi Provincial Regulation Number 13 of 2009 concerning Regional Investment; South Sulawesi Governor Regulation Number 20 of 2010 as an amendment to South Sulawesi Governor Regulation Number 19 of 2008 concerning Duties Principal, Functions, and Details of Structural Positions of the Regional Investment Coordinating Board of South Sulawesi Province; the Regional Medium-Term Development Plan starting in 2013 under the leadership of Syahrul Yasin Limpo until the Regional Medium-Term Development Plan under the leadership of Nurdin Abdullah; and a series of Memorandums of Understanding between local governments and foreign parties (Fathun 2016; Harakan, Rahman, and Hartaman 2021; Resty 2018).

From various regulations in the national and local frameworks related to paradiplomacy, the involvement of local governments at the provincial, city, and district levels with the percentage of involvement of government relations in international dimensions is analyzed in Figure 2. Meanwhile, the existence of local governments (sub-state actors) based on concepts, laws, and practices are illustrated in Figure 3.

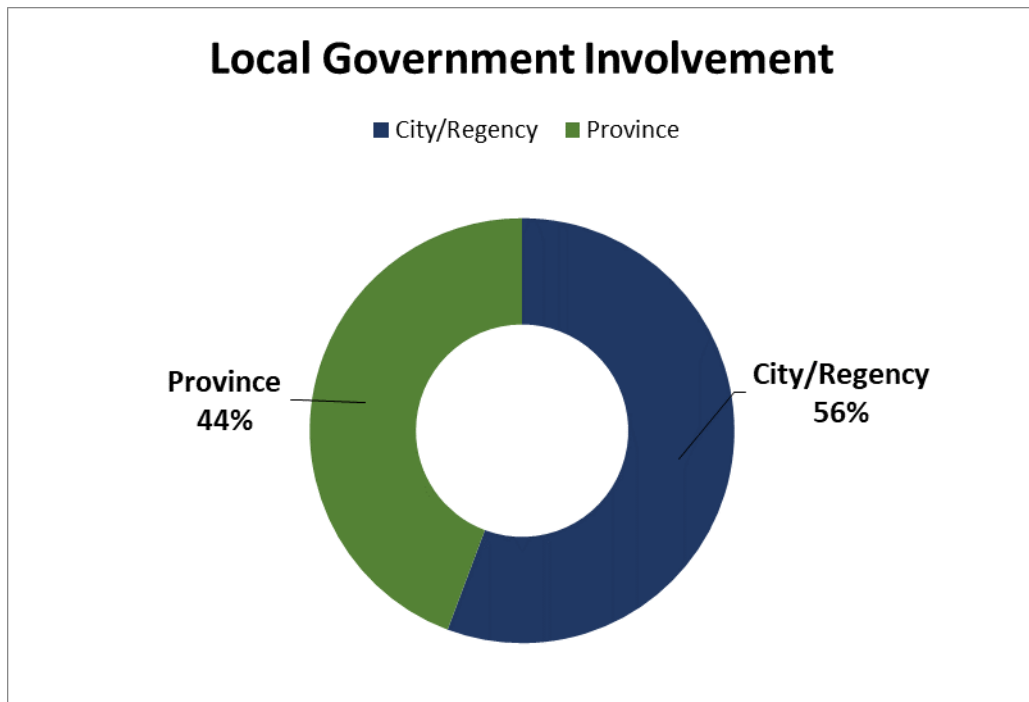


Figure 2: Local Government Involvement
 Source: Harakan et al.

In communicating and facilitating the implementation of investment paradiplomacy, the Local Government and the Provincial Government of South Sulawesi both initiated the availability of service providers. This involved strengthening the institutions of the Cooperation Bureau, the Investment Office, and One-Stop Integrated Services as a leading sector in the implementation of investment paradiplomacy. These institutions have a reliable communication and promotion system through social media, the availability of an adequate e-government system, and a promotional website. Furthermore, before taking the form of services, matters related to investment and one-stop integrated services were only government agencies. Cooperation bureaus and investment service agencies are available at the local and provincial government levels.

The existence of these institutions is very important, specifically in historical records when the 1997–1998 monetary crisis hit the national economy, and certain commodities were able to generate substantial foreign exchange in South Sulawesi (Tyas 1998). Furthermore, several interesting factors give South Sulawesi Province the advantage in terms of the cooperation network through the investment paradiplomacy scheme (Harakan 2020), namely:

- a. Strategic position as a center for air and sea transportation services in Eastern Indonesia and a service center for trade, industry, and banking services;
- b. A relatively safe area for investment activities in Indonesia, where public and labor unrest is relatively low;
- c. Diversity of natural resource potential and the availability of adequate regional infrastructure for cooperative activities;
- d. Eastern Indonesia as a potential market that has not been fully utilized;
- e. The local government’s commitment is firm in providing facilities;
- f. d. Availability of quality human resources;
- g. Availability of complete and relatively cheap land.

