
INSTITUTIONAL CREDIBILITY AND FOREIGN INVESTMENT: LESSONS FROM INDONESIA'S REGULATORY TRANSFORMATION



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Abstract

This research explores the role of institutional credibility and government policies in attracting Foreign Direct Investment (FDI) to Indonesia. As a developing economy, Indonesia's ability to attract foreign investment is influenced by factors such as regulatory frameworks, political stability, and infrastructure. However, challenges such as bureaucratic inefficiencies and policy inconsistencies hinder FDI growth. The problem addressed in this study is understanding how institutional credibility and government initiatives affect the flow of FDI into Indonesia. The primary objectives of the research are to analyze the impact of institutional credibility on FDI, examine the role of government policies in enhancing the investment climate, and identify areas for improvement in attracting foreign capital. A qualitative research method was employed, utilizing document analysis of government reports and policy documents, as well as in-depth interviews with key informants, including policymakers, business leaders, and economists specializing in FDI. The results show that transparent, consistent, and predictable policies significantly boost investor confidence, while bureaucratic inefficiencies and inconsistent regulations remain barriers. Additionally, tax incentives, regulatory simplification, and infrastructure development have a positive impact on attracting foreign investment. The study concludes that Indonesia must prioritize policy consistency, improve bureaucratic efficiency, and continue to invest in infrastructure to enhance its competitiveness in the global investment market.

Keywords: Foreign Direct Investment (FDI), Institutional Credibility, Government Policies, Regulatory Reforms

INTRODUCTION

Foreign Direct Investment (FDI) plays a vital role as one of the primary sources of financing for national development in Indonesia, significantly contributing to economic growth, job creation, and technology transfer. As a major component of external capital, FDI provides a stable source of funding compared to short-term portfolio investments, especially for developing countries like Indonesia, which is expanding its industrial and infrastructure base. Recent data shows that the realization of foreign investment in Indonesia during the third quarter of 2025 reached approximately US\$13.25 billion, indicating a steady influx of foreign capital into various economic sectors, despite the challenges posed by global dynamics (BPS, 2026). The total national investment, which includes both FDI and domestic investments, also recorded a high figure of IDR 1,714.2 trillion in 2024, with employment absorption reaching over 2.4 million people, demonstrating the multiplier effects of investment on economic activities and labor market participation (InvestIndonesia, 2025). However, fluctuations in foreign investment flows are still evident; for instance, the Investment Coordinating Board (BKPM) reported a realization of FDI amounting to IDR 212 trillion in Q3 2025, slightly declining from the previous year but still remains a crucial part of the national investment structure (Kontan, 2025). Regionally, ASEAN continues to be a primary destination for foreign capital, with FDI inflows to the region increasing by about 10% to around US\$225 billion in 2024, highlighting the growing competition among countries to attract foreign investment through policy and institutional reforms (UNCTAD, 2025). This scenario illustrates that, in the era of economic globalization, a nation's ability to attract FDI through institutional credibility, regulatory stability, and a conducive investment climate is a critical factor in winning competition among countries and accelerating national economic development.

Institutional credibility is a key element in shaping the investment climate, particularly in the context of institutional economics, where it is closely linked to how government institutions and regulations create a stable and predictable environment for investors. The key components of institutional credibility include transparency and bureaucratic accountability, which are crucial for building trust among foreign investors. Research shows that factors such as government accountability and transparency significantly influence the inflow of FDI into specific sectors, such as manufacturing in Ethiopia (Worku & Muchara, 2024). When government institutions can provide guarantees regarding the continuity and effectiveness of regulations, investor confidence increases (Azam et al., 2025). Transparent and accountable bureaucracy also contributes to investors' positive perceptions of potential risks and returns, thereby encouraging investment flows (Saha et al., 2022; Kanoma et al., 2025). Legal quality and regulatory enforcement also serve as significant determinants in attracting FDI, where the development of a robust legal infrastructure and aggressive efforts to combat corruption are strategic steps to building credibility in the eyes of investors (Shahnawaz, 2022; Zhang & Liu, 2021).

