

Indonesia's Economic Diplomacy in Comparison with ASEAN Countries: Domestic Institutional Quality and International Factors

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Abstract

This research examined Indonesia's economic diplomacy efforts and outcomes in comparison with those of ASEAN countries, specifically Singapore, Malaysia, Thailand, and Vietnam, focusing on international trade and foreign direct investment (FDI) inflows from 2004 to 2023. Using economic diplomacy as a strategic tool to achieve foreign policy objectives in trade and investment, the research applied a quantitative methodology to evaluate the relationship between economic diplomacy efforts and outcomes across the ASEAN-5 countries. The research hypothesized that increased economic diplomacy efforts lead to improved outcomes, as measured by FDI inflows and trade balance indicators. Economic diplomacy efforts were assessed through the interaction between domestic and international factors, including political stability, regulatory quality, government effectiveness, ease of doing business, participation in regional trade agreements, and bilateral investment treaties (BITs). The research provides statistical evidence to support the hypotheses, indicating that targeted policies aimed at improving regulatory quality, ease of doing business, maintaining political stability, and carefully managing international agreements can bolster economic diplomacy performance for both Indonesia and the ASEAN-4 countries. However, BITs do not significantly affect economic diplomacy outcomes across the model. While the initial model indicates that government effectiveness negatively affects economic diplomacy outcomes, the interaction term reveals that political stability can mitigate this adverse effect. This means that stable political conditions can strengthen the positive aspects of government effectiveness in economic diplomacy.

Keywords: Economic Diplomacy, Foreign Policy, FDI Inflows, Trade Balances, ASEAN

Introduction

Developing countries, such as those in the ASEAN region, rely on foreign capital for their growth, prompting them to engage in economic diplomacy to attract FDI and enhance their international trade relations (Ali et al., 2025; Atchadé et al., 2024; Lipsey & Sjöholm, 2011; Pham et al., 2023; Sasana & Fathoni, 2019). Economic diplomacy uses diplomatic tools to foster economic growth and prosperity through strategies such as negotiation, cooperation, and policy alignment, both domestically and with other nations (Prasetyo, 2023; Shrestha, 2023). This approach is essential for developing countries seeking to leverage global resources and markets to accelerate their development.

FDI inflows and outflows serve as indicators of a country's ability to attract and effectively utilize foreign capital, reflecting robust economic fundamentals and an attractive business environment. High FDI inflows indicate that a country is perceived as a favorable investment destination due to factors such as political stability, absence of violence, government effectiveness, the rule of law, and control of corruption (Kechagia & Metaxas, 2022; Kurul & Yalta, 2017; Masron & Abdullah, 2010; Mengistu & Adhikary, 2011; Minović et al., 2020; Nizam & Hassan, 2018). On the other hand, significant FDI outflows indicate that domestic companies are robust enough to invest abroad, seeking new markets, resources, or technological advancements. Both scenarios signal positive aspects of a country's economic health and dynamism.

Among the selected ASEAN countries, Indonesia's economic structure, particularly in terms of trade, investment, knowledge, technology, and production, is relatively suboptimal. Indonesia remains heavily dependent on natural resources, and its manufacturing sector remains weaker than that of other Southeast Asian countries, such as Thailand and Malaysia (Mouna, 2021; Reyhan & Saputera, 2025). Furthermore, data from the Lowy Institute (Denson, 2024) and Asia Power Index from 2018, 2019, 2020, 2021, and 2023 show that Indonesia's economic diplomacy rank score is lower than that of ASEAN countries like Thailand, Vietnam, Malaysia, and Singapore. The Lowy Institute is measured through free trade agreements and outward foreign assistance flows. This indicates that, according to the index, Indonesia has not employed economic strategies to the same extent as other countries to build partnerships and achieve beneficial outcomes for itself and its partners. For instance, it may have fewer successful trade agreements or provide less assistance to other countries than these countries. In this sense, the author highlighted the question of why Indonesia's economic diplomacy ranking is lower than that of the selected ASEAN countries. This research examines Indonesia's economic diplomacy efforts throughout its history, analyzes their impact on FDI inflows and trade balances in Indonesia, and compares these outcomes with those of the ASEAN-4 countries from 2004 to 2023. In this research, Indonesia serves as the basis for the analysis.

Since 2010, under the leadership of President Susilo Bambang Yudhoyono, Indonesia has started documenting that it wants to strengthen Indonesia's economic diplomacy as a tool to enhance the welfare of the Indonesian people and push economic growth. This emphasis intensified under the administration of President Joko Widodo (2014–2024), as economic diplomacy became the primary policy objective of Indonesia's foreign policy (Andika, 2016; Margiansyah, 2020; Rosyidin, 2017; Simatupang, 2025). Thus, this paper examines the following questions: How have Indonesia's economic diplomacy efforts and outcomes compared to those of other ASEAN countries, particularly in attracting FDI inflows and promoting exports? What factors caused the effectiveness of economic diplomacy initiatives in affecting FDI inflows and trade balances among the ASEAN-5 countries? To address these questions, this analysis will focus on the economic diplomacy efforts and outcomes of the ASEAN-5 countries, specifically regarding FDI inflows and trade balance performance (exports minus imports). According to the Lowy Institute, Indonesia, Thailand, Singapore, Vietnam, Malaysia, and the Philippines constitute the six largest economies in ASEAN (Denson, 2024). However, the Philippines is excluded due to inconsistencies in data throughout the observation period and structural differences that may reduce comparability within the analytical framework.

Building on this comparative design, this research advances the existing literature by providing a systematic cross-country evaluation of the outcomes of economic diplomacy within ASEAN. In doing so, this paper contributes to both the empirical and methodological advancement of the literature on economic diplomacy in Southeast Asia by providing a comparative cross-country analysis of Indonesia and selected ASEAN economies, and by linking economic diplomacy to measurable macroeconomic outcomes using a quantitative regression-based approach.

Literature Review

The factors influencing FDI inflows into a country have been extensively discussed in various studies, including those focusing on ASEAN countries. However, most of these analyses adopt an economic perspective. This research aims to analyze the issue through the lens of economic diplomacy as part of a country's foreign policy. Economic diplomacy has increasingly been conceptualized as a strategic instrument of foreign policy that integrates diplomatic engagement with economic objectives, particularly trade promotion and investment attraction (Moons & van Bergeijk, 2011). Increasing export volumes in international trade and inflows of FDI are two crucial indicators of the success of economic diplomacy efforts. Therefore, this research focuses on analyzing trade balance performance and FDI inflows in the ASEAN-5 countries (Indonesia, Malaysia, Thailand, Singapore, and Vietnam), which are among the largest contributors to regional trade and FDI. For comparative purposes, the ASEAN-4 group in this research excludes Indonesia. FDI involves a combination of capital, expertise, and technology, and its impact on growth in developing countries depends on the efficiency gains transferred to local firms (Hübler & Keller, 2010).

