

Constrained Paradiplomacy: The Limited Role of North Maluku's Provincial Government in Governing Foreign Nickel Investment

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ABSTRACT

North Maluku Province occupies a strategically significant position in the global nickel supply chain, recording annual economic growth of 20.49 percent in 2023, 13.73 percent in 2024, and 34.17 percent in 2025 far above the national average of roughly 5 percent over the same period. Nevertheless, the provincial government's capacity to act as an equal participant in negotiating, regulating, and overseeing foreign investment in the sector remains severely limited. By applying established paradiplomacy theory, fiscal federalism, and centre-periphery theory to the case of North Maluku, this article analyses a condition termed constrained paradiplomacy one in which subnational international engagement is blocked not by incapacity or unwillingness but by a legal and fiscal architecture designed by the central government. Using a qualitative case study approach with document analysis and updated secondary data (2023–2026), the study finds that the recentralization of licensing authority under Law No. 3 of 2020, the asymmetry of the revenue-sharing (DBH) formula, and the dominance of Chinese capital within the nickel industrial ecosystem jointly eliminate any substantive space for provincial participation. These findings extend the application of paradiplomacy theory to unitary-state contexts in the Global South and underscore the need for regulatory reform and subnational institutional capacity-building.

Keywords: Paradiplomacy, Fiscal federalism, North Maluku, Nickel investment, decentralization, natural resource governance

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1. INTRODUCTION

The relationship between subnational governments and foreign investment is one of the most consequential yet under-examined dynamics in contemporary international relations scholarship. The paradiplomacy literature the international engagement of non-central governmental actors has grown rapidly since the early 1980s through the work of Duchacek (1990) and subsequent studies on the normalization of substate diplomacy (Cornago, 2010), political opportunity structures (Lecours, 2002), and typologies of economic, cultural, and political paradiplomacy (Kuznetsov, 2015). Most of this scholarship, however, focuses on subnational units that already possess the institutional capacity and regulatory authority to engage actively in international affairs. The opposite condition in which a subnational unit is structurally excluded from interaction with the foreign actors whose decisions most decisively shape life within its territory has not been systematically explored, particularly in unitary-state contexts in the Global South.

North Maluku Province presents this paradox empirically. Indonesia's statistics agency recorded provincial economic growth of 20.49 percent in 2023 the highest of any province in Indonesia (BPS,

2024) followed by 13.73 percent in 2024 (BPS North Maluku, 2025b) and 34.17 percent throughout 2025 (BPS North Maluku, 2026), far outpacing national growth of only 5.05, 5.03, and 5.11 percent, respectively, over the same years (BPS, 2024, 2025, 2026). The *Indonesia Critical Minerals Conference & Expo 2025*, attended by representatives from 55 countries, went so far as to position North Maluku as the epicenter of Indonesia's nickel downstreaming revival (Shanghai Metal Market, 2025). Yet when the actual architecture of decision-making is examined who negotiates investment terms, who issues permits, who monitors environmental compliance the provincial government is conspicuously absent.

This article does not claim to discover a new concept, model, or theory. Rather, it applies well-established paradiplomacy theory alongside fiscal federalism (Oates, 1972) and centre-periphery theory (Rokkan & Urwin, 1983) to an empirically under-studied case: the structural limits on the role of the North Maluku Provincial Government in governing foreign investment in the nickel sector. The novelty of this article lies in the case itself an extreme case in which highly significant international economic engagement coexists with near-total institutional exclusion and in the analytical synthesis of these three theoretical frameworks to explain a condition that, purely for expository convenience, this article terms constrained paradiplomacy.

The significance of this case extends beyond Indonesia's domestic politics. As critical minerals become an object of great-power competition, subnational governments in resource-rich regions of the Global South increasingly find themselves at the intersection of global supply chains and domestic political economy without always possessing the institutional instruments to navigate that position. Understanding the structural conditions that produce constrained paradiplomacy in North Maluku thus contributes empirically to a broader theoretical debate on the conditions that enable or foreclose meaningful subnational participation in the governance of international investment.

