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HEDGING THROUGH SOFT POWER: INDONESIA'S POSITION TOWARDS TAIWAN'S NEW SOUTHBOUND POLICY AMIDST REGIONAL GEOPOLITICS

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Abstract: *Taiwan launched the New Southbound Policy (NSP) in 2016 as a diplomatic strategy to reduce dependence on China while expanding cooperation networks in Southeast Asia. Unlike China's Belt and Road Initiative (BRI), which emphasizes hard power through infrastructure, NSP relies on soft power instruments such as trade, technology, education, sustainable energy, and people-to-people exchanges. This article argues that Indonesia holds a strategic position in NSP due to its economic capacity, social connectivity through migrant workers, and central role in ASEAN. However, Indonesia's adherence to the One China Policy and strong economic ties with China create a diplomatic dilemma. Using the frameworks of hedging strategy and soft power diplomacy, this study analyzes how Indonesia navigates engagement with Taiwan through NSP without jeopardizing relations with China. Findings show that NSP opens opportunities for pragmatic cooperation in digital technology, renewable energy, non-traditional security, and academic exchanges. For Indonesia, NSP functions as a soft power-based hedging instrument that strengthens national capacity while maintaining flexibility in the Indo-Pacific geopolitical rivalry.*

Keywords: *New Southbound Policy, Indonesia, Taiwan, China, Soft Power, Hedging, Indo-Pacific*

INTRODUCTION

Taiwan's international status has long been contested due to China's enforcement of the One China Policy, which discourages countries from recognizing Taiwan as a sovereign state. As a result, Taiwan has experienced growing diplomatic isolation, with only a small number of states maintaining official relations with Taipei (Glaser, 2017). To address these constraints, Taiwan has increasingly relied on soft power diplomacy, most notably through the New Southbound Policy (NSP) introduced by President Tsai Ing-wen in 2016. The NSP aims to reduce Taiwan's dependence on China by strengthening economic, educational, cultural, and technological cooperation with 18 countries across Southeast Asia, South Asia, and Australasia (Chiu, 2020). Unlike China's Belt and Road Initiative (BRI), which focuses on infrastructure and financial influence, the NSP emphasizes people-centered diplomacy through scholarships, healthcare cooperation, technology transfer, and academic exchanges. Drawing on Joseph Nye's concept of soft power, Taiwan seeks to build human-centered networks that can bypass formal diplomatic limitations (Nye, 2004). As Sullivan and Hsiao (2019) describe, the NSP reflects Taiwan's "warm power diplomacy," aimed at expanding Taiwan's international relevance in the Indo-Pacific through grassroots engagement.

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Indonesia occupies a crucial position within the NSP because of its economic and geopolitical importance in Southeast Asia. As ASEAN's largest economy, Indonesia provides Taiwan with a significant market and an important gateway for regional integration (World Bank, 2023). Bilateral trade between Taiwan and Indonesia exceeded USD 12 billion in 2022, covering sectors such as electronics, chemicals, fisheries, and industrial goods (MOEA Taiwan, 2023). Taiwanese investment in Indonesia has also increased, particularly in manufacturing, renewable energy, and the digital economy. Beyond economics, social and cultural relations further strengthen ties between both sides. More than 250,000 Indonesian migrant workers live in Taiwan, forming the country's largest foreign labor community and contributing to deeper social connectivity (Patriadi, 2020). Taiwan has also become a major destination for Indonesian students, with over 7,000 enrolled in Taiwanese universities by 2021 (Taiwan Ministry of Education, 2022). These exchanges demonstrate the NSP's emphasis on people-to-people diplomacy and position Indonesia as a key partner in Taiwan's regional engagement strategy.

However, Indonesia's cooperation with Taiwan remains constrained by geopolitical realities. Indonesia has adhered to the One China Policy since establishing relations with Beijing in 1950, limiting engagement with Taiwan to unofficial and economic channels. At the same time, Indonesia's economic dependence on China has expanded considerably. China is Indonesia's largest trading partner, with bilateral trade surpassing USD 133 billion in 2022, while Chinese investment through the BRI has supported major infrastructure projects such as the Jakarta-Bandung High-Speed Railway (ASEAN Stats, 2023). These conditions make Taiwan a diplomatically sensitive partner. As Kuik (2008) explains, Southeast Asian states often adopt hedging strategies that combine economic engagement with efforts to preserve strategic autonomy. Indonesia therefore faces a balancing act: benefiting from Taiwan's opportunities in technology, education, and human capital development while avoiding actions that could disrupt relations with Beijing.