To better understand these dynamics, the existing literature can be categorized into several key strands that explore the relationship among economic diplomacy, institutional factors, and international economic outcomes. Atchadé et al. (2024) highlight that the role of economic diplomacy in attracting foreign capital to emerging countries is statistically significant. Their research stresses how economic diplomacy plays a crucial role in enhancing the attractiveness of economies and increasing the capital stock, which is crucial for economic growth and development. Economic diplomacy works at multiple global levels, from one-on-one engagements to regional and global collaborations that result in trade deals and financial agreements. Its primary goal is to attract sustainable foreign investment by showcasing the potential of developing countries. Diplomatic efforts seek to create attractive socio-economic and institutional landscapes, attract foreign capital, leverage various forms of influence, and strengthen communication with global stakeholders. Ultimately, economic diplomacy serves as a pivotal force in attracting foreign investment and fostering development in emerging markets (Atchadé et al., 2024). For emerging markets like ASEAN countries, economic diplomacy is critical as they strive to transform themselves into modern, industrialized economies with improved standards of living. Through economic diplomacy, these nations can increase their attractiveness to foreign investors, foster trade relations, and strengthen their economic development initiatives.

According to Moons and van Bergeijk (2011), proactive economic diplomacy emerges as a catalyst for positive and statistically significant impacts on international economic dynamics, such as foreign direct investment and trade. Countries that engage in proactive economic diplomacy tend to experience higher levels of trade and investment activity compared to those that do not prioritize it. This finding confirms the notion that economic diplomacy is an effective tool for promoting economic exchange and advancing national interests in the global economic landscape.

Furthermore, Moons and van Bergeijk (2011) conduct a meta-analysis, a statistical technique that synthesizes findings from multiple studies, to examine the relationship between economic diplomacy and international economic flows. The study also identifies several factors that influence the effectiveness of economic diplomacy. These include the level of diplomatic effort invested by states, the quality of diplomatic relations between trading partners, and the presence of institutional frameworks that facilitate economic cooperation.

Moreover, Yakop and van Bergeijk (2011) examine the role of regional trade agreements (RTAs) in economic diplomacy. RTAs have become increasingly common in recent years, with many developing countries entering into these agreements to improve their market access abroad. However, the success of RTAs in boosting trade and economic growth varies depending on the terms of the agreement and the degree of integration achieved among member countries. They highlight the need to design RTAs that account for the specific needs and capabilities of developing countries. Yakop and van Bergeijk (2011) also discuss the role of international organizations such as the World Trade Organization (WTO) in economic diplomacy. The WTO serves as a venue for negotiating trade agreements and settling disputes among its members. However, the authors point out that developing countries often struggle to participate fully in WTO negotiations due to limited capacity and resources. Economic

diplomacy can mitigate these challenges by helping developing countries articulate their interests and form coalitions with other member states.

In the context of ASEAN, the levels of FDI inflows and international trade are critical drivers of economic growth and development in member countries, including Singapore, Malaysia, Thailand, Indonesia, and Vietnam. These countries have had varying degrees of success in attracting FDI and engaging in international trade, influenced by several factors such as market size, levels of corruption, inflation rates, infrastructure development, environmental policies, and financial integration. Countries such as Singapore, Malaysia, and Thailand benefit from larger markets that attract more FDI inflows due to their higher per capita GDP growth compared to smaller economies such as Vietnam and Indonesia (Darwis & Baharuddin, 2023; Shaari et al., 2023). High levels of corruption can also discourage FDI inflows by raising costs for investors. Indonesia and the Philippines have encountered difficulties due to corruption, which has undermined their capacity to attract foreign investments (Shaari et al., 2023).

According to Vogiatzoglou (2016), the ease of doing business is one of the significant influences on FDI inflows in ASEAN countries. The study presents strong evidence that improving the ease of doing business is crucial for attracting FDI to the region. Specifically, improvements in areas such as starting a business, dealing with construction permits, obtaining electricity, registering property, and enforcing contracts are closely associated with higher FDI inflows. Additionally, Buracom (2014), Saha et al. (2022), and Masron and Abdullah (2010) highlight the important role of institutional quality in attracting FDI inflows to developing countries, including ASEAN, with the former emphasizing the need for improved governance and the latter emphasizing the creation of a conducive business environment. Improved governance includes transparency, effective regulatory frameworks, and the rule of law, which can enhance investor confidence and reduce the risks associated with corruption and bureaucratic inefficiency. Creating a conducive business environment involves simplifying administrative procedures, ensuring political stability, and incentivizing foreign investors.

Moreover, bilateral investment treaties have significantly boosted FDI flows to developing countries (Neumayer & Spess, 2005; Li & Zhao, 2021). However, the impact of BITs varies across contexts. In particular, BITs are more effective in countries with better governance and a more stable economic environment. Consistent with the study, Teo (2021) finds that while BITs play a key role in attracting FDI, particularly in developing countries, they are not sufficient on their own. Complementary policies and a stable investment environment are essential to maximize the benefits of BITs.

The reviewed literature provides a comprehensive understanding of how economic diplomacy efforts, including institutional quality, ease of doing business, bilateral investment treaties, regional trade agreements, and regional cooperation, shape FDI and trade dynamics in ASEAN countries. However, some studies find that not all aspects of institutional quality, including investment treaties, have a significant impact on FDI inflows in developing countries (Saha, et al., 2022; Mengistu & Adhikary, 2011; Neumayer & Spess, 2005). In

addition, there remains limited comparative evidence systematically examining these relationships across ASEAN countries using a unified empirical framework. Therefore, this research seeks to address these gaps by providing a comparative analysis of Indonesia and selected ASEAN economies, focusing on how economic diplomacy, through both institutional quality and international economic instruments, affects FDI inflows and trade balance performance.

Economic Diplomacy Framework

Diplomacy and economic diplomacy are essential elements of foreign policy (Okano-Heijmans, 2011) and play complementary roles in promoting a nation's interests both at home and abroad (Flissak & Glukhova, 2021). Diplomacy involves the management of international relations through negotiation and dialogue to resolve conflicts and foster cooperation among nations. Economic diplomacy goes beyond conventional diplomacy by integrating economic strategies and tools to pursue national interests. It involves the use of diplomatic expertise and economic tools to advance a country's economic, political, and strategic objectives, including diverse activities such as promoting exports and imports, facilitating investment, negotiating trade pacts, imposing economic sanctions on undesirable entities, and providing development assistance to partner nations.

According to Bayne and Woolcock (2012), economic diplomacy involves the management of relationships between states and other entities in international economic affairs. It encompasses a wide range of activities aimed at promoting cooperation, advancing economic interests, and addressing global challenges. Economic diplomacy requires a strategic interplay between domestic and international factors, integrating domestic policies and governance with international negotiations and agreements. This approach ensures that national economic objectives are aligned with global economic dynamics, thereby promoting both domestic economic growth and international economic relations.