The remainder of this article is organized as follows. Section 2 sets out the theoretical framework by reviewing the paradiplomacy, fiscal federalism, and centre-periphery literatures, and explains how the three are applied in an integrated manner to the case of North Maluku. Section 3 describes the research method. Section 4 presents the results and discussion, organized around five empirical dimensions strategic economic position, legal recentralization, fiscal asymmetry, foreign capital concentration, and the governor's advocacy response followed by a comparative discussion and its theoretical implications. Section 5 presents the conclusion and policy recommendations.

2. LITERATURE REVIEW

A. Paradiplomacy: Origins and Development

Paradiplomacy as an academic term was first introduced in the mid-1980s through the work of Ivo Duchacek, who observed how deepening global economic interdependence was drawing non-central governmental actors' provinces, states, regions, and cities into activities previously the exclusive domain of the sovereign state (Duchacek, 1990). The term, a contraction of "parallel diplomacy," denotes the coexistence of subnational and national diplomatic channels rather than the substitution of one for the other. In its original formulation, paradiplomacy referred to the range of formal and informal contacts that subnational governments establish with foreign partners, encompassing cross-border economic cooperation, investment promotion, cultural exchange, and participation in international organisations.

This literature subsequently developed in several directions. Cornago (2010) argued that paradiplomacy has undergone a process of normalization within the international system, with subnational actors increasingly recognized in multilateral forums. Lecours (2002) examined paradiplomacy through the lens of political mobilization, emphasizing that regions with strong identities or particular economic grievances tend to develop more active international profiles a notion of political opportunity structure that forms one of this article's analytical foundations. Kuznetsov (2015) offered a

comprehensive typology distinguishing economic, cultural, and political forms of paradiplomacy, while stressing the relevance of the constitutional framework in shaping subnational actors' capacity: in unitary states, paradiplomacy operates under far more constrained conditions than in federal systems, because subnational legal authority is derivative of, rather than constitutionally protected against, the central state.

B. Paradiplomacy within Indonesia's Unitary System

Indonesia's formal decentralization, initiated through Laws No. 22 and 25 of 1999 following the fall of the Soeharto regime, ranks among the fastest transfers of political authority undertaken by any large developing country. District and municipal governments were assigned responsibility for eleven mandatory functions, including health, education, public works, and pertinent to this study environmental and natural resource management (Nasution, 2016). Law No. 32 of 2004 subsequently consolidated these arrangements and assigned provincial governments a coordinating function alongside their direct administrative responsibilities. Within this framework, subnational governments acquired formal authority enabling a constrained form of paradiplomacy: Article 367 of Law No. 23 of 2014 explicitly grants local governments the authority to establish international cooperation, subject to central government oversight.

In practice, the scope of Indonesian paradiplomacy remains narrow. Studies of Indonesia's subnational international engagement have largely focused on cultural diplomacy for instance, Yogyakarta's promotion of Javanese crafts and arts or largely symbolic sister-city programs. The cross-border tourism cooperation between Bintan Island and Singapore is a more economically significant example, yet Karim, Mursitama, Riyadi, Affandi, and Muzdalifa (2023) show that this engagement operates through informal channels patron–client relations rather than formal diplomatic authority, and occurs in a sector (tourism) whose provincial authority has not been systematically revoked. What remains under-examined is the condition that arises when a subnational government sits at the heart of a globally significant extractive sector yet is structurally barred from interacting with the international actors that govern it a gap this article seeks to fill through the case study of North Maluku.

C. Fiscal Federalism and Centre–Periphery Theory as Analytical Complements

To adequately analyze this gap, this article complements the paradiplomacy framework with two well-established theoretical traditions. First, fiscal federalism (Oates, 1972) highlights the mismatch between fiscal authority and fiscal responsibility as a core pathology of decentralized governance: local governments that bear the social and environmental costs of particular economic activities should, in principle, receive proportionate fiscal compensation, yet centrally designed revenue-sharing formulas frequently fail to reflect that proportionality. Second, center–periphery theory (Rokkan & Urwin, 1983) provides a historical-structural foundation for understanding how peripheral regions can become economically integrated into national and international systems while remaining politically marginalized within them.

