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Soft Power through Steel and Strategy: Toyota's Role in Indonesia–Japan Economic Diplomacy

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Abstract: In an era of global economic interdependence, multinational corporations (MNCs) have become key players not only in investment and trade but also in shaping foreign policy and diplomatic relations. This article analyzes how Toyota Motor Corporation, a leading Japanese MNC, functions as a non-state actor in Indonesia's foreign policy strategy, particularly within the framework of economic diplomacy.
Purpose: This study investigates the strategic role of MNCs—focusing on Toyota—in influencing Indonesia's foreign policy. It explores how Toyota contributes to bilateral relations, industrial policy, and Japan's soft power strategy in Southeast Asia.
Design/Methodology/Approach: The research adopts a qualitative, library-based method, drawing on academic literature, policy reports, and official documents. It builds a conceptual framework that connects corporate diplomacy with international political bargaining and national development.
Findings: Toyota serves a dual function: as a major foreign investor and as a non-state diplomatic actor. Its activities—such as implementing the Domestic Component Level

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(TKDN) policy, enabling technology transfers, expanding exports, and facilitating workforce training—reinforce Indonesia's industrial development while advancing Japan's economic and geopolitical interests. The relationship between Toyota and the Indonesian state is reciprocal and strategic, involving continuous political and economic negotiations. However, the study also notes existing structural challenges, including unequal knowledge transfer and limited technological autonomy for domestic partners.

Originality/value: This article offers a fresh lens by positioning MNCs as active agents in diplomacy and foreign policy. It bridges the gap between corporate international activity and traditional diplomatic studies, contributing to a deeper understanding of non-state actors in Global South foreign policy formation—particularly in the underexplored Indonesia–Japan context.

Keywords: toyota; economic diplomacy; international relations; foreign policy; indonesia–japan

Paper Type: Research-Article

Introduction

This essay aims to examine how the presence of multinational companies—with a case study of Toyota—has influenced the practice of traditional diplomacy in Indonesian foreign policy. Conventionally, foreign diplomacy is carried out formally by the government through intergovernmental interactions. However, in the era of economic globalization, Multinational companies are no longer just economic actors, but also actors who indirectly (and sometimes directly) shape the orientation and foreign policy strategies of the countries in which they operate.

Through an economic diplomacy approach, companies like Toyota become part of the contemporary diplomatic architecture. Large investments, involvement in exports, and relations which is closely linked to the domestic government and its country of origin makes Toyota's role important in the dynamics of bilateral relations between Indonesia and Japan. Dengan demikian, esai ini akan menelusuri bagaimana Toyota—as a representation of non-state actors—contributes to shaping Indonesia's foreign diplomacy practices to be more open, flexible, and economically oriented, while also offering critical reflection on the shifting meanings and actors of diplomacy itself (Dewanta and Arfani 2018).

In the era of globalization which is increasingly uniting various countries, Multinational companies are now not only focused on economic profits. They also play a role in international relations. Indonesia, as a country that is expanding its economic reach to the global level, is increasingly relying on economic diplomacy to establish cooperation with other countries. In this situation, the role of companies like Toyota becomes very interesting to study because they not only bring investment, but also become part of the country's diplomatic strategy.

Multinational corporations (MNCs) have a strategic role in driving the growth of the economic sector in Indonesia. In the context of globalization and increasing foreign direct investment (FDI), the presence of MNCs has opened up great opportunities for Indonesia in improving trade performance, creating jobs, and strengthening the country's foreign exchange contribution. According to Nurfatmala et al., "the role of Multinational Companies can provide adequate opportunities for Indonesia to develop the country's economic sector through Indonesia's foreign exchange contributions" (Fitriah et al. 2023, 278). This study confirms that MNCs contribute to national productivity, especially in the manufacturing and export sectors, because they generally have higher total factor productivity (TFP) than domestic firms. They also act as a bridge in technology transfer through job training and the use of more efficient production systems, although "technology transfer has occurred primarily through on-the-job training and has been limited to basic technological capabilities" (Fitriah et al. 2023, 285). On the other hand, Indonesia, which is rich in natural resources, remains a major target for global investment, despite facing obstacles such as "low capacity to absorb labor and unskilled labor, poor infrastructure, poor institutional quality, low standards, and rampant issues of corruption and ambiguous policies" (Fitriah et al. 2023, 279).