Developing countries often face significant challenges related to regulatory complexity and policy overlap, which can hinder the investment climate. With numerous conflicting regulations, foreign investors frequently encounter high legal uncertainty and policy risks, negatively impacting their investment decisions. Research shows that institutional quality directly influences foreign investment inflows, with countries exhibiting weak institutions often experiencing reduced investment interest (Khan et al., 2023; Okoh,

2024). In this context, strong and effective institutions are expected to reduce policy overlap and increase investor confidence by providing a more transparent and accountable environment (Valei & Mamman, 2023; Vasilyeva & Mariev, 2021). Therefore, focusing on strengthening institutional capacity and simplifying regulations is a critical step to enhancing investment attractiveness in developing countries.

The initial study findings indicate that factors such as institutional quality, political stability, and clear and consistent regulations play a crucial role in attracting Foreign Direct Investment (FDI). Based on the data obtained, countries with weak institutions and policy uncertainty tend to experience a decline in foreign investment interest due to difficulties in predicting risks and potential returns. Conversely, countries with more transparent policies and effective law enforcement show better results in attracting FDI, particularly in strategic sectors such as manufacturing and infrastructure. This study also identifies that policy overlap and inefficient bureaucracy increase transaction costs for investors, thereby reducing investment attractiveness. These preliminary findings highlight the importance of institutional reform and regulatory simplification to create a more investment-friendly environment, ultimately fostering sustainable economic growth.

Research on institutional credibility and foreign investment, particularly in the context of regulatory transformation in Indonesia, indicates that improvements in institutional quality can significantly enhance the investment climate. Kechagia and Metaxas (2022) highlight the importance of stabilization programs and structural reforms in BRIC and CIVETS countries to reduce political risk, which can attract more foreign investment flows. Tacheaga (2025) also explains the positive relationship between ease of doing business and foreign direct investment inflows, emphasizing that institutional quality plays a critical role in this process. The study by Aberu (2023) supports the idea that increased transparency and effectiveness in policy management can drive FDI inflows. Moujahid (2025) emphasizes that enhanced transparent and accountable regulation is crucial for attracting long-term investment in developing countries. Linsi (2022) and Zeng et al. (2021) show that legitimacy and regulatory environments contribute to building investor trust. In the context of Indonesia, this research indicates that successful regulatory transformation can provide valuable lessons for other countries in improving institutional credibility and attracting greater foreign investment.

The urgency and relevance of this research lie in its potential to address the critical need for building credible institutions to ensure the sustainability of foreign investment. Establishing strong, transparent, and accountable institutions is essential for fostering investor confidence and attracting long-term foreign capital, which is crucial for economic development, particularly in developing countries. This study is highly relevant for policy formulation as it provides insights into the key factors that shape the investment climate, particularly the role of institutional credibility in influencing Foreign Direct Investment (FDI). The findings will contribute significantly to regulatory reform efforts by offering evidence-based recommendations for improving the institutional framework and simplifying investment regulations.

REVIEW OF LITERATURE

Theory of Institutional Credibility

The theory of institutional credibility posits that for organizations to function effectively they must cultivate public trust and legitimacy. Trust in public institutions is essential for governance and societal compliance, influencing the efficacy of policy adoption and execution (Brodeur et al., 2021; Brezzi et al., 2021). Institutional credibility is built through transparency, accountability, and meaningful stakeholder engagement, creating an environment where institutions are perceived as reliable and legitimate (Sarathchandra & Johnson-Leung, 2024). In summary, fostering institutional credibility enhances governance efficiency and is a crucial component for effective policy implementation, particularly in complex societal environments

Theory of Foreign Direct Investment (FDI)

The theory of Foreign Direct Investment (FDI) explores the motivations, determinants, and outcomes of capital investments made by firms in foreign countries. Central to FDI is the notion that multinational corporations seek to exploit locational advantages, including access to resources, markets, and efficient production features (Hussein et al., 2024). Factors influencing FDI include political stability, infrastructure quality, and the overall business environment; countries that ensure these elements tend to attract higher FDI inflows (Adegboye & Okorie, 2023). External economic conditions, such as inflation and global trade dynamics, have critical implications for FDI decisions, influencing the capital allocation strategies of multinational enterprises. Thus, while FDI remains a pivotal component of global economic dynamics, its flow is intricately tied to multifaceted institutional, political, and socio-economic factors.