Rana (2004) defines economic diplomacy as the process through which countries tackle the outside world to maximize their national gain in all the fields of activity, including trade, investment, and other forms of economically beneficial exchanges, where they enjoy a comparative advantage; it has bilateral, regional, and multilateral dimensions, each of which is important. Based on this definition, international trade and investment emerge as the central focus of economic diplomacy (Sabaruddin, 2017). The recent definition quoted from Mursitama (as cited in Kementerian Investasi dan Hilirisasi - BKPM, 2022) is more aligned and completed with this research context, which defines economic diplomacy as an integrated effort to mobilize all available resources using all diplomatic tools employed by the state, businesses, institutions, community groups, and individuals, both domestically and internationally, to achieve national prosperity. Traditionally, diplomacy has focused primarily on political and security concerns, with economic issues often taking a back seat. In recent years, however, economic diplomacy has gained prominence as states recognize the critical role of economic factors in shaping international relations and achieving their foreign policy objectives (Bayne & Woolcock, 2012).

Bayne and Woolcock (2012) state that economic considerations have become central to states' foreign policy actions, driving the need for effective economic diplomacy strategies to navigate the complexities of the global economy and pursue national interests. They highlight the interconnectedness of economic and political objectives in contemporary diplomacy. They also emphasized that economic power and influence are increasingly intertwined with political dynamics, blurring the lines between economic and political diplomacy. As a result, states must integrate economic considerations into their diplomatic engagements to effectively advance their interests on the global stage.

Tracing economic diplomacy as a component of foreign policy can be linked to the concepts of complex interdependence proposed by Keohane and Nye (1987), which provides a nuanced understanding of how economic diplomacy operates in a highly interconnected global system. Keohane and Nye's complex interdependence framework outlines a world in which states and non-state actors are deeply intertwined through multiple channels of communication and a broad agenda of issues, challenging traditional notions of power and security. Economic diplomacy leverages these channels to facilitate economic cooperation and integration. For instance, economic diplomacy initiatives can involve direct negotiations between states (interstate), collaborations between government agencies across borders (trans-governmental), and partnerships between businesses and civil society organizations across national boundaries (transnational). These channels allow for the exchange of economic ideas, and the negotiation of trade agreements, thereby enhancing economic interdependence (Keohane & Nye, 1987).

Complex interdependence is grounded in neoliberal institutional theory, which posits that the state is not the sole dominant actor in international relations; non-state actors also play a significant role (Keohane & Nye, 1987). This concept is particularly relevant in the context of economic diplomacy. Economic diplomacy encompasses a multi-actor and multisectoral approach, necessitating negotiation and collaboration between governments and across borders. No single theory can fully elucidate how states will shape economic diplomacy in specific contexts (Bayne & Woolcock, 2012). Traditional international relations theories strive for predictive accuracy and are testable. However, they often oversimplify by treating states as uniform entities with stable policy preferences. This approach is inadequate for understanding economic diplomacy, which involves the interplay of global and domestic factors, and the convergence of economic and political objectives. Economic diplomacy theory serves as an analytical lens for understanding the complex dynamics of state interactions in the economic realm, emphasizing the need for flexibility, adaptability, and a nuanced understanding of the factors shaping diplomatic outcomes.

In economic diplomacy, it is unrealistic to view states as singular actors or assume negotiators possess exhaustive knowledge of national policy preferences. These preferences are dynamic and subject to influence from market forces. Therefore, any analytical framework for economic diplomacy must recognize the complex and evolving nature of state behavior, including the dynamic interplay of various economic and political factors at both domestic and international levels (Bayne & Woolcock, 2012; Farrell & Newman, 2014; Putnam, 1988). In

this context, economic diplomacy also involves managing domestic governance and linking it to external elements or institutions.

This research adopts Bayne and Woolcock's (2012) economic diplomacy framework, which highlights economic diplomacy as a crucial tool for states to pursue their economic interests, address global challenges, and advance their foreign policy objectives in an increasingly interconnected world. This framework emphasizes the need for a two-level approach that integrates both domestic governance and international factors as a strategy for economic diplomacy. Using Putnam's (1988) two-level game theory, the research illustrates how policymakers must skillfully balance and manage domestic political dynamics and constraints while engaging in strategic negotiations on the international stage. This integrated approach ensures that domestic and international factors are harmoniously aligned to achieve optimal economic and diplomatic outcomes.

By integrating Bayne and Woolcock's (2012) framework with Putnam's (1988) two-level game theory, it provides an understanding of how diplomatic strategies, shaped by both domestic and international factors, can influence FDI inflows and trade balances. This is particularly important for understanding economic trends in the ASEAN region and elsewhere. Effective economic diplomacy strategies enable countries to navigate the global economic landscape, addressing both domestic and international challenges and opportunities. For ASEAN countries, including Indonesia, this means using diplomatic channels to secure beneficial trade agreements, attract investment, and promote sustainable economic development, thereby strengthening their position in the global economy.

Hypotheses

Building on the economic diplomacy framework, this research examines how domestic institutional quality and international factors jointly influence the outcomes of economic diplomacy. In this context, performance in economic diplomacy outcomes is measured by FDI inflows and trade balance. The key variables underlying this analysis, including institutional quality, ease of doing business, bilateral investment treaties, and regional trade agreements, have been elaborated in the literature review section. Existing studies suggest that economic diplomacy outcomes are shaped not only by domestic institutional conditions that affect investor confidence and policy credibility, but also by international economic arrangements that facilitate market access and reduce uncertainty (Khan et al., 2025; Ullah & Inaba, 2014). This combined perspective is especially relevant in the ASEAN context, where countries exhibit varying levels of institutional development and external economic integration.

Thus, this research hypothesizes that increased economic diplomacy efforts lead to better performance in economic diplomacy outcomes. This expectation is further detailed through a set of specific hypotheses.

H-1 : Higher regulatory quality leads to better performance in economic diplomacy outcomes.

H-2 : Greater political stability leads to better performance in economic diplomacy outcomes.

- H-3 : The greater the government's effectiveness, the better the performance in economic diplomacy outcomes.
- H-4 : The greater the ease of doing business, the better the performance in economic diplomacy outcomes.
- H-5 : The greater the number of bilateral investment treaties, the better the performance in economic diplomacy outcomes.
- H-6 : The greater the number of regional trade agreements, the better the performance in economic diplomacy outcomes.

Methodology

This research applies a quantitative approach to examine Indonesia's economic diplomacy in comparison with selected ASEAN countries. The research's dependent variable is the economic diplomacy outcomes index, derived from aggregating the trade balances (exports minus imports) and FDI inflows of the ASEAN-5 countries from 2004 to 2023. These indicators are selected because they directly reflect the primary objectives of economic diplomacy, as previously discussed: attracting foreign investment and promoting international trade.