However, the presence of MNCs does not always bring positive impacts. One of the main challenges is the structural dependence on the company's country of origin. As exemplified in the journal, "main components must be purchased or supplied from the original factory/parent company," such as PT Astra International and PT Boma-Visma Indra, which still import machines and spare parts from abroad. This weakens the potential for strengthening domestic industry and creates ongoing dependency. In addition, multinational companies are also often accused of carrying out transfer pricing practices to avoid regional taxes, as well as pursuing profits without paying attention to environmental aspects and worker welfare. "Multinational companies have caused several major problems for the Indonesian economy, such as declining domestic investment and the business world due to their oligopolistic nature," wrote the author (Fitriah et al. 2023, 286). It is also not uncommon to find collusion between MNCs and certain government officials, "creating an unreasonable conspiracy between opportunistic politicians and bureaucrats with foreign companies." "Therefore, despite its large contribution, the Indonesian government needs to implement fair and firm policies, including increasing human resource capacity, protecting domestic industries, and implementing CSR consistently to "provide a measure of limits related to the exploitation carried out" (Fitriah et al. 2023, 287). With the right policy approach, MNCs can become national development partners that are not only oriented towards profit, but also towards inclusive and sustainable economic progress.

This phenomenon is increasingly evident in the context of Indonesia–Japan relations. A study by Natsuda, Otsuka, & Thoburn (2015) shows that Toyota's presence in Indonesia not only drives the growth of the national automotive industry but also strengthens Indonesia's position as a regional export production base in global value chains. This reflects how multinational companies can be part of a country's strategy in building a strategic position in the international market through economic diplomacy. Toyota, through its subsidiary PT Toyota Motor Manufacturing Indonesia (TMMIN), has formed a network that not only impacts the domestic economy but also has a geopolitical dimension in Indonesia–Japan bilateral relations (Natsuda, Otsuka, and Thoburn 2015).

Furthermore, Irawati & Charles (2010) in the International Journal of Automotive Technology and Management emphasized that Japanese companies such as Toyota have become part of the automotive cluster in Indonesia which is integrated with state policies in terms of investment, employment and technology. The Indonesian government is taking advantage of Toyota's presence to strengthen its bargaining position in international negotiations, including within the framework of economic agreements such as the Indonesia–Japan Economic Partnership Agreement (IJEPA). In this case, non-state actors play a role in expanding the diplomatic space from being limited to state institutions to becoming more complex and diverse (Irawati and Charles 2010).

Research by Dewanta & Arfani (2018) also confirms that Toyota's shift in production from Japan to Southeast Asia—especially Indonesia and Thailand—encourages the formation of a regional production network which simultaneously strengthens diplomatic relations between countries in the region. Toyota has become an "economic bridge" between Indonesia and Japan, strengthening the diplomatic aspect that was previously only carried out between governments into a strategic collaboration between countries and corporations (Dewanta and Arfani 2018).

In this context, traditional diplomacy, which tends to be formal and bureaucratic, increasingly coexists with economic diplomacy, which is more pragmatic, adaptive and based on market interests. Thus, Toyota is no longer just a symbol of foreign investment, but also a representation of a non-state actor that is able to influence the direction of Indonesia's foreign policy, both in terms of trade strategy, industrial development, and the formulation of fiscal incentives.

Methods

This study employs a literature review method, which involves analyzing written sources such as academic books, journal articles, policy documents, newspapers, and other publications to obtain relevant data and conceptual insights. The literature is carefully selected from both primary and secondary sources, focusing on materials that examine the role of multinational corporations (MNCs) in foreign policy and their influence on traditional diplomacy (Sari & Asmendri, 2020). This method is applied to investigate how MNCs—specifically Japanese corporations like Toyota—engage in commercial diplomacy and contribute to Japan's broader foreign policy objectives through their operations in Indonesia.

Discussion and Findings

Multinational Companies as Actors of Economic Diplomacy

MNCs today not only function as drivers of the global economy, but also as actors capable of influencing bilateral relations and the direction of foreign policy. Toyota Motor Corporation, as one of the largest PMNs from Japan, has built a strategic presence in Indonesia since the 1970s and is now an important actor in economic diplomacy between the two countries. Toyota's activities in Indonesia include technology transfer, human resource training, and collaboration with local industries, which directly support Indonesia's economic development agenda. Toyota's presence reinforces the concept that global companies can play a role as a tool of economic diplomacy, both for the home country (Japan) and the host country (Corporation et al. 2024).

Toyota in the Context Of Indonesia-Japan Bilateral Relations

After the signing of the Indonesia–Japan Economic Partnership Agreement (IJEPA), Toyota became an important symbol in strengthening Indonesia–Japan trade relations. Toyota Kijang, for example, is not only a vehicle product, but also a representation of the technological and cultural cooperation of the two countries' industries. (Rabbani et al. 2025) noted that the Toyota Kijang project contributes greatly to the localization process of the Indonesian automotive industry and reflects the long-term strategic partnership between Japan and Indonesia. However, challenges in the form of technological dependency and market dominance are still critical notes that require evaluation of the equality of benefits in this collaboration.