This article argues that Indonesia can manage these competing pressures by treating the NSP as a form of soft power-based hedging. Through selective cooperation in areas such as renewable energy, digital economy, non-traditional security, and academic exchange, Indonesia can gain practical benefits from Taiwan while continuing to reaffirm its commitment to the One China Policy. Hedging, in this context, allows Indonesia to maintain flexibility amid intensifying Indo-Pacific rivalries (Goh, 2006). By emphasizing Track 2 diplomacy and people-to-people exchanges, Indonesia can expand cooperation with Taiwan

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in non-political domains without directly challenging China. Ultimately, the NSP functions not only as Taiwan's soft power strategy to counter diplomatic isolation but also as Indonesia's instrument for balancing economic pragmatism with geopolitical caution.

LITERATURE REVIEW

The New Southbound Policy (NSP) and Taiwan's Diplomacy

The New Southbound Policy (NSP), launched in 2016 by President Tsai Ing-wen, represents Taiwan's most ambitious effort to reduce its overreliance on China and broaden diplomatic and economic relations with 18 target countries in Southeast Asia, South Asia, and Australasia (Chiu, 2020). NSP is designed not as a geopolitical confrontation but as a people-centered initiative, emphasizing trade, education, healthcare, cultural exchange, and technology cooperation. Scholars argue that NSP reflects Taiwan's strategy to expand its international space amidst persistent diplomatic isolation due to Beijing's One China Policy (Sullivan & Hsiao, 2019). Unlike China's Belt and Road Initiative (BRI), which relies heavily on hard infrastructure and financial leverage, NSP highlights grassroots and sustainable engagement, thereby creating alternative channels of influence (He, 2021). This distinction positions NSP as a soft power-driven framework, allowing Taiwan to deepen regional integration without provoking overt confrontation. In the Southeast Asian context, Indonesia has emerged as a critical partner because of its economic scale, demographic weight, and ASEAN leadership role. By prioritizing inclusive cooperation over high-politics issues, NSP not only addresses Taiwan's vulnerabilities but also showcases its adaptive foreign policy in the Indo-Pacific.

Soft Power Diplomacy and Taiwan's Strategy

Joseph Nye's concept of soft power underscores the importance of attraction rather than coercion in international relations, derived from culture, values, and policies (Nye, 2004). For Taiwan, which lacks extensive diplomatic recognition and conventional hard power, soft power provides a vital instrument for engagement. Glaser (2017) highlights how Taiwan employs education, healthcare, and cultural diplomacy to project a positive image globally. Through NSP, Taiwan operationalizes soft power by expanding scholarships for Southeast Asian students, establishing joint research initiatives, and fostering people-to-people connections. These strategies create long-term relational capital that complements Taiwan's economic exchanges. Furthermore, scholars note that Taiwan's soft power is uniquely

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effective because it emphasizes warm power, or the building of trust and empathy through social interaction, particularly in labor and education exchanges (Patriadi, 2020). This people-centered focus resonates strongly with Indonesia, where tens of thousands of workers and students engage directly with Taiwanese society. As a result, soft power not only compensates for Taiwan's diplomatic limitations but also facilitates pragmatic engagement with partners like Indonesia, who otherwise remain constrained by the One China Policy.

Hedging Strategy in Southeast Asia

Hedging is a foreign policy approach used by states to manage uncertainty in great power politics, avoiding full alignment with or opposition to major powers. Goh (2006) defines hedging as a strategy that combines engagement and cautious balancing, offering flexibility in response to shifting power dynamics. Kuik (2008) further argues that Southeast Asian states, including Malaysia, Singapore, and Indonesia, have long relied on hedging to cope with China's rise while maintaining constructive ties with the United States. In practice, hedging manifests through selective cooperation, diversification of partnerships, and reliance on multilateralism. For Indonesia, hedging provides a middle path: it can sustain strong economic ties with China through BRI while simultaneously expanding functional engagement with Taiwan under NSP. This dual strategy reduces dependency risks and enhances national resilience in the Indo-Pacific. Importantly, hedging allows Indonesia to frame cooperation with Taiwan as pragmatic and non-political, focusing on education, technology, and people-to-people exchange. Thus, NSP offers Indonesia an avenue to pursue hedging through soft power channels, maintaining equilibrium in the face of intensifying U.S.–China rivalry.