Both traditions complement Lecours's (2002) paradiplomacy framework concerning subnational political opportunity structures. When that opportunity structure is closed legally (through the recentralization of authority), fiscally (through an asymmetric revenue-sharing formula), and structurally (through a concentration of foreign ownership that eliminates any bargaining basis), subnational paradiplomatic engagement in the sense of substantive negotiation with foreign actors becomes structurally impossible, however strong the subnational actor's political will may be. It is this limiting condition that, purely for ease of reference in this article, is termed constrained paradiplomacy.

D. An Integrated Analytical Framework: Constrained Paradiplomacy as an Extreme Point

It bears emphasis that the term “constrained paradiplomacy” used in this article is not a new concept, model, or theory claimed as an original contribution by the author. The term serves merely as a descriptive label for an extreme point on the spectrum already mapped by the paradiplomacy, fiscal federalism, and centre–periphery literatures namely, the condition in which three structural obstacles (legal, fiscal, and political-economic) operate simultaneously, eliminating meaningful subnational participation even where the objective basis for international engagement (in terms of foreign investment volume, export share, or integration into global value chains) is strong. It is this analytical framework rather than the term itself that serves as the principal instrument for reading the North Maluku case study in Section 4. The novelty of this article, therefore, lies in applying an existing theoretical framework to an empirical case that has received little scholarly attention, rather than in any claim to theoretical discovery.

3. METHOD

This study employs a qualitative case study design, with North Maluku Province as the principal unit of analysis. A case study approach was chosen because the phenomenon under investigation the structural constraints on a subnational government’s international engagement is embedded in a specific institutional context and cannot be meaningfully understood apart from it (Yin, 2018). North Maluku was selected because it represents an analytically extreme case: a subnational government whose economic integration into global supply chains is exceptionally well documented statistically, yet which remains under-examined analytically within the paradiplomacy literature.

Data were drawn from three principal sources. First, official government documents, including the full texts of Law No. 3 of 2020 on Mineral and Coal Mining, Law No. 23 of 2014 on Regional Government, and Law No. 1 of 2022 on Fiscal Relations between the Central and Regional Governments. Second, official statistical and economic data from the BPS North Maluku Provincial Office, Statistics Indonesia (BPS), the Ministry of Energy and Mineral Resources, the Ministry of Investment/BKPM, and reports from international research institutions that were independently re-verified to ensure accuracy, including the National Bureau of Asian Research (NBR), the Center for Strategic and International Studies (CSIS), and Climate Rights International. Third, media analysis of Governor Sherly Tjoanda’s public statements and governance actions between October 2025 and June 2026, drawn from Tempo, Kompas, CNN Indonesia, and other verified economic news sources.

Data analysis followed an abductive thematic approach, moving iteratively between the paradiplomacy, fiscal federalism, and centre–periphery frameworks and the empirical patterns observed in the primary data (Alvesson & Sköldberg, 2018). Five empirical themes structure the findings: strategic economic position, legal recentralization, fiscal asymmetry, foreign capital concentration, and the governor’s advocacy response. The study acknowledges several limitations: reliance on secondary data precludes direct access to the subjective perspectives of provincial officials or affected community members, and the continually evolving policy environment means that some documented conditions may change beyond the period covered by this research, which extends through mid-2026.

4. RESULTS AND DISCUSSION

A. North Maluku's Strategic Economic Position in the Global Nickel Supply Chain

Recent economic data confirm North Maluku's status as one of the most extreme growth performers in Indonesia, and indeed globally. As shown in Figure 1, the province's economic growth has consistently run four to seven times above the national growth average over the past three years: 20.49 percent against 5.05 percent in 2023 (BPS, 2024), 13.73 percent against 5.03 percent in 2024 (BPS North Maluku, 2025b; BPS, 2025), and 34.17 percent against 5.11 percent throughout 2025 (BPS North Maluku, 2026; BPS, 2026). In the first quarter of 2025 alone, North Maluku's annual growth reached 34.58 percent, driven by Chinese demand for processed nickel exports that pushed manufacturing-sector growth to 75.30 percent over the same period (BPS North Maluku, 2025a). Indonesia's Deputy Minister of Energy and Mineral Resources went so far as to describe North Maluku as having the highest economic growth rate in the world, attributable to nickel downstreaming (Ministry of Energy and Mineral Resources of the Republic of Indonesia, 2024).