To ensure comparability and consistency, the index is standardized using the z-score method (Anusha et al., 2019). This statistical measure expresses the deviation of each data point from the mean of the data set in terms of standard deviation. The z-score formula is Equation (1).

$$Z = \frac{X - \mu}{\sigma} \quad (1)$$

Z is the Z-score, X is the individual data point, μ (mu) is the mean of the dataset, and σ (sigma) is the standard deviation of the dataset. The composite index combines FDI inflows and the trade balance as key outcome indicators of economic diplomacy. Due to the lack of a clear theoretical basis for assigning different weights, equal weighting is applied, consistent with common practice in composite index construction (OECD, 2008). While this approach enhances transparency and reduces subjectivity, it implicitly assumes that both indicators contribute equally and may not fully reflect their relative importance. Alternative weighting methods, such as principal component analysis (PCA), are available. However, equal weighting is adopted here as a neutral baseline.

The independent variables in this research encompass both domestic institutional quality and international factors or economic engagement. Domestic institutional factors include political stability, regulatory quality, and government effectiveness, all of which are derived from the World Bank's (2023) Worldwide Governance Indicators (WGI). Political stability reflects perceptions of the likelihood of political instability and violence, indicating the extent to which a country provides a secure and predictable environment. Regulatory quality refers to the government's ability to formulate and implement sound policies that support private sector development. Government effectiveness captures the quality of public

services, the efficiency of policy implementation, and the credibility of government commitments.

In addition, the ease of doing business is included to measure the regulatory environment faced by firms, particularly the procedures, time, and costs associated with establishing and operating a business. A higher score indicates a more conducive business environment with fewer administrative barriers.

To capture international economic engagement as a dimension of economic diplomacy, this study includes BITs and regional trade agreements (RTAs). BITs, as defined by the United Nations Conference on Trade and Development (UNCTAD, 2023), are formal agreements between countries that provide legal protection and reduce risks for foreign investors, thereby encouraging cross-border investment. RTAs refer to agreements between countries aimed at facilitating trade and economic cooperation by reducing trade barriers and enhancing market access. This variable is measured by the total number of agreements in force as notified to the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO, 2024).

Finally, control of corruption is included as a control variable, which represents perceptions regarding the extent to which public power is used for personal gain. This includes both minor and major forms of corruption, as well as the domination of the state by elites and private interests.

The data is collected through historical data on trade balance (imports and exports) and FDI inflows for Indonesia, Singapore, Malaysia, Thailand, and Vietnam from reputable sources such as the World Bank (2023), the United Nations Conference on Trade and Development (UNCTAD, 2023), Transparency International (2023), and the World Trade Organization (WTO, 2024). Table 1 provides a comprehensive overview of the variables, their measurements, data sources, and data types.

Table 1. Operationalization of Research Variables

Variable	Expected Sign	Measurement	Data Source and Data Type
Dependent Variable			
Economic Diplomacy Outcome Index	n.a.	Trade Balances (Export-Imports) + FDI inflows (US\$ million), use z-score to standardize the value of trade and FDI	World Bank UNCTAD (Interval data)
Independent Variables			
Political Stability Index	+	0 is lowest rank, and 100 to highest rank. Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism	World Bank (Interval data)

Regulatory Quality	+	Ranges from approximately -2.5 (weak) to 2.5 (strong). Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	World Bank (Interval data)
Government Effectiveness	+	Ranges from approximately -2.5 (weak) to 2.5 (strong). Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	World Bank (Interval data)
Bilateral Investment Treaties (BITs)	+	The total number of bilateral investment treaties that are in force	UNCTAD (Interval data)
Trade Regional Agreements (TRAs)	+	Total regional agreement notified to GATT/WTO and in force	WTO (Interval data)
Ease of Doing Business	+	The score ranges from 0 to 100, where 0 represents the worst and 100 the best.	World Bank (Interval data)
Control variable			
Corruption Perception Index (CPI)	+	100 is very clean, and 0 is highly corrupt. CPI is based on perceived levels of public sector corruption	Transparency International (Interval data)

Source: The author.

From Table 1, the regression equation can be formulated in Equation 2.

$$Y_{ei} = \beta_1 \text{PSI} + \beta_2 \text{RegQual} + \beta_3 \text{GovEf} + \beta_4 \text{BITs} + \beta_5 \text{TRAs} + \beta_6 \text{Easedo} + \beta_7 \text{CPI} + e \quad (2)$$

Y_e is the economic diplomacy outcomes index, and i represents each of the ASEAN-5 countries. β_1 is the coefficient of the Political Stability Index (PSI); β_2 is the coefficient of Regulatory Quality (RegQual); β_3 is the coefficient of Government Effectiveness (GovEf); β_4 is the coefficient of Bilateral Investment Treaties (BITs); β_5 is the coefficient of Trade Regional Agreements (TRAs); β_6 is the coefficient of Ease of Doing Business (EaseDo); β_7 is the coefficient of the Corruption Perception Index (CPI); and e is the error term.

The data analysis is conducted in three steps. First, a descriptive analysis was performed to examine trends in trade balances and FDI patterns for each country. Second, a comparative analysis was undertaken to identify similarities and differences between Indonesia and the ASEAN-4 countries. Finally, statistical methods, including regression analysis using STATA software version 13.1, are employed to assess the relationship between economic diplomacy efforts and their impact on trade balances and FDI.

Results and Discussions

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Economic diplomacy outcomes index	100	-.018	1.769	-2.643	6.888
Political stability	95	-.019	.861	-1.91	1.6
Regulatory quality	95	.397	.899	-.74	2.25
Government effectiveness	95	.643	.912	-.5	2.47
Ease of doing business	85	78.512	13.56	35.95	98.23
Bilateral investment treaties	100	42	10.308	28	56
Regional trade agreements	100	18.4	4.866	15	28
Control of corruption	95	.144	1.048	-.98	2.3

Source: Data processed by the author (2024).

The descriptive statistics in Table 2 summarize key variables related to the economic diplomacy outcomes of the ASEAN-5 countries: Indonesia, Thailand, Vietnam, Malaysia, and Singapore. The table highlights the variability in key factors such as regulatory quality, government effectiveness, and ease of doing business, all of which play a critical role in shaping economic diplomacy outcomes. Additionally, variations in bilateral investment treaties and regional trade agreements further emphasize the region's diverse approaches to international economic engagement. Understanding these differences is essential for formulating targeted policies to enhance the performance of economic diplomacy. It should be noted that several variables have fewer than 100 observations due to data availability limitations across countries and years, particularly for governance indicators and the ease of doing business index. Missing data are handled using listwise deletion, meaning that only observations with complete data are included in the regression analysis to ensure consistent estimation.