FINDINGS AND DISCUSSION

Economy and Trade

The economic dimension is a central pillar of Taiwan's New Southbound Policy (NSP), with Indonesia emerging as one of its most important partners. Before NSP was launched in 2016, nearly 40% of Taiwan's exports depended on China and Hong Kong, creating vulnerabilities to Beijing's economic pressure during periods of cross-Strait tension (Chiu, 2020). NSP was therefore designed to diversify Taiwan's economic relations toward 18 countries in Southeast Asia, South Asia, and Australasia. Indonesia became a key target because of its large market, strategic Indo-Pacific position, and economic influence as

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ASEAN's largest economy, with a GDP of USD 1.3 trillion in 2022 (World Bank, 2023). Bilateral trade between Indonesia and Taiwan reached USD 12.3 billion in 2022, demonstrating resilience despite the COVID-19 pandemic (MOEA Taiwan, 2023).

Indonesia–Taiwan trade is largely complementary. Taiwan exports high-technology products such as electronics, machinery, and chemicals, while Indonesia supplies natural resources, agricultural commodities, coal, palm oil, and energy products (ASEAN Stats, 2023). Fisheries cooperation is also important, combining Indonesia's maritime resources with Taiwan's advanced fishing technology and processing industries. Under NSP, Taiwan is expected to expand investment in Indonesian resource-based industries while using Indonesia as a gateway to ASEAN markets. Thus, bilateral trade functions not only as economic exchange but also as a strategic mechanism to strengthen supply-chain resilience and competitiveness for both countries.

Taiwanese investment in Indonesia has also increased significantly. According to Indonesia's Investment Coordinating Board (BKPM), Taiwanese investment exceeded USD 400 million in 2022, concentrated in manufacturing, textiles, electronics, and renewable energy (BKPM, 2023). These investments reflect Taiwan's effort to diversify production bases away from China amid global supply-chain restructuring. Indonesia benefits from this trend due to its large labor force, lower production costs, and growing domestic market. Industrial zones in West and Central Java have attracted Taiwanese companies, generating employment and strengthening Indonesia's integration into regional supply chains.

However, several structural challenges remain. The absence of formal diplomatic relations prevents the establishment of formal agreements such as free trade agreements or bilateral investment treaties, leaving cooperation dependent on informal mechanisms. In addition, China remains Indonesia's largest trading partner and investor, particularly through BRI projects such as the Jakarta–Bandung high-speed railway (He, 2021). Domestic challenges in Indonesia, including bureaucratic inefficiency, regulatory inconsistency, and logistical constraints, also complicate Taiwanese investment.

From a hedging perspective, Indonesia's engagement with Taiwan through NSP reflects a strategy of diversifying partnerships while avoiding overdependence on China. Although Indonesia maintains extensive economic ties with Beijing, including bilateral trade exceeding USD 133 billion in 2022 (ASEAN Stats, 2023), cooperation with Taiwan provides alternative economic opportunities in technology, manufacturing, and energy. By framing cooperation as non-political and pragmatic, Indonesia can gain economic benefits while

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maintaining adherence to the One China Policy. Consequently, NSP functions as a soft power-based hedging instrument that supports Indonesia's strategic autonomy and flexibility in the evolving Indo-Pacific order.