Indonesia's Economic Diplomacy Strategy Towards Toyota

The Indonesian government, through local policies such as the TKDN, uses an economic diplomacy approach to encourage foreign companies such as Toyota to contribute to national development. This strategy is not only economic in dimension, but also diplomatic because it involves cross-country negotiations. influenced by pressures from global markets and international trade regulations (Corporation et al. 2024), revealed that although the TKDN policy shows progress in increasing the local content of automotive products, its implementation still faces challenges in terms of foreign investor compliance and domestic industry readiness. This confirms that Indonesia's economic diplomacy still needs to be accompanied by more adaptive incentives and regulations.

Toyota as a Strategic Partner For Investment And Industrialization

Toyota's investment in the Indonesian automotive industry has a broad impact not only in the microeconomic aspect but also in strengthening the national industrial structure. (Hardzi and Sugito 2023) noted that Toyota's presence has increased export value, absorbed labor, and encouraged the growth of supporting industrial sectors such as component manufacturing. In the context of foreign relations, such investment strengthens Indonesia's image as a stable and competitive investment partner in the Southeast Asian region. This makes Toyota not only an investor but also a representative of the success of Indonesia-Japan bilateral economic diplomacy.

The Concept of Corporate Diplomacy in International Relations

Conceptually, Toyota's role can be analyzed through the lens of corporate diplomacy, namely the company's active involvement in supporting a country's foreign policy agenda. (Arifin Rivai 2017) stated that non-state actors such as multinational corporations have the potential to be effective diplomatic instruments, especially when business interests are aligned with national political and development agendas. In the Indonesian context, Toyota is involved in the national electric vehicle program and energy transition efforts, showing that foreign diplomacy is now also targeting long-term technology and sustainability cooperation.

Economic Diplomacy and TKDN Strategy in the Toyota-Indonesia Partnership

One of the main findings in this study is how Toyota has become an important tool in the implementation of Indonesia's foreign policy through economic diplomacy schemes. The TKDN policy implemented by the Indonesian government post-reform is a form of economic diplomacy strategy to encourage foreign companies to invest more deeply in the national industrial sector.

Toyota responded to this policy by adjusting its investment and production strategies, including increasing the use of local raw materials and spare parts in its automotive products in Indonesia. According to (Corporation et al., 2024), (Corporation et al. 2024), this strategy aims not only to attract Foreign Direct Investment (FDI), but also to strengthen Indonesia's bargaining position in facing the pressures of economic globalization and market liberalization. In practice, the TKDN policy has a double impact: domestically strengthening local industry, and externally becoming a negotiating tool in forming bilateral cooperation with Japan. In practice, the TKDN policy has a double impact: domestically strengthening local industry, and externally becoming a negotiating tool in forming bilateral cooperation with Japan. However, challenges remain, especially in terms of how governments ensure that multinational companies like Toyota actually transfer technology and build local capabilities, rather than simply pursuing short-term production efficiencies.

In addition to being a strategy to strengthen domestic industry, the TKDN policy has also become an important instrument in Indonesia's economic diplomacy. In the context of cooperation with Toyota, this policy not only encourages deeper foreign investment but also changes the pattern of interaction between countries and multinational companies. Toyota, as a global corporate actor, responded to the TKDN policy by making various adjustments—both in the form of increasing local content in each production unit, and in strengthening the domestic supply chain. This demonstrates Toyota's strategic adaptation to Indonesia's policy environment, while also showing how non-state actors can play a role in the implementation of a host country's foreign policy.

Research conducted by Irawati and Charles (2010) revealed that Japanese companies such as Toyota not only operate in Indonesia as ordinary investors, but are also actively involved in the development of export-oriented automotive industry clusters. This is reinforced by the findings of Natsuda, Otsuka, and Thoburn (2015), which show that Indonesia has now become one of the main bases for Toyota's automotive production in Southeast Asia. This success is inseparable from the implementation of the TKDN policy, which has slowly formed a long-term bond between Toyota and the local industrial sector. In the case of LCGC cars such as the Toyota Agya, for example, the local content has reached more than 80%, reflecting Toyota's commitment to aligning with the Indonesian government's industrialization vision (Irawati and Charles 2010; Natsuda, Otsuka, and Thoburn 2015).

However, surface success does not necessarily guarantee long-term structural impacts. According to Priyadi and Takahashi (2019), the partnership between Toyota and local partners such as Astra shows an imbalance in terms of technological mastery and strategic decision-making. This is a challenge for the Indonesian government in ensuring that the TKDN policy is not only used as a tool for administrative fulfillment, but is also able to encourage knowledge transfer and development of national industrial capabilities. Without a strong mechanism to monitor and evaluate its implementation, there is a risk that large companies will continue to maintain high value-added activities—such as product research and design—overseas (Priyadi and Takahashi 2019).

