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Priviet Social Sciences Journal

Volume 6
Issue 5 May, 2026

Article 21

20-05-2026

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To cite this article: Fauzan, M. A., Gumilang, E. A., Rahajuni, D., & Zakaria, R. A. (2026). The impact of inflation, exports, and corruption perception on the movement of the Chinese Yuan Exchange Rate in selected ASEAN countries in the short and long run. *Priviet Social Sciences Journal, 6*(5), 259–268. https://doi.org/10.55942/pssj.v6i5.1244

To link to this article: https://doi.org/10.55942/pssj.v6i5.1244

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Private Social Sciences Journal
E-ISSN 2798-6314
P-ISSN 2798-866X
https://doi.org/10.55942/pssj.v6i5.1244

Volume 6
Issue 5
May Edition 2026

The impact of inflation, exports, and corruption perception on the movement of the Chinese Yuan Exchange Rate in selected ASEAN countries in the short and long run

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Received 8 December 2025
Revised 4 May 2026
Accepted 19 May 2026

ABSTRACT

This study examines how inflation, exports, and corruption perception influence the movement of Chinese Yuan (CNY) against the currencies of Indonesia, Malaysia, and Vietnam. Using a Panel Autoregressive Distributed Lag model with annual data from 2013 to 2023, the analysis captures both the short-term adjustments and the long-term equilibrium relationships among the variables. The results show that export performance plays the most decisive role in the short term. Stronger export activity is associated with an appreciation of the Yuan against ASEAN currencies, reflecting the increasingly interconnected trade structure between China and the region. Inflation and corruption perceptions do not have significant short-term effects. Their influence tends to appear gradually through channels such as investor confidence, institutional stability, and the overall macroeconomic environment of the country. Although these variables do not show immediate statistical significance, the cointegration tests confirm the presence of a stable long-run relationship between the exchange rate and explanatory variables. Taken together, the findings highlight that trade remains the primary force shaping short-term exchange rate behavior in ASEAN. Simultaneously, institutional quality and price stability continue to serve as important foundations for maintaining long-run external resilience. These results emphasize the need for stronger economic structures and credible governance so that ASEAN currencies are better positioned to withstand external pressures arising from China's expanding role in regional economic activity.

Keywords: exchange rate; inflation; exports; corruption perception; yuan; ASEAN; panel ARDL

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1. INTRODUCTION

Exchange rates are often used as an early indicator of the overall health of a country's economy, as they reflect changes in purchasing power, price stability, and market responses to underlying economic fundamentals. When exchange rates become unstable, the effects may be transmitted through higher import costs, changes in consumer prices and shifts in investor confidence. Pressure on the exchange rate commonly arises when domestic inflation increases faster than that in trading partner countries. Santosa (2008) explains that inflation differentials across countries eventually lead to exchange rate adjustments within the framework of Purchasing Power Parity, although in the short run, this mechanism may be restrained by policy intervention and price rigidity.

The relationship between inflation and exchange rates has become increasingly relevant in the context of greater economic openness in Southeast Asian countries. Trade and investment integration means that inflation is no longer shaped solely by domestic factors but also by external pressures. Marasanti and Verico (2024) show that ASEAN economies have become increasingly vulnerable to uncertainty-driven inflationary pressures, particularly as trade and financial integration intensifies across the region. This suggests that exchange rate dynamics reflect the interaction between domestic conditions and rapidly changing global developments.

In addition to inflation, international trade activities are closely linked to exchange rate stability. An increase in exports often improves the foreign exchange balance and creates room for currency appreciation, although this relationship does not always operate linearly. Muslim (2016) finds that exports play an important role in shaping the long-run dynamics of the Indonesian economy, while in the short run, their effects depend largely on production structures and market conditions. This indicates that trade serves not only as a source of foreign exchange earnings but also as an important mechanism for maintaining exchange rate resilience.

This trade relationship is even more significant when considering the economic ties between ASEAN countries and China. Over the past two decades, China has become one of the most important trading partners for many ASEAN economies, making movements in the yuan increasingly influential in shaping regional exchange rate stability in ASEAN. Liu et al. (2019) find that the exchange rates of China and ASEAN countries are increasingly interconnected, reflecting stronger trade and financial linkages between China and the region. Guo and Wang (2023) further show that the influence of the yuan on Asian exchange rates is dynamic and tends to strengthen during periods of global uncertainty. These findings indicate that yuan movements are important for understanding regional exchange rate dynamics.