Technology Innovation

Technology and innovation are key components of Taiwan's New Southbound Policy (NSP), reflecting Taiwan's global strength in semiconductors, electronics, and digital technology. Companies such as Taiwan Semiconductor Manufacturing Company (TSMC) play a dominant role in global supply chains (He, 2021). Through NSP, Taiwan seeks technological partnerships with Southeast Asian countries, including Indonesia, by promoting cooperation in information technology, renewable energy, and smart manufacturing. Unlike China's Belt and Road Initiative (BRI), which often emphasizes digital infrastructure linked to strategic influence, Taiwan focuses on people-centered and sustainable innovation. For Indonesia, cooperation with Taiwan offers opportunities to diversify technology sources and reduce dependence on Chinese or Western technologies, particularly in semiconductors, green energy, and the digital economy.

Indonesia's rapid economic growth has increased demand for industrial modernization and digital transformation. Under the Making Indonesia 4.0 roadmap, sectors such as electronics, automotive, and chemicals are prioritized for technological upgrading (World Bank, 2023). Taiwan's expertise in semiconductors, microelectronics, and information and communication technology (ICT) complements these ambitions. Indonesia is also one of Southeast Asia's fastest-growing digital economies, valued at USD 77 billion in 2022 and projected to reach USD 130 billion by 2025 (ASEAN Stats, 2023). Cooperation with Taiwanese firms in e-commerce, fintech, cybersecurity, and renewable energy could accelerate Indonesia's digital and sustainable development while providing Taiwanese companies access to Southeast Asian markets.

A major aspect of NSP is human capital development through scholarships, research collaboration, and vocational training. More than 7,000 Indonesian students study in Taiwan, many in science, technology, engineering, and mathematics (STEM) fields (Taiwan Ministry of Education, 2022). Joint research projects in artificial intelligence, agricultural technology, and biomedical sciences have also expanded (Patriadi, 2020). These exchanges strengthen long-term knowledge-sharing networks and align with Nye's (2004) concept of soft power through education and attraction. Vocational training programs further support Indonesian

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workers in advanced manufacturing and renewable energy sectors.

However, technological cooperation still faces challenges. The absence of formal diplomatic ties limits government-to-government agreements, forcing reliance on business and academic partnerships. Taiwan also competes with China's Digital Silk Road and other major technology providers in Indonesia (He, 2021). Domestic issues such as inconsistent regulations, weak intellectual property protection, and limited research infrastructure further constrain cooperation.

From a hedging perspective, Indonesia's engagement with Taiwan helps diversify technology partnerships and reduce dependence on any single power. By framing cooperation in non-political areas such as education, renewable energy, and ICT, Indonesia can benefit from Taiwan's expertise while maintaining adherence to the One China Policy. NSP therefore functions as a soft power-based hedging instrument that strengthens Indonesia's technological resilience, industrial competitiveness, and strategic flexibility in the Indo-Pacific.

People to People Ties

People-to-people exchange is one of the defining features of Taiwan's New Southbound Policy (NSP). Due to the limitations imposed by the One China Policy, Taiwan prioritizes societal and cultural connections that bypass formal diplomatic restrictions (Sullivan & Hsiao, 2019). This strategy reflects Nye's (2004) concept of soft power, where attraction through culture, education, and shared values strengthens international influence. In Indonesia, these ties are reflected through labor migration, educational exchange, cultural diplomacy, and civil society cooperation. Unlike trade or investment, people-to-people diplomacy builds long-term trust and relational capital at the grassroots level. Indonesia is particularly important because of its demographic size and the extensive human connections between both societies. These societal ties provide a foundation for broader cooperation in economic, technological, and security sectors.

A major component of Indonesia–Taiwan relations is the presence of Indonesian migrant workers in Taiwan. By 2022, more than 250,000 Indonesians were working in Taiwan, making them the country's largest foreign labor community (MOEA Taiwan, 2023). They contribute significantly to manufacturing, caregiving, and domestic services while also supporting Indonesia's economy through remittances. Taiwan has strengthened worker welfare and protection policies under NSP, improving its soft power image among Indonesians (Patriadi, 2020). Indonesian community organizations and mosques in Taiwan

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also promote cultural exchange and social integration. As a result, migrant workers serve not only as economic contributors but also as informal ambassadors who strengthen mutual understanding between both societies.