Furthermore, Schröder (2024) highlights the shift in the direction of Indonesia's industrial policy towards the electric vehicle (EV) sector, which opens up new opportunities to expand the implementation of TKDN in a more sustainable ecosystem. Toyota, which has begun to engage in a national EV project, is faced with the challenge of not only adjusting its production strategy but also forging deeper cooperation with the government on the development of battery technology and domestic logistics systems. In this context, the TKDN policy is no longer merely an industrial policy, but has become a technological diplomacy tool that shows a new direction for Indonesia–Japan economic relations (Michael Schröder 2024).

While the TKDN policy has demonstrated significant achievements—such as achieving a local content of over 80% in vehicle models like the Toyota Agya—this success should not be taken for granted without critical evaluation. This figure alone is insufficient to answer the fundamental question: whether this increase has contributed to an economic multiplier effect, particularly for SMEs within the national automotive supply chain ecosystem (Fitriani, D., & Haryanto 2018). To date, there is no strong evidence that local companies in tier-2 and tier-3 positions within Toyota's supply chain have successfully moved up the global value chain (GVC), instead remaining as subcontractors with low added value (Prasetya, E., & Nugroho 2021).

Furthermore, the relationship between Toyota and local partners like Astra demonstrates an imbalance in technological mastery and roles in strategic decision-making. This situation indicates a potential dependency trap: structural dependence on a single global actor, which can undermine the local industry's ability to be independent in research and development, product design, and intellectual property rights (Priyadi, E., & Takahashi 2019). Without the support of a robust incentive system and policy evaluation mechanism, the TKDN risks being reduced to a mere administrative instrument, without providing a real, transformative impact on the national industry.

An analysis that focuses too much on Toyota also leaves important gaps. This study would be richer if it included the perspectives of various domestic actors: local companies providing lower-level components (tier-2 and tier-3), labor unions in the automotive sector, and local governments where factories operate (M Schröder 2023). As Fitriani and Haryanto (2018) point out, most local suppliers only experience improvements in basic technical capabilities, without progressing to high-value-added manufacturing processes (Irawati, D., & Charles 2010).

It is also important to consider the labor perspective. Local workers involved in Toyota's production lines do not necessarily enjoy significant upskilling or welfare benefits. Prasetya and Nugroho (2021) even note that the implementation of TKDN has so far been ineffective in encouraging technology transfer to automotive MSMEs, primarily due to a lack of support in the form of incentives or further training from the principals (Natsuda, K., Otsuka, K., & Thoburn 2015).

As national industrial policy shifts toward the development of electric vehicles (EVs), a new challenge arises: can the current TKDN framework be adapted to foster strategic collaboration in the development of battery technology, logistics systems, and sustainable energy management? In this context, the TKDN policy has the potential to transcend its function as an import substitution policy and emerge as an instrument of technological diplomacy in the Indonesia-Japan economic relationship (K. P. R. Indonesia 2023).

Thus, while the strategic partnership with Toyota demonstrates significant potential for economic diplomacy, its long-term impact on the national industrial structure will depend largely on the extent to which the government is able to create a space for participation for various domestic actors. Only through an inclusive and transformative approach can the synergy between national interests and global business strategies truly generate sustainable value for the Indonesian economy.

Thus, through a strategic partnership with Toyota, the Indonesian government can make economic diplomacy not only a strategy to face the global market, but also a tool to form an independent and competitive national industrial structure. The challenge going forward is to maintain a balance between national interests and global corporate business strategies, so that the synergy created truly has a transformational impact on Indonesia.

Toyota as a Driver of Indonesia's Economic Growth and Exports

The following findings show that Toyota plays a significant role in supporting Indonesia's economic growth through automotive exports. As one of the main exporters of vehicles from Indonesia, Toyota has opened export markets to more than 80 countries, including in Asia, Africa, and the Middle East. Products such as the Toyota Fortuner, Innova, and Vios are manufactured in Indonesia with high local content—even reaching more than 90% in some models—and exported to various countries, making Indonesia a strategic production base in the Southeast Asian region. This export contribution not only strengthens Indonesia's trade balance but also shows how multinational corporate investment can be integrated into a country's economic diplomacy. In Toyota Indonesia's official report, it is stated that vehicle exports have increased by almost 80% in the past decade, largely driven by improvements in local manufacturing quality and logistics efficiency (Development 2020). Through this role, Toyota is not only an investor, but also a diplomatic agent that strengthens Indonesia's image as a medium-sized industrial country with strong export potential.

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Multinational corporations like Toyota play a crucial role in driving Indonesia's industrialization and exports, particularly in the automotive sector. To understand their contributions and challenges, the Global Value Chains (GVC) approach is relevant because it explains how developing countries like Indonesia are positioned within complex global production networks. In the GVC model, multinational corporations act as lead firms, coordinating cross-border production processes. Meanwhile, Indonesia strives to integrate local actors into the value chain, either as component suppliers or assembly partners.