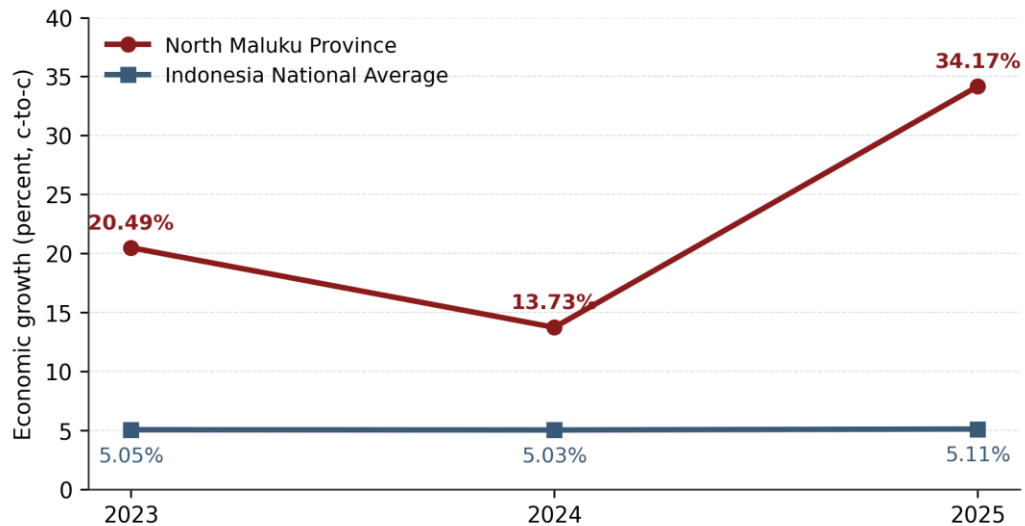


Figure 1. Comparison of Economic Growth in North Maluku Province and Indonesia's National Average, 2023–2025 (percent, c-to-c)

(Source: compiled from BPS, 2024, 2025, 2026; BPS North Maluku Province, 2025b, 2026)

This growth is consistent with a surge in national mineral-downstreaming investment realisation, which the Ministry of Investment/BKPM reports reached IDR 584.1 trillion throughout 2025 a substantial increase from IDR 136.3 trillion in the first quarter of 2025 alone, which itself grew 79.82 percent year on year (Databoks/BKPM, 2026). Of that total downstreaming investment, the mineral sector with nickel as its principal commodity has consistently been the largest contributor. International forums have further affirmed this position: the 2025 Indonesia Critical Minerals Conference & Expo, attended by more than 2,500 participants from 55 countries and supported by the Ministry of Foreign Affairs of the Republic of Indonesia, explicitly positioned North Maluku as the epicentre of the national nickel downstreaming revival, with Governor Sherly Tjoanda serving as one of the forum's keynote speakers (Shanghai Metal Market, 2025).

This evidence confirms that North Maluku satisfies the objective basis for meaningful engagement as a paradiplomatic actor: substantial foreign investment volume, a significant share of national nickel exports, and international recognition of its strategic position. The question that follows and which forms the focus of the subsequent subsections is why this objective basis fails to correlate with the provincial government's institutional capacity to participate in governing the sector that sustains this growth.

B. Legal Recentralisation: From Decentralisation toward the Centralisation of Mining Licensing

Between 2009 and 2020, Indonesia's mining governance operated under a relatively decentralised model. Law No. 4 of 2009 granted provincial and district/municipal governments the authority to issue Mining Business Permits (IUP) for operations within their respective territories — an arrangement understood as part of the post-Soeharto reform project to bring governance closer to affected communities and enable local governments to capture meaningful benefits from resources extracted within their territory.