Beyond these macroeconomic factors, institutional quality plays an essential role in maintaining exchange rate stability. Perceptions of corruption are frequently used as indicators of country risk, and higher levels of corruption are often associated with declining investor confidence. Okada and Samreth (2014) show that corruption can weaken the positive effect of foreign direct investment, suggesting that poor governance may reduce investor confidence and external financial stability. Ramoni-Perazzi and Romero (2022) further indicate that corruption may increase economic vulnerability through its association with the exchange rate volatility. These findings suggest that institutional quality is an important factor in determining a country's ability to maintain exchange rate stability during global economic shocks.

Based on these findings, exchange rate movements can be understood as the result of the interactions among inflation, trade activity, and institutional quality in an increasingly interconnected regional economy. Given the growing intensity of economic relations between ASEAN and China, it is important to examine how inflation, exports, and corruption perception affect the exchange rate of the Chinese yuan and how these effects are transmitted to the Indonesian Rupiah, Malaysian Ringgit, and Vietnamese Dong. A deeper understanding of these linkages is expected to provide an analytical basis for strengthening regional macroeconomic resilience and formulating adaptive exchange rate policies.

Although many studies have examined the determinants of exchange rates in the ASEAN region, much of the existing literature continues to focus on dependence on the U.S. dollar. There remains a gap in the literature regarding the specific analysis of regional currency dynamics against the Chinese yuan (CNY) using a panel framework, particularly by incorporating institutional variables such as corruption

perceptions. This study addresses this gap by employing a Panel Autoregressive Distributed Lag (P-ARDL) approach to capture both short-run adjustments and long-run relationships that are often overlooked in previous cross-country studies.

2. LITERATURE REVIEW

Exchange rate theory examines the relationship between domestic and international prices as a mechanism that maintains purchasing power equilibrium across countries. This foundation is rooted in the concept of Purchasing Power Parity, which, according to Santosa (2008), still provides a relevant explanation of how inflation differentials place pressure on the rupiah exchange rate, although the effect tends to appear more clearly in the long run. Several other studies also show a similar tendency, suggesting that when inflation in one country exceeds that of its trading partners, the likelihood of exchange rate depreciation increases, even though the adjustment does not always occur immediately.

This dynamic becomes increasingly important as countries become more open to the global economy. Marasanti and Verico (2024) show that uncertainty and external pressures may affect inflation dynamics in the ASEAN economies. The transmission of inflationary pressures from major economies tends to occur more rapidly because of increasingly intensive trade and financial linkages. Choudhri and Hakura (2006) also emphasize that countries with higher inflationary environments tend to experience stronger exchange rate pass-through to domestic prices. In other words, pressure on the exchange rate is no longer merely a domestic issue but also reflects a country's interaction with the global economy.

In addition to inflation, exports are frequently examined in exchange rate analyses. Theoretically, an increase in exports is expected to support currency appreciation by increasing Foreign Exchange Earnings (FXE). However, empirical findings often reveal more complex relationships. Muslim (2016) explains that exports play an important role in shaping the long-run equilibrium of the Indonesian economy, although their short-run effects may be unstable due to the role of imported raw materials and their sensitivity to global prices. Bahmani-Oskooee and Aftab (2017), in their study of ASEAN countries, also indicate that exchange rate depreciation does not automatically increase exports, particularly when production costs rise as a result of high dependence on foreign inputs.

Other studies provide a more detailed view of the interactions between exports, exchange rates, and industrial development. Thorbecke (2016) explains that exchange rate movements in Asia are closely related to regional production networks, where changes in one major currency may influence trade and production costs across partner economies. Industries with stronger domestic production linkages tend to benefit more from currency depreciation, whereas industries that rely heavily on imported inputs often face higher cost pressures. This perspective helps explain why the response of exports to exchange rate movements is not uniform across countries or sectors within the ASEAN region.

China's position as a major regional trading partner makes the discussion of exchange rates inseparable from yuan dynamics. Over the past two decades, economic relations between China and ASEAN have expanded significantly, allowing yuan movements to exert a more direct influence on regional currencies. Liu et al. (2019) find that the exchange rates of China and ASEAN countries are increasingly interconnected, reflecting stronger trade and financial linkages between China and the region. Guo and Wang (2023) show that the impact of the yuan is dynamic and often intensifies during periods of global uncertainty.