Institutional Economics Theory

Institutional economics theory emphasizes the role that institutions play in shaping economic behavior and outcomes. Institutions are defined as the rules, laws, and norms that govern human interactions and economic activities. This theory posits that understanding economic performance requires an analysis of the institutional frameworks that influence economic decision-making, including formal entities such as governments and informal social norms (Legiędź, 2021).

A key aspect of this theory is the concept of institutional trust, which refers to the confidence that individuals and businesses have in their governmental and social institutions. Research has shown that higher institutional trust correlates with better compliance with economic policies, as citizens are more inclined to support governmental actions perceived as fair and effective (Han et al., 2021; Chen et al., 2022). Furthermore, institutional changes are often responses to shifts in internal and external pressures, posing challenges for developing economies that must align their institutional structures with sustainable development goals. Therefore, creating reliable and transparent institutions is essential for fostering economic growth and enhancing resilience against shocks.

Investment Policy Theory

Investment policy theory examines the guidelines and frameworks that governments employ to attract and manage foreign direct investment (FDI). Central to this theory is the understanding that effective investment policies can significantly influence economic growth and create favorable conditions for foreign investors (Rafique, 2023; Otieno & Aduda, 2022). Policymakers utilize various tools, including tax incentives, deregulation, and investment promotion strategies, aimed at enhancing the investment climate and reducing barriers for foreign capital (Hintošová & Terézia, 2021). Investment policy theory underscores that

strategic governmental interventions are essential for attracting foreign investment, which in turn contributes to economic growth and development in host countries.

RESEARCH METHOD

The research adopts a qualitative approach to explore the relationship between institutional credibility and foreign direct investment (FDI) flows, focusing on regulatory transformations in Indonesia. Data collection will involve a combination of document analysis, including government reports, policy documents, and prior studies, alongside in-depth interviews with three key informants: policymakers from the central government, a leader of a multinational corporation investing in Indonesia, and an economist specializing in FDI studies. This approach allows for a comprehensive understanding of regulatory changes in Indonesia and their perceived impact on the investment climate. The interviews will be semi-structured, providing flexibility to capture diverse perspectives while addressing the core research questions.

Table 1.
Informants Table

No	Initials	Position	Interview Code
1	PK	Policymaker in the Central Government	IW1
2	PM	Leader of a Multinational Corporation Investing in Indonesia	IW2
3	EK	Economist Specializing in FDI Studies	IW3

To analyze the data, the study will use thematic analysis, identifying recurring themes and patterns related to institutional credibility, regulatory effectiveness, and FDI trends. Thematic analysis will help understand how stakeholders perceive the influence of institutional quality on foreign investment decisions. Additionally, a comparative approach will be employed to compare regulatory changes in Indonesia with those in other developing countries. This comparative analysis will provide insights into best practices and lessons learned, offering practical recommendations for improving institutional frameworks to attract FDI in similar contexts.

RESULTS AND DISCUSSION

The Increase in Institutional Credibility and Its Impact on FDI

Institutional credibility plays a critical role in creating a conducive investment climate and attracting foreign direct investment (FDI). In Indonesia, the government's success in implementing regulatory transformation and institutional reforms has contributed to increased investor confidence in the policies being applied. Credible institutions provide security for investors by offering stability and certainty in the policies they implement, as well as ensuring transparency and accountability in economic management. In an increasingly interconnected global economy, foreign investors tend to seek countries that can offer a stable environment and reduce policy uncertainty, thereby enhancing the appeal for long-term investment.