Law No. 3 of 2020, amending Law No. 4 of 2009, fundamentally reversed this arrangement. Ananda, Dedihasriadi, and Haerani (2025), in a normative study published in the *Administrative and Environmental Law Review*, document that the amended law centralised the entirety of licensing authority within the Ministry of Energy and Mineral Resources, leaving local governments with only an administrative role. Local governments can no longer approve, reject, or modify permits for the extraction of metallic minerals — including nickel, the commodity that defines North Maluku's contemporary economic identity. Table 1 summaries this shift in authority.

Table 1. Comparison of Local Government Authority Before and After Law No. 3 of 2020

Aspect of Authority	Regime under Law No. 4/2009 (2009–2020)	Regime under Law No. 3/2020 (2020–present)
Issuance of metallic-mineral IUP	Province/district per mine location	Centralised at the Ministry of Energy and Mineral Resources
Approval of IUP amendment/transfer	Involves local government	Exclusive authority of central government
Environmental-compliance oversight of large-scale mines	Shared with local government	Dominated by central government
Setting downstreaming/processing requirements	Not explicitly regulated at local level	Exclusive authority of central government
Formal channel for negotiating with foreign investors	Informal consultation	Not available

(Source: compiled from Ananda, Dedihasriadi, & Haerani, 2025; Baskaran, 2024)

The consequences of this recentralisation are empirically evident. When companies affiliated with Tsingshan Group, Huayou Cobalt, and Zhenshi Group established the *Indonesia Weda Bay Industrial Park (IWIP)* in Central Halmahera a zone projected to attract up to USD 15 billion in investment (Project Multatuli, 2024) the provincial government was not party to that negotiation. The investment was processed entirely through national-level ministries, with the province receiving information through the same public channels available to outside observers. This contrasts with mining governance models in Australia and Canada, where provincial/state authorities retain substantial licensing power and can negotiate directly with mining companies over royalty rates, environmental bonds, and community benefit agreements (Baskaran, 2024). Constitutional provisions in Articles 18, 18A, and 18B of the 1945 Constitution guarantee regional autonomy as a constitutional principle, yet the recentralisation effected by Law No. 3 of 2020 sits in unresolved constitutional tension with that guarantee.

This finding directly applies Lecours's (2002) argument concerning political opportunity structure: once legal authority is entirely withdrawn, the opportunity structure for substantive paradiplomacy in the sense of direct engagement with foreign investors is closed, regardless of the subnational actor's administrative capacity or political will.

C. Fiscal Asymmetry: Growth without Budgetary Control

The paradox of constrained paradiplomacy is most sharply reflected in North Maluku's fiscal position. The province's nickel-processing-driven economic growth is consistently reported as the highest in Indonesia a fact celebrated by central government officials as evidence of successful downstreaming policy (Ministry of Energy and Mineral Resources of the Republic of Indonesia, 2024). Yet the fiscal return to the provincial government from that growth remains structurally constrained by the revenue-sharing architecture under Law No. 1 of 2022 on Fiscal Relations between the Central and Regional Governments.

The scale of this asymmetry became apparent when Governor Sherly Tjoanda, together with seventeen other governors, visited the Ministry of Finance on 7 October 2025 to protest cuts to Regional Transfers (TKD) for the 2026 fiscal year. Total central-government transfers to North Maluku are projected to fall from roughly IDR 10 trillion in 2025 to IDR 6.7 trillion in 2026 a reduction of approximately IDR 3.5 trillion, with the Revenue-Sharing Fund (DBH) component absorbing the largest cut, at 60 percent (Tempo, 2025; Kompas.tv, 2025). Finance Minister Purbaya Yudhi Sadewa argued that the adjustment responded to the large volumes of transferred funds that had not been optimally absorbed at the regional level (Wartaekonomi, 2026). For North Maluku, however, the consequences are concrete: in June 2026, Governor Sherly again told a working meeting with Commission II of the House of Representatives that the province's cash flow was no longer sufficient to pay the salaries of Government Employees with Employment Agreements (PPPK), with personnel spending needs reaching IDR 1.1 trillion against a General Allocation Fund of only about IDR 960 billion (Wartaekonomi, 2026).