Several other studies have further expanded our understanding of this relationship. The integration of Asian production networks strengthens the transmission of exchange rate movements across trading partner countries, particularly in economies that are closely linked through intermediate goods trades (Thorbecke, 2016). This shows that the yuan now plays a broader role than merely serving as the currency of a major exporting country. Instead, yuan movements may influence production costs, trade competitiveness, and exchange rate expectations across regions.

Beyond macroeconomic factors, governance quality has become an important issue in the exchange rate literature. Okada and Samreth (2014) show that corruption can weaken the positive effect of foreign direct investment, which may reduce investor confidence and external financial stability. In a broader

context, Ramoni-Perazzi and Romero (2022) show that corruption and exchange rate volatility are closely associated with economic performance, indicating that institutional weaknesses may increase vulnerability to external shocks. These findings suggest that institutional quality is closely related to a country's ability to maintain external stability.

Other scholars provide additional perspectives on how corruption and governance affect exchange rates through financial market channels. Poor governance may increase uncertainty among foreign investors, particularly in developing economies, where financial markets remain relatively sensitive to changes in institutional credibility. Ramoni-Perazzi and Romero (2022) further indicate that corruption may increase economic vulnerability through its association with the exchange rate volatility. This means that corruption perception can create additional pressure in the foreign exchange market by increasing the perceived risk and weakening confidence in macroeconomic stability.

Taken together, these findings indicate that inflation, exports, and institutional quality are closely interrelated in shaping the exchange rate dynamics. However, most previous studies have examined these variables separately or within the context of the U.S. dollar, rather than focusing on the yuan, which has become increasingly influential in the region. This condition creates room for a more comprehensive study that examines how these three variables simultaneously explain movements in the yuan and how their effects are transmitted to the Indonesian rupiah, Malaysian ringgit, and Vietnamese dong. As ASEAN and China become increasingly interconnected, understanding this relationship has become increasingly significant.

3. RESEARCH METHOD

This study employs a quantitative approach using the Panel ARDL model to analyze the effects of inflation, exports, and corruption perception on the movement of the Chinese yuan exchange rate and its implications for the currencies of Indonesia, Malaysia, and Vietnam. The Panel ARDL model was selected because it can accommodate variables with different orders of integration, provided that none of the variables are integrated beyond order one. In addition, this model can capture both short-run dynamics and long-run relationships within a single analytical framework. This feature is particularly relevant because exchange rates and other macroeconomic variables often behave differently across short- and long-term horizons.

The data used in this study consist of annual panel data covering the period from 2013 to 2023. This period reflects a phase in which economic relations between China and ASEAN countries expanded significantly, allowing yuan movements to potentially influence regional currencies. The exchange rates of the Indonesian rupiah, Malaysian ringgit, and Vietnamese dong against the yuan were obtained from monetary authority publications, whereas inflation was measured using the consumer price index. Export data were collected from the official trade statistics of each country, and corruption perception was measured using an internationally recognized corruption perception index. All data were processed using Stata software.

The analytical procedure begins with panel unit root tests using the Levin et al. (2002) method as well as the Im et al. (2023) method to identify the order of integration of each variable. Subsequently, a panel cointegration test was conducted to examine whether a long-run relationship exists between the exchange rate and the explanatory variables. Once the presence of a long-run relationship is confirmed, the Panel ARDL model is estimated using either the Pooled Mean Group or Mean Group approach, depending on the result of the Hausman test. This test determines whether the long-run coefficients can be assumed to be homogeneous or heterogeneous across countries.