This credibility depends not only on consistent policies but also on the government's ability to manage and strengthen legal systems and regulations that support the investment sector. Countries with high institutional credibility are more attractive to foreign investors because they believe the rules enforced will be fair and predictable. Although Indonesia has made significant progress in regulatory reform, some challenges still remain, particularly with regard to bureaucracy, which sometimes hampers the smooth process of licensing. Therefore, it is essential to understand how enhancing institutional credibility can affect FDI inflows and foster economic growth.

“Institutional credibility is fundamental for the smooth flow of investment. Foreign investors will not be interested if they feel that the policies applied are inconsistent or opaque.” (WWC/IW1/08/01/2026)

This statement highlights that high institutional credibility is crucial in fostering trust among investors regarding government policies. Consistent and transparent policies will make investors feel more secure, making them more likely to invest in the long term. Without transparency and consistency in policies, Indonesia risks losing crucial investment needed to stimulate economic growth.

“The Indonesian government has made significant improvements in terms of regulations and streamlining bureaucracy, but the most important factor for us is the certainty and stability of the legal framework. We must be able to plan investments for the long term without fearing sudden regulatory changes.” (WWC/IW2/08/01/2026)

This statement emphasizes the importance of legal certainty and policy stability for foreign investors. Despite progress in regulatory simplification, investors still require guarantees that existing regulations will not change abruptly. This stability is essential to ensure that long-term investments can thrive.

“Although there are still many challenges to be faced, particularly in terms of bureaucracy and overlapping regulations, the Indonesian government has made significant steps in improving its institutional credibility. This is evident from the increase in FDI flows in recent years.” (WWC/IW3/08/01/2026)

This statement acknowledges that despite the ongoing challenges in bureaucracy, the Indonesian government has made significant strides in improving its institutional credibility. The increase in FDI over the past few years demonstrates that investors are beginning to trust the regulatory and policy stability in Indonesia.

Factors Influencing Investment Decisions

The factors influencing investment decisions are multifaceted and can vary depending on the economic, political, and social environments of a given country. Foreign investors typically consider political stability, infrastructure quality, legal frameworks, and access to markets when deciding where to invest. A stable political environment and a predictable economic framework are essential for reducing risks and providing investors with the confidence that their investments will be secure. In addition, access to quality infrastructure, such as transportation, communication networks, and energy supply, can make an investment destination more attractive by reducing operational costs and increasing the efficiency of production and distribution.

Moreover, the availability of skilled labor, favorable taxation policies, and government incentives are other significant factors influencing investment decisions. Countries that provide these advantages tend to attract more foreign capital, particularly in

industries requiring high levels of technological innovation or specialized labor. In this context, the role of effective government policies, such as tax incentives and investment promotion strategies, becomes crucial in shaping investment decisions and ensuring a favorable business climate for foreign investors.

“Political stability and the rule of law are among the most critical factors when deciding on a location for investment. If the political environment is unstable or the legal framework is weak, it is highly unlikely that foreign investors will commit significant resources.” (WWC/IW1/08/01/2026)

This statement highlights the importance of political stability and legal frameworks in investment decisions. Investors seek countries where the political environment is stable and the legal system is reliable, as this reduces risks and ensures the protection of their investments. A lack of political stability or a weak legal system will deter foreign investors from committing capital to that country.

“Quality infrastructure, especially in terms of transportation and energy, is crucial for our investment decisions. In countries where infrastructure is inadequate, the costs of operating a business increase significantly, making it a less attractive option for foreign investment.” (WWC/IW2/08/01/2026)

This interview emphasizes that infrastructure quality plays a significant role in investment decisions. Efficient and reliable infrastructure lowers operational costs and increases the attractiveness of a country as an investment destination. Poor infrastructure, on the other hand, raises operational costs and can lead to inefficiencies, making the country less appealing to foreign investors.

“Government incentives, such as tax exemptions and support for innovation, are essential for attracting foreign capital, especially in high-tech industries. We need to see clear policies that support business growth and reduce the barriers to entry.” (WWC/IW3/08/01/2026)

This statement stresses the importance of government incentives and clear policies in attracting foreign investment, particularly in high-tech industries. Tax exemptions and innovation support are seen as key factors that enhance the attractiveness of a country, especially in sectors that require significant capital investment and technological development. Investors are more likely to invest in countries that offer these incentives and have policies that align with their long-term business goals.