However, the highly hierarchical GVC structure often leaves local companies at the bottom of the value chain. They primarily act as suppliers of components with low levels of complexity and limited added value. A study by Hardzi and Sugito (2023) shows that while Toyota's presence has boosted vehicle exports from Indonesia, fundamental transformations to the local industrial structure have lagged. Many domestic businesses have not yet experienced improvements in technology, production capacity, or competitiveness in the international market (Hardzi, A. A., & Sugito 2023).

In the context of an export-led economic growth model, Toyota's role has generally strengthened the performance of the national manufacturing sector. According to data from Gaikindo, more than 60% of Indonesia's complete vehicle (CBU) exports come from Toyota's production lines, which are distributed to more than 80 countries (TMMIN 2023). However, this impressive export record does not directly explain its contribution to manufacturing sector GDP growth, labor efficiency, or the nation's innovative capacity.

Furthermore, research by Irawan and Maulana (2019) underscores that increases in Total Factor Productivity (TFP) in the Indonesian automotive industry are largely dependent on technology transfer by multinational companies. Without local involvement in research and development activities, product design, and adequate workforce training, foreign company dominance can strengthen structural dependency (Irawan, T., & Maulana 2019). This reinforces the argument that spillover effects from foreign investment will only occur if there is intensive technological interaction between local and foreign actors.

Therefore, evaluating Toyota's role in Indonesia cannot be done solely through export or investment performance. An analytical approach that encompasses institutional aspects, industrial structure, and technology transfer dynamics is required. The GVC framework and export-led development model provide a platform for assessing the extent to which Indonesia's industrialization policies are truly building sustainable independence and competitiveness in the global economic arena.

Technology Transfer dan Knowledge Diplomacy in the Automotive Industry

In addition to economic contributions, one important dimension of cooperation between Toyota and the Indonesian government is technology transfer and knowledge diplomacy. Toyota actively fosters partnerships with local universities, polytechnics, and industry partners through technical training programs, internships, and manufacturing technology development. Programs such as the Toyota Technical Education Program (T-TEP) and Jishuken have enhanced the technical capabilities of the Indonesian workforce and broadened their understanding of modern production systems. According to (Rabbani et al. 2025), this form of collaboration is part of pragmatic and strategic foreign diplomacy, where knowledge and skills become negotiation tools that strengthen national competitiveness. This technology transfer has long-term implications for Indonesia's industrialization because it encourages the development of domestic innovation capabilities, increases the efficiency of the national supply chain, and forms a production culture that is more adaptive to global change.

More than just technical training, technology transfer in the context of cooperation between multinational corporations such as Toyota and developing countries reflects a new form of "knowledge diplomacy" that positions knowledge as soft power in international relations. Toyota not only imparts manufacturing technology, but also the values of productivity, work discipline, and kaizen culture that have proven effective in increasing the competitiveness of local industries. This practice is in line with the findings of Rasiah & Yap (2022) who emphasized that effective technology transfer depends on the readiness of local institutions and the sustainability of cross-country inter-actor relationships, especially through public-private knowledge partnerships (Rasiah, R., & Yap 2022). The process of technology transfer from

Japanese companies such as Toyota to Indonesia has two sides: on the one hand, it opens up access to technology and industrial training (RI 2023). On the other hand, it also creates new forms of dependency, especially on Japanese production standards and global value chains controlled by multinational corporations such as Toyota (Baldwin 2016).

The automotive technology Toyota brings to Indonesia tends to be intermediate. For example, in the development of hybrid vehicles like the Toyota Innova Zenix, the technology used is an earlier version of the hybrid system that has been available in Japan since the early 2000s, not the pure electric vehicle or hydrogen fuel cell technology currently being developed in Japan. In other words, Indonesia is receiving "proven but not the latest" technology (T. Indonesia 2022).

However, to what extent is the kaizen work culture and Japanese productivity values truly aligned with the context of Indonesian work organizations, local culture, and labor regulations? For example, in the ITS academic environment, Toyota introduced 5S and the kaizen cycle through training that improved efficiency and cleanliness, but this action was more of a system adoption than a comprehensive cultural transformation.

According to a report from ITS, the implementation of Toyota's work system—including the principles of safety (Secure Safety), 5S, and genchi genbutsu—has been shown to improve productivity, but the institution still faces challenges in building a culture of discipline and work flexibility under local labor regulations. This indicates that the adoption of kaizen requires further study to ensure it is truly aligned with Indonesian work norms, labor rights, and regulatory systems (itsqil 2025).

In the ASEAN context, Toyota also plays the role of a “knowledge anchor” industry actor that not only transfers technology but also creates an innovation ecosystem through long-term collaboration. In Indonesia, this partnership has gradually created endogenous capabilities in automotive research, spare part design, and data-based production management. This strengthens the concept of co-evolutionary upgrading, where the country develops not only into a place of cheap production, but an active partner in creating technological added value (Giuliani, E., Pietrobelli, C. 2005).