The econometric specification of the Panel ARDL model in this study is formulated as follows:

$$\Delta Kurs_{it} = q_1 + \emptyset_i\left(Kurs_{i,t-1} - \lambda_i X_{i,t}\right) + \sum_{j=1}^{p-1} \zeta_{1,j}\, \Delta Kurs_{i,t-j} + \sum_{j=0}^{q-1} \beta'_{ij}\, \Delta X_{i,t-j} + e_{it}$$

Notes:
$\emptyset_i$ = group-specific speed of adjustment coefficient (expected that $\emptyset_i < 0$
λ_i= vector of long-run relationships
$ECT = \left(Kurs_{i,t-1} - \lambda_i X_{i,t}\right)$, the error correction term
$\zeta_{1,j}, \beta'_{ij}$ are the short-run dynamic coefficients

The Panel ARDL model is used to examine the short-run and long-run relationships between the exchange rate and its explanatory variables through an error-correction framework. The Error Correction Term (ECT) component reflects the long-run equilibrium, while the adjustment coefficient ϕ_i, which is expected to have a negative sign, indicates the speed at which the model returns to equilibrium after a deviation occurs. Meanwhile, the short-run coefficients $\zeta_{1,j}$and β'_{ij}capture the effects of changes in the variables in the short run. Therefore, this model can capture both the short-run adjustment process and the long-run equilibrium relationship among variables in the panel data. This approach ensures that differences in country-specific characteristics are considered while providing a comprehensive estimation of the economic relationship between ASEAN countries and China.

4. RESULTS AND DISCUSSION

The estimation results of the fixed effects model within the Panel ARDL framework provide important insights into how macroeconomic variables, namely exports, corruption control, and inflation, affect the exchange rate movement of the CNY against selected ASEAN currencies, particularly the Indonesian rupiah, Malaysian ringgit, and Vietnamese dong. The use of the fixed effects model is based on the test results, which indicate that country-specific characteristics have a significant influence and therefore need to be accommodated in the model. Accordingly, this approach provides a more accurate estimation by capturing the economic conditions of each country within the panel data structure. For more details, see Table 1 and Table 2.

Table 1. Long-Run Estimation Results

Variable	Coefficient	Std. Error	z-stat	prob
Exports	2.82e-06	8.78e-07	3.21	0.001
Corruption Control	-355.168	154.2912	-2.30	0.021
Inflation	-0.9094939	7.874874	-0.12	0.908

Source: Research data processed by the authors.

Table 2. Short-Run Estimation Results

Variable	Coefficient	Std. Error	z-stat	prob
ECT (_ec)	-0.6407297	0.3432818	-1.87	0.062
D(Exports)	4.05e-06	2.03e-06	2.00	0.046
D(Corruption Control)	250.2263	148.1985	1.69	0.091
Constant (_cons)	1480.688	741.662	2.00	0.046

Source: Research data processed by the authors.

The estimation results show that, in the long run, exports have a positive and statistically significant effect on the dependent variable, with a coefficient of 2.82e-06 and a p-value of 0.001. This finding is consistent with exchange rate theory, which explains that exchange rate movements, particularly domestic currency depreciation, may improve export competitiveness because domestic goods become relatively cheaper in international markets than foreign goods. Therefore, the positive export coefficient in this model reflects the role of the exchange rate as a transmission mechanism that supports economic activity through trade.

Meanwhile, corruption control has a negative and statistically significant effect in the long run, with a coefficient of -355.168, and a p-value of 0.021. This result may be interpreted as an indication that institutional improvement does not always generate an immediate positive response in the exchange rate dynamics. In the long run, improvements in governance may be accompanied by structural adjustment processes that influence market expectations, investment behavior and exchange rate stability. However, inflation does not show a statistically significant effect, as indicated by its p-value of 0.908. This suggests that the Purchasing Power Parity mechanism is not strongly reflected in the model, meaning that inflation is not the main factor influencing the dependent variable through the exchange rate channel.

In the short run, the ECT coefficient of -0.6407 indicates the presence of an adjustment mechanism toward long-run equilibrium. This implies that approximately 64 percent of the disequilibrium is corrected within one year. The negative sign of the ECT is consistent with the theoretical expectation of an error correction model, in which short-run deviations from equilibrium are gradually adjusted back toward the long-run path. This finding supports the view that exchange rate fluctuations caused by external shocks tend to return to their fundamental values over time.

The short-run estimation also shows that changes in exports have a positive and statistically significant effect, with a coefficient of 4.05e-06 and p-value of 0.046. This result confirms that, in the short run, export movements are closely associated with exchange rate dynamics and may directly influence the dependent variables. Meanwhile, changes in corruption control show a positive coefficient and are significant at the 10 percent level, with a p-value of 0.091. This indicates that institutional improvement may begin to affect economic stability and market perception, including exchange rate movements, although the effect is relatively weak. Overall, these results suggest that the exchange rate plays an important role as a channel linking exports and economic performance in both the short and long runs (see Figure 1).