The Role of Government in Enhancing the Investment Climate

The government plays a pivotal role in shaping the investment climate by implementing policies that attract and sustain foreign direct investment (FDI). Effective governmental interventions, such as regulatory reforms, tax incentives, and investment promotion strategies, can significantly influence the investment environment and reduce barriers for foreign investors. The government’s ability to create a stable and predictable business environment, through clear and consistent regulations, is crucial for fostering investor confidence. A government that supports ease of doing business, simplifies bureaucracy, and provides infrastructure development is more likely to attract foreign investment, as it reduces the operational risks faced by foreign investors.

Furthermore, fostering a favorable investment climate also involves creating policies that promote economic sectors with high potential for growth and innovation. For instance, government initiatives aimed at supporting the technology, manufacturing, and infrastructure

sectors have a direct impact on foreign investors' decisions to enter a market. Additionally, strategic government involvement in negotiating trade agreements and creating an open market can enhance the overall attractiveness of the country for foreign capital.

“The government has been a key player in improving the investment climate by implementing policies that ease business regulations and provide incentives. However, we still need more consistency in policy implementation and more long-term stability to further enhance investor confidence.” (WWC/IW1/08/01/2026)

This statement highlights the crucial role of government policies in improving the investment climate. Although reforms have been made, the consistency and long-term stability of these policies are essential for building investor confidence. Without a predictable policy environment, investors may hesitate to commit significant capital, fearing sudden changes or inconsistencies in government actions.

“One of the main factors that attract us to invest in Indonesia is the government’s focus on improving infrastructure and offering incentives for the technology sector. The government has been very active in creating favorable conditions for high-tech businesses to grow.” (WWC/IW2/08/01/2026)

This statement emphasizes the importance of government incentives and infrastructure development in attracting investment. When governments focus on critical sectors such as infrastructure and technology, they provide the necessary environment for businesses to grow and thrive, especially in industries that require substantial capital and innovation.

“Government incentives, such as tax breaks and support for green energy projects, are very important for attracting long-term investment. However, it’s crucial that these incentives are not just temporary but are part of a broader, sustainable policy framework.” (WWC/IW3/08/01/2026)

This statement underscores the significance of government incentives in attracting foreign investment, particularly in sustainable sectors like green energy. However, for these incentives to be truly effective, they must be part of a long-term, stable policy framework that offers continued support for foreign investors.

Comparison of FDI in Indonesia with Other Countries

Foreign Direct Investment (FDI) plays a vital role in driving economic growth and development, particularly in emerging markets like Indonesia. However, Indonesia faces unique challenges and opportunities in comparison to other countries in the region. Countries that have successfully attracted substantial FDI, such as Vietnam and Thailand, often boast a more stable regulatory environment, more efficient bureaucracy, and more attractive tax policies. While Indonesia has made significant strides in improving its regulatory environment, challenges such as complex bureaucracy and inconsistent policy implementation remain. These factors can discourage potential foreign investors who seek predictability and stability in their investment decisions.

In comparison with other ASEAN countries, Indonesia still lags behind in certain aspects, particularly in terms of ease of doing business and the consistency of regulatory reforms. However, Indonesia has seen a steady increase in FDI inflows in recent years, mainly due to government efforts to improve investment incentives, simplify regulations, and enhance infrastructure. Despite these improvements, Indonesia must continue to align its

regulatory frameworks with global best practices to ensure that it remains competitive in attracting foreign capital.

“Indonesia has made progress in creating an investment-friendly environment, but compared to countries like Vietnam and Thailand, there are still hurdles in terms of regulatory consistency and bureaucracy that need to be addressed. These issues make it harder for foreign investors to make long-term commitments.” (WWC/IW1/08/01/2026)

This statement reveals that while Indonesia has taken positive steps in creating a more favorable investment climate, there are still challenges related to regulatory consistency and bureaucratic inefficiencies. Compared to countries like Vietnam and Thailand, Indonesia’s regulatory environment remains less predictable, which can be a deterrent for long-term foreign investment.