Comparative Analysis

Economic diplomacy plays a crucial role in shaping the economic landscape of nations, particularly within the dynamic context of ASEAN. The researcher examines Indonesia's economic diplomacy efforts and outcomes, comparing them with those of the ASEAN-4 countries. Specifically, the aim is to assess how economic diplomacy efforts have influenced the attraction of FDI inflows and export promotion within the ASEAN-5 countries. Additionally, the research seeks to identify the key factors that contribute to the effectiveness of economic diplomacy efforts in influencing the region's FDI inflows and trade balances.

As a prominent member of the ASEAN community, Indonesia has pursued an active economic diplomacy agenda to attract foreign investment and enhance trade relations.

However, the effectiveness of Indonesia's economic diplomacy efforts must be analyzed by comparing them to those of the ASEAN-4 countries, which encompass diverse economic landscapes and diplomatic strategies (Killian, 2022). Indonesia will be the basis of the analysis. These countries have different levels of economic development, strategic priorities, and diplomatic engagements, providing a rich backdrop for comparative analysis.

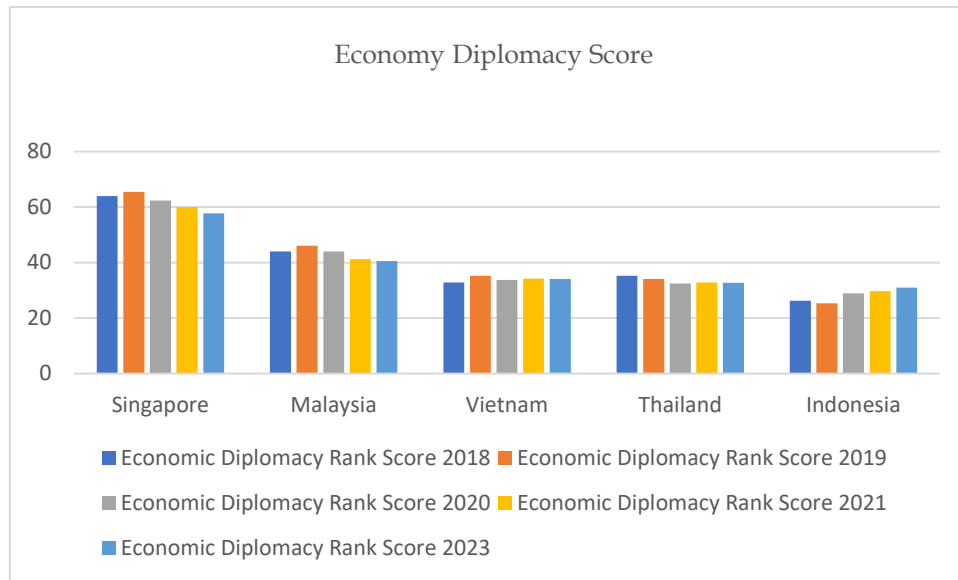


Figure 1. Economy Diplomacy Score

Source: Denson (2024) and the author.

Figure 1 shows that Indonesia's economic diplomacy scores were lower than those of the ASEAN-4 countries in 2018, 2019, 2020, 2021, and 2023. However, Denson (2024) measured economic diplomacy scores based on free trade agreements and outward foreign assistance flows. As noted previously, significant FDI outflows suggest that domestic firms have the strength and capacity to invest internationally in pursuit of new markets, resources, or technological advancements. These scenarios reflect positive indicators of a nation's economic vitality and dynamism.

Figure 2 shows that Singapore has consistently been the leader among the ASEAN-5 countries in FDI inflows, demonstrating a significant upward trend, particularly since 2010. Vietnam also shows a steady increase in FDI inflows, reflecting the success of its aggressive economic reforms and growing appeal as an investment destination. Although Indonesia shows a positive trend in FDI inflows, its performance remains relatively modest compared to Singapore and Vietnam, indicating potential for improvement in its economic diplomacy. Meanwhile, Malaysia experiences moderate and fluctuating FDI inflows. Thailand experiences variability in FDI inflows, with notable peaks in 2010 and 2013, but also significant declines, including negative inflows in 2011 and 2020.

Singapore and Vietnam serve as benchmarks for successful economic diplomacy (UNCTAD, 2023). Indonesia can draw lessons from its proactive policies and strategic reforms to enhance its attractiveness to foreign investors. Continuous efforts to improve the investment climate, reduce bureaucratic hurdles, and promote political stability will be key to improving the results of Indonesia's economic diplomacy and ensuring sustainable FDI inflows.

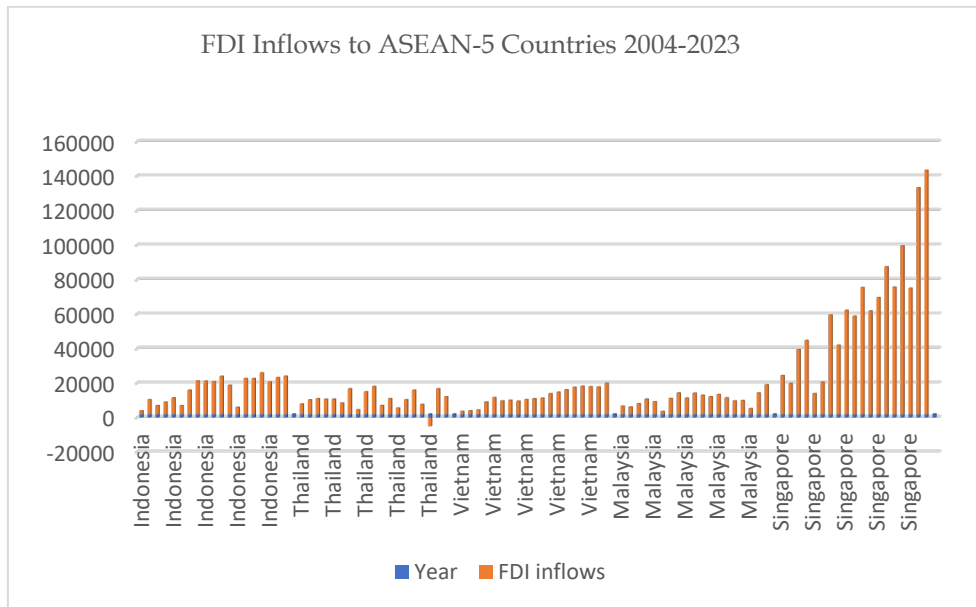


Figure 2. FDI Inflows to ASEAN-5 Countries 2004-2023
Source: UNCTAD (2023) and the author.