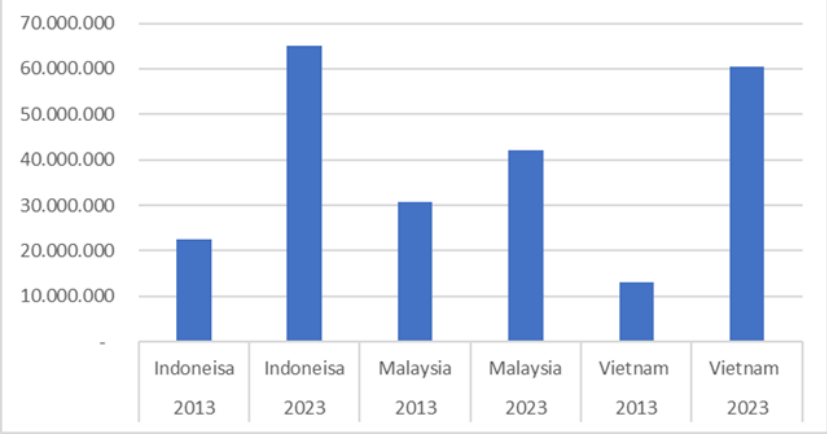

Figure 1. Export Levels to China

Source: World Bank (n.d.-b), processed by authors.

The increase in exports, accompanied by the appreciation of the yuan, indicates that the yuan has become increasingly central to regional trade activities. ASEAN countries that rely heavily on imports and intermediate goods trade with China are indirectly more exposed to yuan fluctuation. This finding

reinforces the view that Southeast Asian exchange rates are highly sensitive to trade dynamics with China, which has become a major partner in global production and distribution networks.

In the short-run estimation, the Corruption Control variable shows a positive coefficient, although its significance is only at the 10 percent level. Nevertheless, the positive direction of the coefficient provides an initial indication that improvements in governance may contribute to greater exchange rate stability in the long run. Its relatively weak short-run significance suggests that corruption perception operates through slower transmission mechanisms, such as investor confidence, capital market stability, and foreign investment attractiveness. These mechanisms require time to accumulate before they can strongly influence exchange rate movements (see Figure 2).

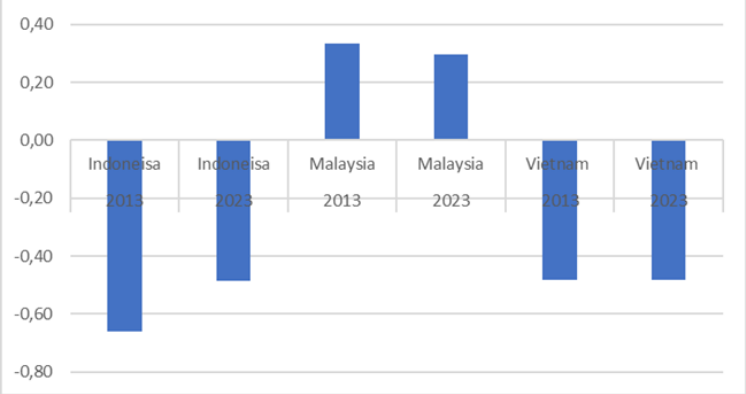

Figure 2. Corupption Control

Source: Transparency International (2024), processed by authors.

In the context of ASEAN economies, institutional factors often do not generate immediate effects in the short run due to the developing nature of their economic structures and their relatively strong dependence on trade. However, the limited short-run significance of institutional variables does not imply their unimportance. Instead, this result confirms that variables such as Corruption Control are more appropriately understood within a long-run framework, particularly in relation to economic stability and governance quality.

The inflation variable, which has a negative but statistically insignificant coefficient, also provides useful insights into the exchange rate adjustment mechanism in ASEAN countries. In theory, inflation should exert downward pressure on the domestic currency because it reduces purchasing power. However, the empirical results show that inflation does not have a sufficiently strong effect on the movement of the yuan exchange rate against local currencies in this model (see Figure 3).