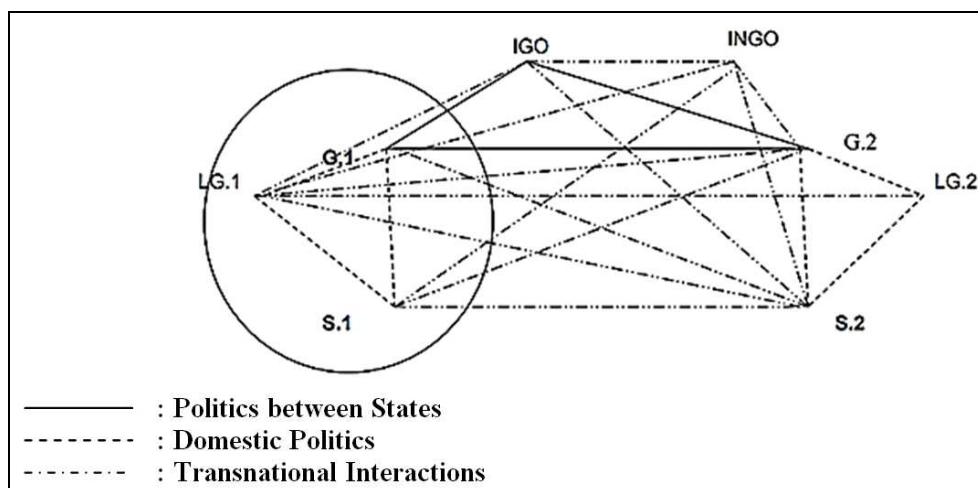


Figure 3: The Existence of Local Governments (sub-state Actors)
 Source: Mukti 2020

The availability of regulations, Memorandum of Understanding, service infrastructure, and potential local advantages are supported by the availability of information infrastructure on websites and applications that can be accessed easily on smartphones. Furthermore, the infrastructure to communicate and facilitate the implementation of investment paradiplomacy is marked by the availability of Universities and Schools (Harakan 2020), Makassar Industrial Estate (Rustam 2019), Tallasa City Industrial Estate (Idrus and Hakim 2018), and Industrial and Smelter Zones, Bantaeng (Kadir, Majid, and Nurlinah 2016). These facilities constitute a promotional attraction for investors’ interest in this area.

Community empowerment cooperation in South Sulawesi has been carried out by Bantaeng Local Government in the Sulawesi Agfor Program (Agroforestry and Forestry) (Burhan 2016), and also involves improving the quality of hygiene management in collaboration with the Government of Japan and International Government Organizations (Harakan, Rahman, and Hartaman 2021). Community empowerment activities can be carried out routinely with foreign partners and various programs related to the needs or problems to be solved.

In this promotional event, the local government and the provincial government in South Sulawesi carried out a series of activities. These include participating in exhibitions abroad

concerning the introduction of regional potential. Furthermore, the government holds events to support promotions such as the annual South Sulawesi Expo, Makassar Eight Festival, Indonesia-Japan Business Forum and Expo, activities carried out by private parties such as the Makassar International Writers Festival, as well as various conferences internationally. These activities are a vehicle for scientific dissemination in various fields of science by presenting academics and practitioners from various countries.

The availability of national and regional laws and regulations, a series of understanding memorandums, the potential for regional advantages, adequate infrastructure, community empowerment activities, and promotions are the right steps taken by the local government in the success of the paradiplomacy practice, specifically in South Sulawesi.

The implementation and practices of foreign investment paradiplomacy by local governments in South Sulawesi, Indonesia, is certainly not always the same as the practices carried out in Dar es Salaam, Tanzania. The practice of paradiplomacy in Tanzania is rarely understood in practice, and the availability of a legal umbrella has been following the practice applied by various countries.

Various practices are carried out, for example by strengthening the role of the local government and decentralization policies in improving the quality of development in Tanzania (Conyers 1981; Frumence et al. 2013; Kumburu and Pande 2018; Mollel and Tollenaar 2013; Kessy and McCourt 2010). Furthermore, there is study on provincial health diplomacy in the health sector (Shen and Fan 2014), and local economic diplomacy (Kamata 2012).