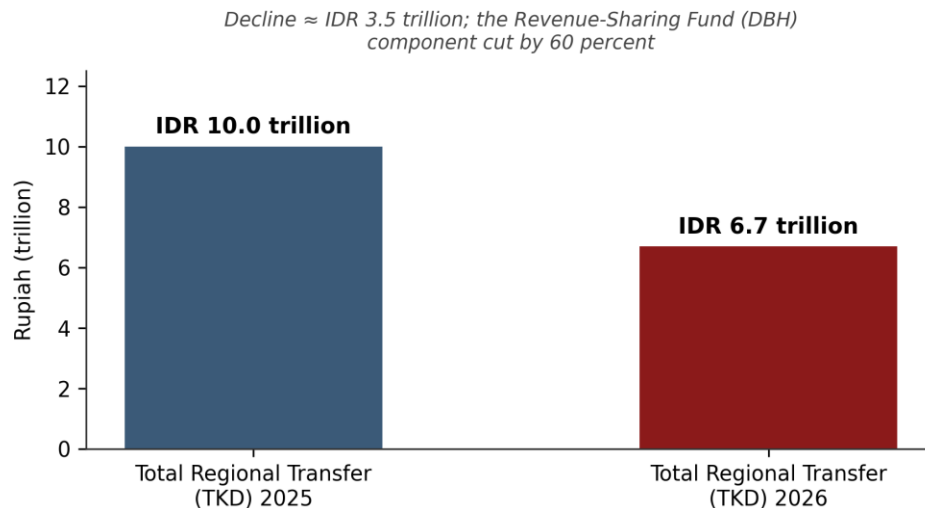


Figure 2. Change in Total Regional Transfers (TKD) to North Maluku Province, 2025–2026

(Source: compiled from Tempo, 2025; Kompas.tv, 2025; Wartaekonomi, 2026)

Governor Sherly's intervention her negotiations with the Minister of Finance and repeated grievances before the House of Representatives represents one of the few forms of provincial political engagement that is internationally adjacent in character: a paradiplomatic advocacy function directed not at foreign actors themselves but at the central government as a proxy for the fiscal architecture governing foreign-sourced revenue. This distinction matters analytically. Governor Sherly's public campaign for DBH reform shows that the provincial government is not a passive actor, yet its engagement is invariably mediated by the central state rather than directed at the foreign investors who generate the underlying revenue. This condition empirically confirms what Oates's (1972) fiscal federalism framework identifies as an acute mismatch: the costs of nickel extraction are borne by the provincial government and its

communities, while fiscal benefits are concentrated at the centre. JATAM North Maluku's (2026) year-end report describes this condition as a "sacrifice zone," documenting at least 115 residents subjected to repressive action throughout 2025 for opposing mining activity, alongside widespread ecological damage including the clearance of at least 5,331 hectares of tropical forest in Halmahera documented by Climate Rights International (2024).

D. The Concentration of Chinese Foreign Capital and a Narrowing Bargaining Space

The third structural dimension of constrained paradiplomacy concerns the character of the foreign investment itself. The concentration of Chinese capital in the nickel-smelting sector is documented at a level that renders North Maluku's industrial ecosystem qualitatively different from an investment environment in which a provincial government could realistically build bilateral relationships, negotiate voluntary agreements, or leverage competition among investors to secure better terms.

The National Bureau of Asian Research (2026) documents that Chinese companies control approximately 75 percent of Indonesia's nickel-smelting capacity, with Tsingshan and Jiangsu Delong alone accounting for more than 70 percent. Within the Indonesia Weda Bay Industrial Park, Tsingshan indirectly controls 46 percent of PT IWIP's shares, with Huayou Group and Zhenshi Group each holding 24 percent, and Contemporary Amperex Technology (CATL) holding 6 percent (Project Multatuli, 2024), as summarised in Table 2.