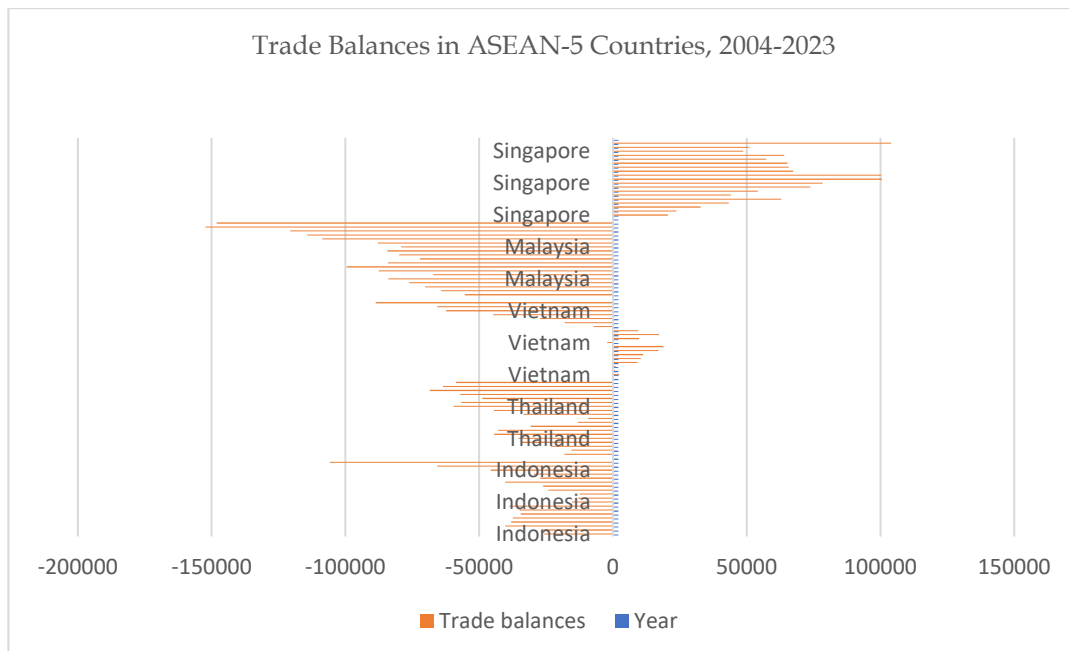


Figure 3. Trade Balances in ASEAN-5 Countries 2004-2023
Source: The World Bank (2023) and the author.

Regarding trade balance performance, as shown in Figure 3, Singapore consistently maintains a positive trade balance, serving as an exemplary model for achieving trade surpluses through efficient trade policies, strategic geographic advantages, and robust export sectors (World Bank, 2023). Vietnam exhibits greater variation, with both positive and negative trade balances, indicating potential for trade rebalancing through strategic industrial policies. This reflects a transitional economy striving to achieve more sustainable trade balances. Meanwhile, Indonesia's persistent trade deficits, similar to those of Malaysia and Thailand, highlight the need for strategic economic reforms to boost exports and manage imports effectively (Wade, 2018).

In conclusion, the descriptive analysis indicates that Indonesia's economic diplomacy performance is comparable to that of the other ASEAN-4 countries. This finding confirms that the FDI inflows and trade balances of the ASEAN-5 countries, except for Singapore, do not align with their capacities to generate FDI outflows and forming free trade agreements, as highlighted by the Lowy Institute. The next step is to continue the analysis using ordinary least squares.

Ordinary Least Squares (Regression Model)

To estimate the determinants of economic diplomacy outcomes, there are five regression models.

1. Model 1 (Baseline model) is specified in Equation 3.

$$Y_{ei} = \beta_1PSI + \beta_2RegQual + \beta_3GovEf + \beta_4BITs + \beta_5RTAs + \beta_6CPI + e \quad (3)$$

2. Model 2 (Full model) is specified in Equation 4.

$$Y_{ei} = \beta_1PSI + \beta_2RegQual + \beta_3GovEf + \beta_4BITs + \beta_5RTAs + \beta_6EaseDo + \beta_7CPI + e \quad (4)$$

3. Model 3 (Interaction: Political Stability × Government Effectiveness) is specified in Equation 5.

$$Y_{ei} = \beta_1PSI + \beta_2RegQual + \beta_3GovEf + \beta_4BITs + \beta_5RTAs + \beta_6EaseDo + \beta_7CPI + \beta_8(PSI \times GovEf) + e \quad (5)$$

4. Model 4 (Interaction: Political Stability × BITs) is specified in Equation 6.

$$Y_{ei} = \beta_1PSI + \beta_2RegQual + \beta_3GovEf + \beta_4BITs + \beta_5RTAs + \beta_6EaseDo + \beta_7CPI + \beta_8(PSI \times BITs) + e \quad (6)$$

5. Model 5 (Interaction: Political Stability × Control of Corruption) is specified in Equation 7.

$$Y_{ei} = \beta_1PSI + \beta_2RegQual + \beta_3GovEf + \beta_4BITs + \beta_5RTAs + \beta_6EaseDo + \beta_7CPI + \beta_8(PSI \times CPI) + e \quad (7)$$

Table 3. Regression Model and Interaction Terms

Economic Diplomacy Outcome Index	Model 1 Regression	Model 2 Regression	Model 3 Interaction	Model 4 Interaction	Model 5 Interaction
Political Stability	.599** (.298)	0.216 (0.265)	0.224 (0.247)	-0.291 (1.446)	0.91*** (0.323)
Regulatory Quality	1.782*** (.555)	1.08** (0.476)	0.852* (0.449)	1.069** (0.48)	0.9** (0.45)
Government Effectiveness	-2.746*** (.674)	-1.819*** (0.568)	-1.927*** (0.531)	-1.824*** (0.572)	-1.9*** (0.534)
Ease of Doing Business		0.034*** (0.009)	0.044*** (0.009)	0.037*** (0.012)	0.035*** (0.008)
Bilateral Investment Treaties	-0.011 (.018)	-0.013 (0.015)	-0.01 (0.014)	-0.013 (0.016)	-0.009 (0.015)
Regional Trade Agreements	.418*** (.116)	0.558*** (0.106)	0.22 (0.138)	0.553*** (0.108)	0.141 (0.159)
Control of Corruption	-.165 (.788)	-1.157* (0.691)	-0.641 (0.661)	-1.146 (0.695)	-0.559 (0.672)
Political Stability * Government Effectiveness		--	1.127*** (0.319)	--	--
Political Stability * Bilateral Investment Treaties		--	--	0.014 (0.038)	--
Political Stability * Control of Corruption		--	--	--	1.121*** (0.333)
Constant (_cons)	-6.144** (2.634)	-11.513*** (2.729)	-6.77** (2.878)	-11.725*** (2.807)	-4.838 (3.238)
Observations	95	85	85	85	85
R-squared	0.809	0.854	0.875	0.854	0.873

*Note: Ordinary Least Squares Regression Analysis with standard errors are in parentheses. *** $p < .01$, ** $p < .05$, * $p < .1$*

Source: Data processed by the author (2024).