In particular, investment is more of practicing various roles. In the role of public investment, GDP growth and credit to the private sector are important in explaining the growth of private investment. However, there is not enough evidence that interest rates, exchange rates, and the degree of economic openness significantly influence the growth of private investment (Michael and Aikaeli 2014). Furthermore, domestic private investment and foreign direct investment play an important role in economic growth in Tanzania. The revealed negative, albeit weak, relationship between public and private investment indicates that the positive effect of domestic private investment on economic growth becomes smaller when the ratio of public investment to GDP exceeds 8–10 percent in 2016 (Epaphra and Massawe 2016). In accordance with this, foreign direct investment tends to slightly reduce the impact of domestic private investment on growth. These results show that public investment and foreign direct investment need to be carefully considered to avoid diminishing the positive impact of domestic private investment on growth. Domestic savings are also used to promote domestic investment for economic growth (Epaphra and Massawe 2016).

An interesting foreign investment practice is through case studies of public-private partnerships for development, Swedish development agencies support Swedish companies attempting to implement large-scale agricultural investments in sugarcane in Tanzania where the basis of “win-world” in academic terms is found (Engström and Hajdu 2019). Win-world is a resilient development narrative defended by actors promoting investment (Engström and Hajdu 2019). Rich empirical descriptions show that this narrative is highly resistant to the accumulation of academic knowledge and current’s real-world problems. Furthermore, it was observed that the privatization of development increases the resilience of the narrative against evidence of its own shortcomings (Engström and Hajdu 2019).

The strength of natural resources in Dar es Salaam and some places in Tanzania is still dominated by agriculture (Epaphra 2016). While it seems reasonable to emphasize that Foreign Direct Investment can bridge the investment gap in emerging economies, which in turn promote economic growth, this study shows that the effects of foreign direct investment vary widely between sectors (Epaphra 2016).

In fact, there is a systematic lack of evidence on the actual impact of foreign direct investment in the host country. Empirical analysis using time series data from 1970 to 2015 and applying the Error Correction Mechanism shows that foreign direct investment has a negative

effect on agricultural added value (Epaphra 2016). Naturally, foreign direct investment tends to have a positive impact on the manufacturing, construction, transportation, storage, and communications sectors. The evidence from the mining sector is unclear, although it accounts for a sizeable share of foreign direct investment inflows (Epaphra 2016).

The unexpected negative causal relationship between foreign direct investment inflows and the agricultural sector in Tanzania could be due to the low level of foreign direct investment in that sector compared to other sectors. However, foreign direct investment contributes to GDP through the manufacturing, construction, transportation, storage, and communication sectors but does not improve the welfare of people at home. The agricultural sector, which makes up more than 70 percent of the total workforce, contributes on average less than 30 percent of total GDP (Epaphra 2016). It can be understood that foreign direct investment in the agricultural sector improves the domestic welfare compared to foreign direct investment in the mining and manufacturing sectors. Given the importance of this subject, it is surprising to find that very little effort has been devoted to quantifying the sources of agricultural decline (Epaphra 2016).

These practices even occur until 2021 and there are no significant developments. This situation hinders the implementation of investment paradiplomacy where local governments are the main actors in implementing the practice. Unfortunately, investment management is mainstreamed in the work of the central government. It is also necessary to realize that significant strengths, opportunities, challenges, and weaknesses such as the availability of adequate facilities, convenient infrastructure, capable human resources, as well as balanced and accommodating regulations, are problems that have not been resolved by the local government in Tanzania.

The factual differences in the practice of paradiplomacy in South Sulawesi, Indonesia, and Dar es Salaam, Tanzania, indicate the availability of various opportunities and challenges in realizing the practice of investment paradiplomacy. The advantages obtained can be a best practice for learning local governments in other countries. Furthermore, the weaknesses in implementing activities can be lessons for the government in perfecting the legal protection and opening-up opportunities as well as trust for local governments to increase their capacity and capability to play a global role.

Conclusion

The decentralization policy is characterized by the expansion of local government relations from local-national to international. Meanwhile, paradiplomacy, as a concept and practice, provides a solid foundation for local governments to be creative as well as improvise in developing their potential and accelerating their development.

Although it often faces obstacles in implementing investment paradiplomacy, local governments must possess ideas and concepts to communicate and facilitate the implementation of paradiplomacy, specifically concerning investment. The local government and the South Sulawesi Provincial Government have carried out a series of best practices to realize these objectives. These include the availability of legal protection within the national and regional frameworks, a series of Memorandums of Understanding, potential regional advantages, adequate infrastructure, community empowerment activities, as well as promotion at home and abroad through social media and e-government systems.

The implementation carried out by the Local Government of South Sulawesi Province cannot be compared with its success equally with the Local Government of Dar es Salaam due to significant differences in strengths, opportunities, challenges, and weaknesses. This is due to the availability of adequate facilities, easy infrastructure, capable human resources, as well as balanced and accommodating regulations.

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