In the long term, knowledge diplomacy like this can change the national industrial structure to be more adaptive, resilient, and independent, as long as it is supported by pro-innovation government policies and a vocational education system that is responsive to the needs of the global industry.

Toyota as an Instrument of Japan's Soft Diplomacy in Southeast Asia

Toyota also plays a role in strengthening Japan's foreign policy through soft diplomacy mechanisms, especially in the Southeast Asia region. In the context of Japan-ASEAN relations, Toyota is an extension of the "proactive economic diplomacy" strategy that Japan has implemented since the early 2000s. Toyota's massive investment in Indonesia is not only driven by market considerations, but is also part of Japan's strategy to maintain its economic influence in an increasingly competitive region. As described by Manea (2008), Japan uses economic cooperation, including through private companies such as Toyota, to strengthen its geopolitical position and create regional stability. Toyota, with its global reputation, is used as an instrument to build a positive image of Japan, transmit work values (kaizen, efficiency, innovation), and deepen the economic dependence of ASEAN countries on Japanese products and technology. For Indonesia, this is part of a strategic symbiosis: receiving investment and technology while strengthening its bargaining position in regional diplomatic negotiations.

Toyota's role in Southeast Asia cannot be understood solely from a business perspective. Behind its expansion and major investments in the region, Toyota also carries a more subtle mission: strengthening Japan's image and geopolitical interests. In Indonesia, Toyota's presence since the 1970s has been part of Japan's larger economic diplomacy strategy. This strategy is known as "proactive economic diplomacy," in which non-state actors such as private companies are empowered to build Japan's influence through long-term economic cooperation (Dent 2015). Furthermore, the Indonesian government actively supports Japanese investment—including Toyota—through easier permits, tax incentives, and industrial collaboration. This indicates that Indonesia is not only adopting Japan's soft power strategy but also integrating it into its national economic development strategy (Dewi, A. K. (2018).

Toyota, in this context, acts as the "friendly face" of Japan—conveying values such as perseverance, efficiency, and innovation without confrontation. Through training programs, technology transfer, and research collaboration, Toyota helps create a competent industrial ecosystem while instilling unique Japanese values such as kaizen (continuous improvement) and a collective work spirit (Lechevalier 2014). This is a form of diplomacy that works not through speeches or formal agreements, but through the daily experiences of workers, local partners, and industrial communities who interact directly with the Japanese system.

The Indonesian government has a number of foreign policy instruments and national industrial strategies that it consciously uses to maintain a balance of power in its economic diplomatic relations with Japan, particularly in the context of investments by companies like Toyota. One of its key instruments is the Indonesia–Japan Economic Partnership Agreement (IJEPA), which, in its revision, emphasizes the importance of technology transfer, enhancing the role of local industry, and training human resources. This revision represents a strategic step for Indonesia to ensure that Japanese investment not only benefits foreign investors but also drives sustainable national industrial growth (RI 2022).

This approach is in line with the idea of soft power introduced by Joseph Nye, namely the power to influence not by force, but by attraction (Nye 2004). Toyota makes Japan appear not only as a developed country, but also as a partner willing to share, guide, and grow together. The Indonesian government views Japan's economic diplomacy through Toyota as a form of strategic cooperation that supports national development, industry, and the enhancement of human resource competitiveness. Indonesia's response demonstrates positive acceptance and strategic adjustments to optimize the economic and technological benefits of Japanese investment. The Indonesian government views Toyota not only as a foreign investor but also as a long-term partner in the advancement of the automotive industry. Toyota supports employment, the development of domestic components, and the export of Indonesian cars to more than 80 countries (RI 2022).

However, Toyota's role is not only to create sympathy. Amid the competition for influence in Southeast Asia, especially with the increasing presence of the Chinese economy, Japan needs a way to maintain its relevance. Toyota, with its strong production network in the region, indirectly ties countries like Indonesia into Japan's regional supply chain (Baldwin, D. A., & Evenett 2020). This forms a functional dependency that strengthens economic relations while giving Japan leverage in regional politics.

For Indonesia, this cooperation presents opportunities and challenges at the same time. On the one hand, Toyota brings capital, jobs, and knowledge. On the other hand, Indonesia needs to carefully position itself so that it is not only a production location, but also a center of innovation that has a bargaining role. This relationship, if managed well, Toyota's significant investment in Indonesia, can be an example of a strategic symbiosis between a developing country and a major economic power. This makes

Indonesia a key driver in Toyota's regional supply network and a vehicle distribution center to other ASEAN countries (Kusumaningtyas 2021).