Table 3 presents the regression results for models 1–5. Although the dataset has a panel structure (2004–2023), pooled OLS is employed as the baseline estimation method due to the limited number of cross-sectional units and the need to preserve variation in key institutional variables. Diagnostic tests suggest that the model reasonably satisfies the assumptions of linearity and normality. However, some degree of autocorrelation is observed, which may affect the efficiency of the estimates.

Furthermore, Table 3 presents the regression analysis and interaction models using models 1–5 to investigate the determinants of economic diplomacy outcomes among the ASEAN-5 countries. By incorporating various factors such as political stability, regulatory quality, government effectiveness, ease of doing business, bilateral investment treaties, regional trade agreements, and control of corruption as a control variable, this analysis aims to uncover the complex interactions and relative impacts of these variables. The goal is to provide a nuanced understanding of how these elements collectively influence the economic

diplomacy performance of ASEAN-5 countries. In addition to identifying key drivers of success, this research also highlights areas where targeted policy interventions could improve economic diplomacy outcomes.

Political stability is statistically significant in Model 1 at the 5% level ($p < 0.05$). However, it is not statistically significant in Model 2 (full model). This suggests that when other variables are included, political stability does not significantly affect economic diplomacy outcomes. Moreover, when political stability interacts with government effectiveness as shown in Model 3, it has a positive and significant interaction (1.127^{***} , $p < 0.01$). The result suggests that the effect of political stability on economic diplomacy outcomes is positively moderated by government effectiveness.

Bilateral investment treaties are insignificant in all models, including in the interaction terms, indicating that BITs do not have a significant impact on economic diplomacy outcomes in this context. This finding aligns with previous literature, which suggests that BITs are effective only in countries with robust governance and more stable economic conditions (Neumayer & Spess, 2005; Teo, 2021).

The regression model shows that regulatory quality, government effectiveness, ease of doing business, and regional trade agreements significantly impact the economic diplomacy outcomes of the ASEAN-5 countries. Interestingly, the coefficient on government effectiveness is negatively correlated. Substantively, this result should not be interpreted to mean that more effective government reduces the performance of economic diplomacy. A more plausible explanation is that when multiple institutional indicators are included simultaneously, government effectiveness may capture overlapping institutional variance already accounted for by regulatory quality and related governance measures (Nimon & Oswald, 2013). This finding partially aligns with previous research, which suggests that political stability and government effectiveness do not significantly impact FDI inflows in low- and middle-income countries (Saha et al., 2022). However, in the interaction term as shown in Model 3, political stability can mitigate the negative impact of government effectiveness on economic diplomacy outcomes. This suggests that stable political environments can enhance the positive aspects of government effectiveness or reduce its potential downsides. Therefore, the initially negative coefficient of government effectiveness observed in the baseline model does not imply a detrimental effect per se; rather, it reflects a conditional relationship in which its positive contribution emerges in the presence of political stability (Busse & Hefeker, 2005).

The control of corruption as a control variable in this model has a negative correlation with economic diplomacy outcomes. The finding suggests a complex relationship that may warrant further study. According to Jetin et al., (2024), in regions such as East Asia, Southeast Asia, Australia, and New Zealand, corruption has a "grabbing hand" effect, meaning it hinders FDI. So, corruption has both positive and negative effects on FDI depending on the region. However, in further analysis with interaction terms, between control of corruption and political stability in Model 5, the coefficient became positive, indicating that the combination of the two variables has a synergistic effect, significantly enhancing economic diplomacy

outcomes. This suggests that in politically stable environments, better control of corruption can amplify positive economic diplomacy outcomes.

The full model and interaction terms provide the best fit with R-squared values of 0.854 and 0.875, demonstrating a high ability to explain the variance in economic diplomacy outcomes among the ASEAN-5 countries. Overall, the findings underscore the need for a holistic strategy that integrates effective governance, high regulatory standards, strong political stability, a business-friendly environment, and active engagement in international trade agreements to improve the outcomes of economic diplomacy.

Indonesia’s Economic Diplomacy Outcomes Compared to ASEAN-4

Table 4 presents the regression analysis comparing Indonesia’s economic diplomacy outcomes with those of the ASEAN-4 countries as a group. Indonesia is used as the baseline category (base).

Table 4. Linear Regression of Indonesia Compared to ASEAN-4 as a Group

Economic Diplomacy Outcome Index	(1)
Political stability	.583* (.297)
Regulatory quality	1.157** (.462)
Government effectiveness	-1.676*** (.554)
Ease of doing business	.016 (.011)
Bilateral investment treaties	-.045** (.02)
Regional trade agreements	.514*** (.105)
Control of corruption	-1.337* (.673)
1b.base	
2.ASEAN-4	.891** (.363)
_cons	-8.773*** (2.87)
Observations	85
R-squared	.865

Standard errors are in parentheses
 *** $p < .01$, ** $p < .05$, * $p < .1$

Source: Data processed by the author (2024).

Based on the dummy variable included in the model, the coefficient for ASEAN-4 is 0.891, with a standard error of 0.363, and is statistically significant. This result indicates that Indonesia’s economic diplomacy performance is lower than that of the ASEAN-4 countries as a group. Within the framework of the variables examined in this study, these findings suggest that ASEAN-4 countries are more effective than Indonesia in translating institutional and policy factors into improved economic diplomacy outcomes. Moreover, the results highlight

that the effectiveness of economic diplomacy depends not only on the presence of policies and agreements, but also on governments' capacity to implement them consistently and strategically. In this regard, the performance gap between Indonesia and ASEAN-4 countries may reflect differences in policy coordination, institutional coherence, and the ability to align domestic reforms with international economic strategies. This finding somewhat aligns with the Lowy Institute report (Denson, 2024), which noted that Indonesia's economic diplomacy scored lower than those of the ASEAN-4, even when measured by factors such as free trade agreements and outward foreign assistance flows. Although descriptive statistics show that Indonesia's performance is comparable to or better than that of the ASEAN-4 in some areas, the regression analysis reveals underlying issues that impact its overall effectiveness relative to the ASEAN-4 countries.

Further analysis in Table 5 is the comparison between Indonesia's economic diplomacy outcomes and each of the ASEAN-4 countries using a regression model and interaction terms (models 1, 2, and 3). Indonesia is a base (1), and ASEAN-4 are Thailand (2), Vietnam (3), Malaysia (4), and Singapore (5).