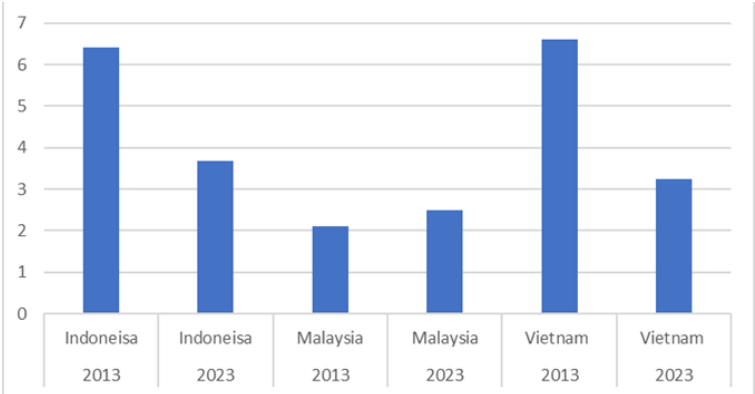

Figure 3. Inflation in Three ASEAN Countries

Source: World Bank (n.d.-a), World Bank (n.d.-b), processed by authors

In developing economies, inflationary fluctuations are often offset by monetary and fiscal policies such as exchange rate intervention, interest rate stabilization, and liquidity management. These policies may reduce the immediate effect of inflation on exchange rates in the short term. Therefore, the insignificant coefficient of inflation in this model is not surprising. Nevertheless, inflation remains an important long-run variable because price stability is closely related to market confidence and the overall macroeconomic stability.

Overall, the model estimated using the fixed effects approach is statistically significant. This is reflected in the Prob > F value, which is below the 5 percent significance level, indicating that the model is capable of explaining the relationship among the variables examined in this study. Through this approach, differences in macroeconomic characteristics across countries, such as trade structure, degree of economic openness, and financial market depth, can be properly captured and are not ignored in the estimation process.

The estimation results also indicate that short-run exchange rate movements in the ASEAN region are more strongly influenced by the trade sector than by price and institutional factors. This finding is relevant in the context of ASEAN–China economic relations, which are largely driven by trade in goods, particularly in the industrial and manufacturing sectors. Thus, export dynamics play a central role in influencing regional exchange rate stability.

Taken together, these findings show that the Chinese yuan exchange rate is closely connected to ASEAN economies through the trade channel. The significant effect of exports indicates that trade activity is a key determinant of short-run dynamic exchange rates. In contrast, variables such as Corruption Control and Inflation appear to be more relevant in the long-run relationship, which requires further interpretation through the cointegration framework. Therefore, this study provides a comprehensive understanding of the exchange rate movement mechanism in the ASEAN region concerning China's economic influence.

5. CONCLUSION

This study shows that the movement of the Chinese yuan exchange rate against the currencies of Indonesia, Malaysia, and Vietnam is more strongly influenced by trade dynamics in the short run, particularly through exports, which have a positive and statistically significant effect. Meanwhile, Corruption Control and Inflation do not exert a significant short-run effect, indicating that governance quality and price stability require a longer period to influence exchange rate movements because their transmission mechanisms operate gradually.

The cointegration test results indicate a stable long-run relationship between the exchange rate, exports, inflation, and corruption perception. This confirms that these variables remain relevant in explaining exchange rate movements over a broader time period. Overall, this study concludes that the trade sector serves as the main determinant of short-run exchange rate fluctuations, whereas macroeconomic and institutional factors play a more important role in the long run. These findings highlight the importance of strengthening trade structures and maintaining stable economic policies to enhance the exchange rate resilience of ASEAN countries against external pressures, particularly those arising from China's growing economic influence.

Ethical Approval

Not Applicable

Informed Consent Statement

Not Applicable

Authors' Contributions

MAF conceptualized the study, designed the research framework, collected and curated the data, conducted the panel ARDL analysis, and prepared the manuscript's original draft. EAG contributed to the development of the theoretical framework, interpretation of the findings, and refinement of the Discussion section. DR supported the methodological design, data analysis and validation of the results. RAZ supervised the overall research process, contributed to the critical review and editing, and strengthened the academic quality of the manuscript. All authors contributed to the revision of the manuscript and approved the final version of the manuscript.

Disclosure Statement

No potential conflict of interest was reported by the author(s).

Data Availability Statement

The data presented in this study are available on request from the corresponding author due to privacy reasons.

Funding

This study did not receive any external funding.

Notes on Contributors

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