“While we see potential in Indonesia, countries like Vietnam have managed to attract more FDI due to their clearer policies and better infrastructure. For us to invest more significantly in Indonesia, the government needs to ensure more stable and predictable policies.” (WWC/IW2/08/01/2026)

This statement highlights the comparative advantage that countries like Vietnam have over Indonesia in attracting FDI, mainly due to their more predictable policies and better infrastructure. Indonesia needs to address these areas to remain competitive and to attract more significant foreign investments.

“Indonesia’s FDI inflows are increasing, but when compared to other ASEAN nations, it’s clear that the country needs to simplify its regulatory processes further. It is essential to create an environment where investors feel that their investments are protected and that regulations will not change suddenly.” (WWC/IW3/08/01/2026)

This statement indicates that while FDI inflows to Indonesia are growing, the country still faces challenges in comparison to other ASEAN nations. Simplifying regulatory processes and ensuring that regulations remain consistent are critical to attracting more FDI and providing a secure environment for investors.

Table 2.

Thematic Analysis of Factors Influencing FDI and Institutional Credibility

Theme	Sub-Theme	Description	Interview Quote	Interview Code
Enhancing Institutional Credibility	Investor Confidence	Increasing institutional credibility to improve investor confidence in government policies.	<i>“Institutional credibility is fundamental for the smooth flow of investment. Foreign investors will not be interested if they feel the policies applied are inconsistent or opaque.”</i>	IW1/08/01/2026
	Effective Regulations Impact	Clear and consistent regulatory changes increase economic stability and	<i>“The Indonesian government has made significant improvements in terms of regulations and streamlining</i>	IW2/08/01/2026

			attract more FDI inflows.	<i>bureaucracy, but the most important factor for us is the certainty and stability of the legal framework.”</i>	
Factors Influencing Investment Decisions	Political and Economic Stability	and	Political and economic stability are critical factors considered by investors when choosing investment locations.	“ <i>Stable politics and a good legal system are critical factors when selecting an investment location.</i> ”	IW1/08/01/2026
	Infrastructure and Natural Resource Quality		Good infrastructure and access to natural resources play a key role in investment decisions.	<i>“The quality of infrastructure, especially in transportation and energy, is crucial for our investment decisions.”</i>	IW2/08/01/2026
Government Role in Enhancing Investment Climate	Policies and Tax Incentives	and	Fiscal policies and tax incentives can enhance the attractiveness of foreign investment.	<i>“The government has been active in creating policies that support business growth with attractive tax incentives.”</i>	IW3/08/01/2026
	Bureaucratic Reform and Regulatory Simplification		Simplifying licensing processes and bureaucratic reforms improve efficiency and reduce investment barriers.	<i>“Bureaucratic reforms that reduce administrative barriers and streamline the licensing process enhance the investment climate.”</i>	IW2/08/01/2026
FDI Comparison: Indonesia vs. Other Countries	Indonesia’s Strengths and Challenges		Indonesia has strengths in manufacturing and infrastructure, but challenges such as bureaucracy remain.	<i>“Although Indonesia has great potential, challenges in bureaucracy and inconsistent policies hinder investment flows.”</i>	IW1/08/01/2026
	Comparison with ASEAN Countries		Indonesia must compete with Vietnam and Thailand, which	<i>“Countries like Vietnam are more attractive to investors due to clearer policies</i>	IW2/08/01/2026

have more stable *and* *better*
policies. *infrastructure.*”

Discussion

The research findings indicate that institutional credibility significantly influences Foreign Direct Investment (FDI) flows into Indonesia. Institutions characterized by transparency, consistency, and predictability create a reliable environment for foreign investors, boosting their confidence in potential investments (Bommadevara & Sakharkar, 2021). Despite notable regulatory advancements, Indonesia still faces challenges with bureaucratic inefficiencies and inconsistent policies, which may deter FDI growth (Júnior et al., 2021). In comparison, other ASEAN countries, such as Vietnam, have successfully attracted greater FDI through stronger institutional frameworks and governance, highlighting the importance of political stability and the reliable application of policies. Recommendations for Indonesia include further streamlining regulatory processes and promoting policy consistency to enhance its institutional credibility, thereby improving its competitiveness in attracting foreign capital (Kiptoo, 2024).