Educational exchange is another key pillar of NSP. More than 7,000 Indonesian students were enrolled in Taiwanese universities by 2021, many studying STEM, business, and social sciences (Taiwan Ministry of Education, 2022). Scholarship programs and talent development initiatives help build human capital while creating networks of future Indonesian professionals familiar with Taiwan. Academic cooperation has also expanded through joint research, conferences, and faculty exchanges in fields such as agriculture, medicine, artificial intelligence, and information technology. Cultural diplomacy through film festivals, culinary exchanges, and art exhibitions further enhances Taiwan's visibility and attractiveness in Indonesia.

Non-governmental organizations (NGOs), think tanks, and civil society groups also play a major role in strengthening bilateral ties. Since formal diplomatic relations are limited, Track 2 and Track 1.5 diplomacy become important channels of cooperation (Chiu, 2020). Institutions such as the Taiwan-Asia Exchange Foundation (TAEF) collaborate with Indonesian research centers on trade, sustainability, and security issues. NGOs and academic networks have also cooperated on migrant worker protection, renewable energy, climate change, and educational initiatives. These forms of "bottom-up soft power" allow Indonesia and Taiwan to maintain meaningful cooperation without challenging the One China Policy directly.

From a hedging perspective, Indonesia's people-to-people engagement with Taiwan represents a subtle balancing strategy. While Indonesia maintains official relations with Beijing, societal cooperation with Taiwan allows Jakarta to benefit from Taiwan's soft power resources without provoking direct political confrontation. Through labor migration, education, and civil society collaboration, Indonesia strengthens human capital, social connectivity, and cultural understanding while preserving strategic flexibility. For Taiwan, these exchanges enhance its international visibility and deepen its presence within Indonesian society. Ultimately, people-to-people diplomacy under NSP demonstrates how soft power can function as an effective hedging instrument in the Indo-Pacific.

Diplomatic Challenges and Hedging

One of the main diplomatic challenges in Indonesia–Taiwan relations under the New

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Southbound Policy (NSP) is Indonesia's consistent adherence to the One China Policy. Since recognizing Beijing in 1950, Indonesia has avoided formal recognition of Taiwan, limiting cooperation to economic, educational, and cultural sectors rather than political or security domains (Glaser, 2017). Taiwan has adapted to these constraints by emphasizing soft power initiatives that avoid directly challenging China (Chiu, 2020). For Indonesia, this position reflects strategic considerations, as China remains its largest trading partner and investor. Consequently, Jakarta must balance engagement with Taiwan against the risk of damaging relations with Beijing. The One China Policy therefore acts both as a limitation and as the framework guiding Indonesia's interaction with Taiwan.

China's growing influence in Indonesia further complicates NSP implementation. Bilateral trade between Indonesia and China exceeded USD 133 billion in 2022, while China has become a major investor through Belt and Road Initiative (BRI) projects such as the Jakarta–Bandung high-speed railway and industrial parks (ASEAN Stats, 2023; He, 2021). Given China's economic dominance, Taiwan cannot compete directly in terms of investment scale or market power. Instead, Taiwan focuses on niche areas such as education, technology, healthcare, and people-to-people ties. For Indonesia, this creates a pragmatic strategy of engaging China for infrastructure and trade while cooperating with Taiwan in less politically sensitive sectors. This dual engagement allows Indonesia to diversify partnerships without becoming overly dependent on a single power.

Taiwan's limited diplomatic recognition also shapes how NSP operates in Indonesia. With only 13 formal diplomatic partners globally, Taiwan relies heavily on Track 2 and Track 1.5 diplomacy involving think tanks, universities, NGOs, and civil society organizations (Sullivan & Hsiao, 2019). Institutions such as the Taiwan-Asia Exchange Foundation (TAEF) collaborate with Indonesian research centers and universities on issues including sustainability, technology, and education. However, the lack of formal diplomatic relations makes agreements less durable and more vulnerable to political shifts. Despite these constraints, Taiwan continues building goodwill through education, healthcare, and technological cooperation, strengthening its soft power presence in Indonesia.

Indonesia's approach reflects Evelyn Goh's (2006) concept of hedging, where states engage multiple powers to maintain flexibility and strategic autonomy. Indonesia cooperates with Taiwan in politically safe sectors such as education, technology, and cultural exchange while maintaining strong economic relations with China. As Kuik (2008) explains, Southeast Asian states often hedge to avoid overdependence on major powers. Through NSP, Indonesia

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gains access to Taiwan's expertise and human capital development programs without violating the One China Policy. This strategy is active rather than passive, allowing Indonesia to strengthen its national capacity while balancing competing external influences.