Table 2. Ownership Structure of PT Indonesia Weda Bay Industrial Park (IWIP)

Entity	Country of Origin	Ownership Share
Tsingshan Group (via Perlus Technology)	China	46%
Zhenshi Holding Group	China	24%
Zhejiang Huayou Cobalt	China	24%
Contemporary Amperex Technology (CATL)	China	6%

(Source: *Project Multatuli*, 2024)

For the North Maluku provincial government, this concentration carries two direct practical consequences. First, it eliminates the competitive dynamic that would otherwise give a provincial government bargaining leverage: when one region competes with another to attract investment, it can offer regulatory concessions and subsequently impose conditions on that investment. In North Maluku, where the dominant investor community is internally cohesive and bound to the national-level China–Indonesia diplomatic relationship, no realistic alternative investor base exists to serve as leverage. Baskaran (2024) notes that the dominance of Chinese capital has effectively crowded out Western investors, whose participation is further constrained by United States regulatory frameworks particularly the Inflation Reduction Act which excludes supply chains with more than 25 percent Chinese equity ownership from clean-vehicle tax credits.

Second, the organisational model through which Chinese firms operate in North Maluku further narrows points of entry for provincial agency, because Chinese-affiliated industrial estates build vertically integrated ecosystems in which supply chains, logistics, and support services are captured within corporate networks, limiting local business access to the economic activity generated within those zones.

This dominance is nonetheless not entirely static. In May 2026, the China Chamber of Commerce in Indonesia (CCCI) submitted an open letter to President Prabowo Subianto complaining of tax increases, mandatory retention of export foreign-exchange earnings, reduced nickel-ore quotas, and

stricter forestry-law enforcement (China Global South Project, 2026). This development suggests that tensions are emerging between the Indonesian central government and Chinese investors over downstreaming policy yet these tensions play out entirely at the centre-to-investor level, without involving the provincial government as a relevant party, a pattern that further underscores the structural exclusion at the centre of this article.

E. Gubernatorial Advocacy: Persuasive Paradiplomacy without Negotiating Authority

Governor Sherly Tjoanda's series of public engagements throughout 2025–2026 — from her keynote address at the Indonesia Critical Minerals Conference & Expo in June 2025 on the theme of North Maluku as the epicentre of Indonesia's nickel downstreaming revival (Shanghai Metal Market, 2025), to her protest alongside seventeen other governors before the Minister of Finance in October 2025, to her appeal before Commission II of the House of Representatives in June 2026 (Wartaekonomi, 2026) — represents the most tangible form of provincial engagement with the actors and forums shaping its economic future. Yet as the structural analysis in the preceding subsections shows, this advocacy takes the form of persuasion rather than negotiation. The province articulates what it wants; it lacks both the regulatory instrument to compel that preference and the diplomatic authority to bind foreign investors to it.

This distinction between persuasion and negotiation matters theoretically. Within Lecours's (2002) framework, political opportunity structure determines whether subnational mobilisation can be translated into substantive outcomes. In North Maluku's case, that opportunity structure permits voice the provincial government can articulate objections, appear at international forums, and mobilise inter-provincial solidarity but not coercive capacity. This distinction is consistent with the theoretical prediction derived from the synthesis of paradiplomacy, fiscal federalism, and centre–periphery theory in Section 2: when three structural obstacles (legal, fiscal, political-economic) operate simultaneously, the only space remaining for a subnational actor is persuasive, not negotiating, space.

F. Comparative Discussion and Theoretical Implications

The North Maluku case study yields several implications that extend beyond the Indonesian context. First, applying the paradiplomacy framework to this case confirms that the literature's dominant focus on the conditions that enable subnational international engagement needs to be complemented by equal attention to the conditions that produce the absence of such engagement even where its objective basis (exposure to international capital) is clearly present. A comparison with the African paradiplomacy cases examined by Omiunu and Nganje (2024) is instructive here: they find that subnational governments in unitary African states, such as Nigeria, develop informal strategies to attract foreign investment precisely because of their limited formal authority. A similar pattern informal adaptation amid narrow formal authority is evident in the Bintan case examined by Karim et al. (2023), where local government leveraged informal patron–client relations to remain engaged in cross-border tourism cooperation. A key difference between those cases and North Maluku is that, in the Bintan case and several African cases, formal local authority over the relevant sector had not been systematically revoked, as occurred in Indonesia's metallic-mineral mining sector following Law No. 3/2020 leaving far less room for informal strategy in North Maluku. This indicates that the degree of legal recentralisation is a crucial variable distinguishing whether subnational governments in unitary states retain any informal room for manoeuvre at all.