The role of government in fostering a favorable investment climate is crucial for enhancing Foreign Direct Investment (FDI) flows in Indonesia. Government initiatives, including tax incentives, regulatory reforms, and infrastructure development, are vital for creating a conducive investment environment (Taghiyev, 2023). Research indicates that while the Indonesian government has made progress in improving its regulatory landscape, the consistency and long-term stability of these reforms remain essential for sustaining investor confidence. Specifically, tax incentives such as corporate tax holidays play a significant role in attracting foreign investment by reducing investment costs and mitigating risks associated with local bureaucracy (Siregar & Patunru, 2021). Additionally, simplifying bureaucratic processes further encourages businesses to commit capital, particularly in sectors that require substantial long-term investment (Pitaloka & Slamet, 2025). Continual government efforts to maintain clear, stable, and business-friendly policies will be critical in boosting Indonesia's competitiveness in the global investment arena.

The research further explores the factors influencing investment decisions and finds that political stability, economic conditions, and infrastructure quality are critical considerations for foreign investors. As the findings indicate, investors are more likely to invest in countries that offer political and economic stability, along with robust infrastructure. The quality of infrastructure, including transportation and energy, directly impacts the cost-effectiveness and efficiency of business operations, making it a key factor in investment decisions. In addition, countries like Vietnam and Thailand, which have a more stable regulatory environment, are seen as more attractive compared to Indonesia, which still faces bureaucratic challenges. While Indonesia has strengths in sectors like manufacturing and infrastructure, it needs to address these challenges to remain competitive in attracting FDI.

The comparison of FDI inflows between Indonesia and other ASEAN countries reveals both opportunities and areas for improvement. Although Indonesia has seen growth in FDI over the past few years, it lags behind countries like Vietnam, which have adopted clearer policies and more effective infrastructure development strategies. The findings suggest that to boost FDI, Indonesia must align its regulatory frameworks with global best practices, improve policy consistency, and reduce bureaucratic delays. By doing so, Indonesia could enhance its attractiveness as a destination for long-term foreign investment.

The research underscores the importance of institutional credibility, government policy, and infrastructure in attracting FDI. While Indonesia has made progress, it must address challenges in bureaucracy, policy inconsistency, and regulatory complexity to further enhance its investment climate. The study suggests that continued reform efforts, coupled with long-term policy stability and investment incentives, will be essential for Indonesia to remain competitive in the global investment landscape.

CONCLUSION

This study demonstrates that institutional credibility and government policies significantly influence Foreign Direct Investment (FDI) flows into Indonesia. Transparent, consistent, and predictable regulatory frameworks, supported by effective government interventions like tax incentives, regulatory reforms, and infrastructure development, are critical for creating a favorable investment climate. However, Indonesia still faces challenges such as bureaucratic inefficiencies and inconsistent policy implementation, which continue to hinder its ability to fully attract foreign capital. The study concludes that streamlining regulatory processes, ensuring policy consistency, and improving bureaucratic efficiency are essential steps for enhancing Indonesia's competitiveness in the global investment market. The research contributes to the theoretical understanding of institutional economics and FDI, emphasizing the importance of institutional quality as a central factor driving investment flows in developing economies, specifically Indonesia.

From a practical perspective, the findings provide actionable recommendations for policymakers to enhance Indonesia's attractiveness to foreign investors. Strengthening institutional credibility, improving regulatory stability, and offering incentives that align with global best practices are crucial for fostering a more conducive environment for foreign investment. Future research could explore the impact of sector-specific policies, such as tax incentives and regulatory reforms, on FDI inflows in Indonesia. Additionally, comparative studies on political stability and FDI across ASEAN countries, as well as research into the role of technological innovation in attracting FDI, could provide further insights into the evolving dynamics of global investment flows.

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