Indonesia's engagement with Taiwan under the New Southbound Policy (NSP) can also be understood within the broader context of Indonesia's hedging strategy amid intensifying Indo-Pacific rivalry. Risman et al. (2025) explain that Indonesia's foreign policy continues to adhere to the principle of "free and active" diplomacy, where Jakarta seeks to maintain balanced relations with competing major powers, particularly China and the United States. While Indonesia has strengthened economic and diplomatic cooperation with China in recent years, including infrastructure and defense-related engagement, it simultaneously avoids excessive dependence on Beijing by diversifying partnerships with other actors (Risman et al., 2018). This balancing behavior reflects a broader strategic calculation in responding to geopolitical tensions in the South China Sea and the Indo-Pacific region. In this context, cooperation with Taiwan through NSP especially in non-political sectors such as education, technology, and people-to-people exchange can be interpreted as part of Indonesia's broader hedging approach. By engaging Taiwan selectively while maintaining adherence to the One China Policy, Indonesia preserves strategic flexibility and reinforces its long-standing foreign policy tradition of autonomy and non-alignment.

Ultimately, NSP functions as a soft power-based hedging instrument for Indonesia. Cooperation with Taiwan in education, culture, and technology provides benefits such as improved human capital, diversified partnerships, and stronger societal connections, while continued engagement with China through BRI secures infrastructure financing and trade opportunities. This dual-track diplomacy reflects Indonesia's long-standing foreign policy tradition of pragmatism, balance, and non-alignment (Patriadi, 2020). For Taiwan, NSP demonstrates how soft power can sustain influence despite diplomatic isolation. For Indonesia, it shows how hedging through grassroots and non-political cooperation can preserve strategic autonomy amid intensifying Indo-Pacific rivalry.

Conclusion and Policy Recommendations

This article argues that Taiwan's New Southbound Policy (NSP) serves as both Taiwan's soft power strategy and Indonesia's hedging instrument amid growing Indo-Pacific rivalry. Through NSP, Taiwan strengthens economic, technological, and societal ties with Southeast Asian states despite diplomatic isolation under the One China Policy. For Indonesia,

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cooperation with Taiwan offers benefits in trade, investment, technology transfer, education, and people-to-people exchanges. However, Indonesia must balance these opportunities with its strong economic dependence on China and continued commitment to the One China Policy. Consequently, Indonesia adopts a pragmatic hedging strategy by engaging Taiwan in non-political sectors while maintaining stable relations with Beijing.

The first recommendation is for Indonesia to expand cooperation with Taiwan in technology, renewable energy, and the digital economy. Taiwan's expertise in semiconductors, innovation, and industrial technology can support Indonesia's industrial modernization and human capital development. Joint research, vocational training, and business partnerships should be encouraged in politically safe sectors to avoid diplomatic friction with China.

Second, Indonesia should strengthen people-to-people diplomacy. Indonesian migrant workers and students in Taiwan already form a strong social foundation for bilateral relations. Expanding scholarships, student exchanges, and labor protections would deepen long-term cooperation while reinforcing Taiwan's soft power in Indonesian society. Such grassroots engagement also allows Indonesia to maintain cooperation within non-political domains.

Third, Indonesia should maximize Track 2 and Track 1.5 diplomacy through universities, think tanks, and civil society organizations. Cooperation in areas such as climate change, cybersecurity, public health, and non-traditional security can continue without violating Indonesia's One China Policy. At the same time, Taiwan can help Indonesia diversify its economic partnerships and reduce excessive dependence on China.

Finally, Indonesia should integrate NSP engagement into its broader Indo-Pacific strategy under the ASEAN Outlook on the Indo-Pacific (AOIP). By emphasizing inclusivity, dialogue, and economic cooperation, Indonesia can preserve strategic autonomy while benefiting from both Taiwan and China. In this context, NSP becomes a practical mechanism for Indonesia to balance developmental interests with geopolitical caution.

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