Second, this case illustrates the limits of governance reforms that address only a single structural dimension. The 2022 revision of the DBH formula constituted a partial improvement over the 2004 arrangement, yet Governor Sherly's fiscal confrontation with the Ministry of Finance in 2025–2026 shows that statutory improvement does not automatically translate into commensurate fiscal practice. Similarly, legal recentralisation under the 2020 Mining Law cannot be compensated for by informal

provincial advocacy in international forums however energetic that advocacy may be. Structural obstacles require structural solutions, not merely persuasive ones.

Third, this case highlights a dimension that receives insufficient attention in critical-minerals geopolitics: distributive politics within the investment host state itself. Policy debate on Indonesia's nickel sector focuses almost entirely on national-level relations between Jakarta and Beijing, or between Indonesia and Western consumers of nickel-based technology including debates over the *polyalignment* that Wijaya and Jones (2025) identify within the context of a Second Cold War. The provincial level where environmental costs are borne, social disruption is concentrated, and fiscal returns are contested is largely absent from that conversation. Positioning the provincial government as a political actor with a legitimate claim over investment governance is not merely an academic exercise; it is a precondition for the equitable resource governance that the critical minerals transition requires if it is to secure broad legitimacy.

Fourth, from a cross-country comparative perspective, the experience of Australia and Canada where provincial/state authorities retain substantial power to negotiate royalties, environmental bonds, and community benefit agreements with mining companies (Baskaran, 2024) demonstrates that recentralisation is not the only institutional pathway available to critical-mineral-producing states. An asymmetric decentralisation model, granting provinces with significant mining exposure greater formal authority than other regions, is an institutional alternative that has proven workable in certain federal and unitary contexts alike, and could serve as a reference point for reform in Indonesia.

5. CONCLUSION

North Maluku's experience reveals a structural gap that can be adequately explained through well-established paradiplomacy, fiscal federalism, and centre-periphery theory, without any need to claim theoretical discovery. The province is economically integrated into the global nickel supply chain on a scale that renders it internationally significant recording annual economic growth far exceeding the national average for three consecutive years (2023–2025). Yet the provincial government is simultaneously excluded from the legal, fiscal, and diplomatic processes that govern that integration. By applying existing theoretical frameworks to this case study, this article shows that this condition descriptively termed constrained paradiplomacy is produced by structural obstacles operating simultaneously, not by any incapacity or unwillingness on the part of the subnational actor.

Three institutional mechanisms produce this condition in North Maluku. The recentralisation of all metallic-mineral licensing authority under Law No. 3 of 2020 eliminates the provincial government's formal authority to engage directly with investors. The fiscal architecture governing the DBH cut by 60 percent for the 2026 fiscal year even as the province recorded the highest economic growth in Indonesia means the province bears the environmental and social costs of extraction while revenue transfers are determined entirely by the central government. And the concentration of Chinese capital in a vertically integrated, oligopolistic configuration leaves little competitive space for provincial advocacy to produce tangible influence.

The recommendations arising from this analysis operate at two levels. At the national level, regulatory reform of Law No. 3 of 2020 should restore a meaningful consultative or approval role for provincial governments in licensing large-scale metallic-mineral projects following an asymmetric decentralisation model that grants provinces with significant mining exposure greater formal authority than other regions. Similarly, the DBH formula should be revised to reflect the full environmental and social costs borne by resource-producing provinces. At the international level, Indonesia's central government, in coordination with provincial stakeholders, should explore instruments such as

contractually binding community benefit agreements attached to foreign investment approvals that create contractual obligations to provincial communities without requiring a wholesale renegotiation of the investment regulatory framework. Until such structural reforms are implemented, North Maluku's provincial government will remain a bystander to the international transactions that determine the future of its own territory. Future research should test the application of the same theoretical framework to other subnational cases in the Global South occupying similar structural positions, to assess the extent to which the condition of constrained paradiplomacy is general or context-specific.

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