Dynamics of Negotiation and Political Bargaining between Toyota and Indonesian government

Another significant finding is the dynamics of political bargaining or negotiation of interests between Toyota and the Indonesian government. The relationship between the two is not passive or dominant, but rather mutually bargaining based on the needs and interests of each. The Indonesian government wants to use Toyota to support national industrialization, while Toyota needs certainty of regulations and stable infrastructure to maintain profitability. A study UGM (Cahyafitri 2024) shows that Toyota Indonesia is actively building long-term relationships with the central and regional governments through institutional approaches and strategic communication. In this context, Toyota has become a non-state diplomatic actor that is able to influence public policy, even in some cases participating in formulating automotive and electric vehicle industry policies. This shows that multinational companies such as Toyota have a strong negotiating capacity to influence the course of foreign policy through investment-based economic diplomacy.

The relationship between Toyota and the Indonesian government reflects the complex dynamics of political bargaining, where both parties adjust their interests to achieve common goals. The Indonesian government seeks to utilize Toyota's presence to encourage national industrialization and technological development, while Toyota needs certainty of regulations and supporting infrastructure to maintain profitability and business expansion.

A study by Dinestiningtyas and Cahyafitri (2024) used the Political Bargaining Model (PBM) to analyze the strategic interaction between Toyota and the Indonesian government. They found that this relationship is dynamic, with both parties trying to maintain bargaining power through goal adjustments, presentation of specific advantages, and minimizing the negative impacts of emerging barriers. Adaptation of the logic of repeated games in PBM allows for investment continuity through strategic steps deployed by multinational companies and host countries to continuously balance bargaining power (Cahyafitri 2024).

Indonesia's economic diplomacy strategy towards Toyota is seen in the Local Content Requirements (LCRs) policy, which aims to increase domestic added value in the automotive industry. Givari (2024) highlights how the Indonesian government uses economic diplomacy to encourage Toyota to support the TKDN program, which is part of an effort to increase the competitiveness of the national industry and strengthen bilateral relations with Japan (Givari 2024).

Toyota's role as a non-state actor in economic diplomacy is also reflected in its contribution to the development of the local supply chain and exports of the national automotive industry. Through collaboration with more than 1,000 companies, including Micro, Small, and Medium Enterprises (MSMEs), Toyota has supported the growth of the Indonesian automotive industry and strengthened its position as a vehicle production and export base in the Southeast Asia region (T. M. M. Indonesia 2024).

In addition, a study conducted on the automotive industry cluster in the Greater Jakarta area (Jabodetabek) revealed that the knowledge transfer process between parent companies such as Toyota and local suppliers operates within a highly hierarchical vertical structure. Although the keiretsu network facilitates the exchange of technical and managerial knowledge, local supplier firms often lack the space to grow innovatively, as key decisions are still made at the central headquarters, either in Japan or at regional offices such as those in Bangkok. This type of relationship hinders the process of industrial upgrading, particularly for second-tier suppliers who are not granted full access to skill development programs or the internal innovation mechanisms of the main company (Paper and Area 2013). On the other hand, research on the role of academics and public research institutions as external sources of innovation in Indonesia's automotive industry shows that their contribution remains limited. Collaboration between industry and public research institutions has yet to be firmly established, despite the significant potential to enhance innovation through mechanisms such as matching grants and technical assistance. The policy implications of these findings highlight the need to empower universities and research and development institutions as active partners in supporting innovation within the national automotive sector (Aminullah, 2020).

Furthermore, recent empirical studies highlight the importance of absorptive capacity—the ability of firms to absorb and exploit external knowledge—as a key determinant of innovation success and firm performance in high-tech sectors, including the automotive industry. Data indicate that companies with higher royalty expenditures on foreign technologies tend to exhibit superior performance, particularly in terms of innovation and market competitiveness. This suggests that, in addition to internal strengthening, firms must also remain open to external knowledge sources, whether from international partners or public research institutions (Kumar, Kumar, and Persaud 1999; Mursitama 2023).

Thus, the effectiveness of technology transfer in Indonesia's automotive sector largely depends on a balanced interplay between access to external sources of knowledge, the readiness of local institutions, and the innovative capacity of the firms themselves. The government must establish a policy framework that supports collaboration among industry actors, academic institutions, and research bodies to ensure a comprehensive transformation toward an innovation-based industrial sector.

Another significant finding concerns the political bargaining dynamics between Toyota and the Indonesian government. While the existing narrative often presents the relationship as mutually beneficial or symmetrical—where both parties adjust their interests to achieve shared goals—this view tends to overlook deeper structural imbalances. In reality, the relationship is shaped by asymmetrical power dynamics, where a global corporation like Toyota operates with significantly greater financial, technological, and strategic capacity than a developing host country such as Indonesia.

Although Toyota supports Indonesia's industrialization goals by investing in local manufacturing and supply chains, it also leverages its position to shape regulatory environments favorable to its long-term business interests. A study by Cahyafitri (2024) shows that Toyota Indonesia actively builds relationships with central and regional governments through institutional lobbying and strategic communication. This positions Toyota as a non-state diplomatic actor with substantial influence on public policy, including direct participation in shaping automotive and electric vehicle regulations.