Table 5. Linear Regression of Indonesia Compared to Each of the ASEAN-4 Countries

Economic Diplomacy Outcome Index	Model 1 (regression)	Model 2 (interaction)	Model 3 (interaction)
Political Stability (polsta)	-0.052 (0.313)	-0.1 (0.289)	-2.711** (1.333)
Regulatory Quality	2.157*** (0.489)	1.933*** (0.456)	2.241*** (0.48)
Government Effectiveness (govgef)	-0.678 (0.562)	-0.801 (0.52)	-0.561 (0.553)
Ease of Doing Business	0.012 (0.01)	0.023** (0.01)	0.024** (0.012)
Bilateral Investment Treaties (BITs)	-0.055*** (0.017)	-0.052*** (0.016)	-0.059*** (0.017)
Regional Trade Agreements	0.342*** (0.108)	0.029 (0.131)	0.292*** (0.109)
Control of Corruption	-1.342** (0.614)	-0.837 (0.584)	-1.313** (0.601)
Interaction: polsta * govgef	--	1.044*** (0.281)	--
Interaction: polsta * bits	--	--	0.071** (0.035)
1b.base			
2.Thailand	-0.026 (0.326)	-0.136 (0.303)	-0.009 (0.32)
3.Vietnam	2.246*** (0.512)	2.215*** (0.473)	2.534*** (0.52)
4.Malaysia	--	--	--
5.Singapore	--	--	--
Constant (_cons)	-5.565** (2.718)	-1.356 (2.757)	-5.883** (2.666)
Observations	85	85	85
R-squared	0.889	0.906	0.895

Standard errors are in parentheses. *** $p < .01$, ** $p < .05$, * $p < .1$

Source: The author.

Based on country-to-country comparisons, Indonesia's economic diplomacy performance is not significantly different from Thailand's in any model. While Vietnam significantly outperforms Indonesia in economic diplomacy. Malaysia and Singapore are not directly compared. These countries are used as omitted categories, meaning their impacts are reflected in the baseline comparison. With a high R-squared value of 0.889, the model explains about 88.9% of the variability in economic diplomacy outcomes, indicating a very good fit to the data.

This finding underscores that regulatory quality and RTAs have consistently positive and significant impacts in most models, indicating they are key drivers of economic diplomacy outcomes in these models. The significance of government effectiveness and ease of doing business varies, suggesting that their impact is not straightforward and may depend on their interaction with other variables. The positive and highly significant interaction between political stability and government effectiveness in Model 2 indicates that the effect of political stability on economic diplomacy outcomes is positively influenced by government effectiveness. Similarly, the interaction between political stability and BITs in Model 3 suggests that the negative impact of political stability or BITs on economic diplomacy outcomes is moderated.

More specifically, while BITs exhibit a negative coefficient when considered independently, the positive and significant interaction term indicates that their effectiveness improves in more politically stable environments. This suggests that political stability enhances the credibility and enforcement of investment agreements, enabling them to contribute more effectively to economic diplomacy outcomes. This finding also implies that examining Vietnam's successful strategies and contexts can help identify and adapt elements to improve economic diplomacy outcomes in Indonesia and other ASEAN countries. Consistent with the empirical evidence, the regression results show that Vietnam demonstrates significantly higher economic diplomacy performance than Indonesia across all models. This pattern indicates that Vietnam's combination of strong regulatory quality and effective utilization of trade agreements plays a critical role in generating superior outcomes. Overall, this finding underscores the importance of aligning domestic institutional reforms with external economic engagement strategies to enhance economic diplomacy performance.

Conclusions

The results of the regression and interaction terms offer valuable insights into the factors influencing economic diplomacy outcomes among the ASEAN-5 countries. Key findings indicate a positive association between higher regulatory quality and improved economic diplomacy outcomes. Furthermore, a more favorable business environment and an increase in regional trade agreements are strongly associated with better economic diplomacy outcomes. However, political stability seems to have a less significant impact when considered alongside other variables. The negative coefficient of government effectiveness on economic diplomacy outcomes can be mitigated by the interaction with political stability.

Similarly, in politically stable environments, improved control of corruption can amplify positive outcomes in economic diplomacy.

However, bilateral investment treaties are found to be insignificant across all models, suggesting that they do not significantly affect the outcomes of economic diplomacy in this context. This finding is confirmed by prior research, which suggests that BITs are most effective in countries characterized by strong governance and stable economic environments. Policymakers should adopt a comprehensive approach that balances different aspects of governance and economic diplomacy efforts to achieve optimal results. Overall, the findings support the main hypothesis that increased economic diplomacy efforts lead to better economic diplomacy outcomes. The findings suggest that success in economic diplomacy depends on the effective management of both domestic and international factors. As articulated in Putnam's two-level game framework, outcomes in economic diplomacy are shaped by the interaction between domestic institutional constraints and international negotiations. Consequently, effective economic diplomacy requires not only active external engagement but also robust domestic institutions capable of supporting, negotiating, and implementing international commitments.

The statistical results show that Indonesia's economic diplomacy performance is lower compared to the ASEAN-4 countries as a collective group. However, when evaluated on a country-by-country basis, Indonesia's economic diplomacy is comparable to that of Thailand. It is important to note that Singapore and Malaysia are not directly compared in this analysis. Notably, Vietnam outperforms Indonesia, suggesting that Indonesia and other ASEAN countries could benefit from examining and adapting elements of Vietnam's successful strategies to improve their economic diplomacy outcomes. Moreover, based on the findings, which underscore the critical role of institutional quality and international integration in enhancing economic diplomacy outcomes, several policy implications emerge for Indonesia. Prioritizing improvements in regulatory quality and simplifying administrative procedures will strengthen investor confidence and reduce transaction costs.

Additionally, deeper participation in high-quality regional and global trade agreements is essential for expanding market access and facilitating integration into global value chains. Institutional reforms should also focus on strengthening policy implementation and improving coordination across government agencies to ensure that economic diplomacy efforts yield measurable results. Finally, Indonesia should adopt a more strategic and targeted approach to economic diplomacy by aligning domestic reforms with external engagement strategies, while drawing lessons from higher-performing ASEAN countries such as Singapore and Vietnam.

This research acknowledges a methodological limitation in the inclusion of three governance variables (political stability, government effectiveness, and regulatory quality), which exhibit multicollinearity as indicated by VIF diagnostics. This result is anticipated, given that governance indicators exhibit conceptual redundancies and demonstrate statistical correlation. From an econometric perspective, multicollinearity does not bias coefficient estimates but reduces their efficiency by inflating standard errors, thereby limiting statistical

precision. Despite this, the variables are retained due to their strong theoretical and empirical relevance. Excluding these variables solely due to multicollinearity risks omitted variable bias and model misspecification. Accordingly, this study prioritizes theoretical consistency while transparently acknowledging this limitation.

Future research may address this issue by expanding the dataset to include a broader range of countries and longer time periods, which would enhance external validity, while incorporating additional institutional and policy-related variables could reduce omitted variable bias. Moreover, future studies could adopt qualitative analyses, such as bilateral case studies, to provide deeper insights into policy implementation processes and institutional dynamics that are not fully captured by quantitative models.

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