This aligns with Susan Strange's notion of the "privatization of power", where multinational firms increasingly influence not only economic outcomes but also public policies—often at the expense of state sovereignty.

Using the PBM, Dinestiningtyas and Cahyafitri (2024) argue that the interaction between Toyota and the government involves continuous adjustments and strategic goal realignments. However, such models risk normalizing unequal power dynamics by presenting the bargaining process as neutral or reciprocal. In practice, multinational firms may dominate the negotiation space through superior access to information, transnational networks, and financial leverage. These conditions create opportunities for regulatory capture, where corporate interests overshadow the public good, especially when government capacity for policy formulation and enforcement is limited.

As Yeung (2009) points out, in the context of Asian Newly Industrialized Economies, firms increasingly disembed from state control and reembed themselves into global production networks—thereby expanding their strategic autonomy and bargaining leverage against host governments (Yeung 2014). Economic diplomacy tools, such as Local Content Requirements (LCRs) and the TKDN policy, have been used by the Indonesian government to push for increased local value. Givari (2024) notes that this reflects a proactive stance, yet there remains a lack of long-term strategy to ensure genuine technology transfer and industrial upgrading.

Research on the Jabodetabek automotive cluster shows that despite the keiretsu-style relationships facilitating knowledge exchange, second-tier suppliers remain constrained by hierarchical control from Toyota's headquarters (Paper and Area 2013). The unequal nature of these relationships limits innovation and keeps domestic firms in a position of dependency. This reflects what Leander (2001) terms "new dependency", where foreign firms determine access to global markets, technologies, and even labor conditions, shaping national development trajectories from the outside (Leander 2015).

This situation is compounded by the underutilization of academic institutions and public research centers as sources of technological advancement. Aminullah (2020) notes that collaboration between universities and industry remains weak, despite the state's rhetorical emphasis on innovation ecosystems.

Furthermore, absorptive capacity—the ability of firms to internalize and apply external knowledge—is critical. Kumar, Kumar, and Persaud (1999) and Mursitama (2023) highlight that companies investing more in foreign technologies tend to perform better, yet this creates a paradox where innovation is still externally driven.

As Leander (2001) warns, developing countries often become "recurring losers" in the global production and financial systems—not by choice, but due to the structural pressures of globalization that make opting out economically impossible (Leander 2015). To prevent falling into a dependency trap, Indonesia must critically reassess its industrial diplomacy strategies. This includes not only enhancing its regulatory and institutional frameworks but also ensuring that multinational investments genuinely align with long-term national interests. A stronger state role is needed to set strategic conditions for investment, enforce fair technology transfer mechanisms, and empower domestic actors—particularly MSMEs and public research institutions—as equal partners in innovation.

Conclusion

MNCs, especially Toyota, have a very vital role in the progress of Indonesia's economic sector and function as actors in international diplomatic relations. The presence of MNCs is not limited to economic activities such as investment and job creation, but also includes a broader function as an economic diplomacy tool that supports a country's foreign policy. With a library research approach, this study confirms that Toyota, as an MNC from Japan, functions as an extension of Japan's foreign policy and a tool to strengthen bilateral relations between Indonesia and Japan. Toyota's investment has an impact not only on the automotive industry and domestic exports, but also accelerates technology transfer, human resource development through training, and supports the energy transition through its participation in electric vehicle projects.However, this study also emphasizes the complexity of Toyota's relationship with the Indonesian government, such as political bargaining regarding the TKDN policy, which reflects an active negotiation process between the host country and foreign companies in designing industrial policies. Toyota not only functions as an investor, but also as a non-state actor that can influence public policy through economic diplomacy that focuses on results. In addition, Toyota's presence in Indonesia is also used by Japan as a soft diplomacy tool in the Southeast Asian region to strengthen its geopolitical influence.

This article concludes that the participation of MNCs such as Toyota shows a shift in modern diplomatic practices from a state-focused approach to a collaborative partnership between the state and companies. This economic diplomacy approach not only strengthens bilateral ties between Indonesia and Japan, but also expands the meaning of diplomacy itself into the industrial, technology, and sustainable development sectors. In order to maximize these benefits, the Indonesian government needs to formulate flexible, anticipatory policies that are able to balance national and global interests in strategic partnerships with multinational companies.

Considering the various dynamics discussed, it is imperative that the Indonesian government positions itself not merely as a recipient of investment, but as a strategic actor capable of directing long-term partnerships with MNCs such as Toyota. These collaborations should be consistently aligned with national objectives, including industrial independence, the strengthening of technological capacity, and the equitable distribution of economic benefits. Accordingly, Indonesia's economic diplomacy must be supported by institutional strengthening, the enhancement of human capital, and the formulation of policies that promote inclusive and sustainable industrial development. Furthermore, continuous assessment of the social and environmental impacts of MNC investments is essential to ensure that economic growth does not come at the expense of sustainability and social justice.

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