Analysis of Indonesia's International Trade and Its Influencing Aspects

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ABSTRACT

This study examines the dynamics of international trade in Indonesia and the factors influencing it. The researcher adopts a descriptive approach to elucidate, the evolution of international trade, and a verification method to identify variables impacting it. Secondary data spanning from 2003 to 2019 serves as the primary data source. The analysis employs multiple regression techniques. The findings reveal that international trade in Indonesia experienced fluctuations during the study period, largely driven by changes in oil and gas prices as well as non-oil commodity prices. Notably, growth in Indonesia's international trade is predominantly observed in the non-oil and gas sector. Consequently, the Indonesian government has devised strategies to support exporters in this sector through various incentives. The study identifies several factors affecting international trade, including exchange rates, inflation rates, government effectiveness, and trade openness. Simultaneously, these factors collectively influence international trade dynamics. However, the analysis indicates that inflation rate, government effectiveness, and trade openness significantly impact international trade, whereas the exchange rate factor exhibits no discernible effect.

Keywords: *exchange rate, government effectiveness, inflation, trade,trade openness*

INTRODUCTION

Cross-border trade is an economic activity that involves exports and imports between countries (Dumairy, 1999). The main goal of international trade is to improve the standard of living of a country (Schumacher, 2013). There are several benefits of international trade, including increasing economic growth and creating jobs. In addition, international trade also encourages industrialization and investment from transnational companies. However, there are a number of challenges that must be faced in international trade activities, so that many countries do not succeed in obtaining the maximum benefits from the trade (Castellani et al., 2010). The current trend of international trade tends to be towards free trade with cooperation both bilaterally and multilaterally. International trade cooperation often begins with a binding agreement for all parties involved. The main purpose of the cooperation agreement is to avoid any barriers in trade. It is hoped that with the expansion of international trade, global economic growth can be accelerated (Gnangnon, 2018).

Countries that adhere to an open economy are very sensitive to turmoil in the global economy. The greater the international trade activity of a country, the more vulnerable its economic stability is. Therefore, the government must ensure that the stability of the domestic economy and the foreign sector is maintained, because this is one of the important aspects of economic development. Domestic economic stability can be achieved through price stability at both the consumer and producer levels in the country. Meanwhile, foreign economic stability can be achieved through currency exchange rate stability (Pertiwi et al., 2019). Indonesia, as a country with an open economy, faces similar challenges. Fluctuations in the rupiah exchange rate are especially felt when global economic instability occurs. This should be the focus of the government's attention, because stability is vital in influencing international trade flows, foreign direct investment, foreign exchange reserves, inflation rates, and balance of payments (Tambunan et al., 2015). In the context of international trade research, there are many studies being conducted today. Majoka (2012) identified one of the economic shortcomings of a country is the lack of independence. The research provides valuable insights in analyzing the level of independence.

Arize et al. (2000), Khan & Hossain (2012), Auboin & Ruta (2013), Octavia & Wulandari (2016), and Kang & Dagli (2018) concluded that exchange rates have a negative impact on imports and exports. The appreciation of the exchange rate has an impact on imports, while depreciation has an impact on exports. However, these findings only focus on exchange rate factors without considering other factors that affect international trade. Other research shows that exchange rate volatility does not affect exports, as exported goods are usually commodities that remain in demand by other countries as raw materials (Asteriou et al., 2016). In addition to exchange rates, inflation is also a factor that affects international trade. Inflation occurs when the value of money decreases, which leads to an increase in the price of goods and services. This can reduce export volumes because producers tend to reduce their production due to rising raw material prices (Hidayat et al., 2011; Mahendra & Kesumajaya, 2015). Gylfason (1999) also stated that high inflation rates can lead to a decline in the value of exports. Another factor that affects international trade is government effectiveness. Unproductive spending financed through loans can be a sign of government ineffectiveness, as is the case in Greece and the United States (Baltas, 2013; Toarna & Cojanu, 2015). In addition, trade openness also affects international trade by encouraging the entry of foreign investment (Pan et al., 2019; Kariuki, 2015).

Alotaibi & Mishra (2014) emphasized that trade openness is an important factor in international financial integration and has a positive correlation with international trade. Previous research has often only examined these factors separately. However, in this study, the researchers aim to investigate these factors comprehensively, namely exchange rates, inflation rates, government effectiveness, and trade openness. This research is focused on the case of Indonesian trade on the grounds that the observed phenomenon is more specific in Indonesia. The main objective of this study is to identify variables that have a significant influence on international trade. The research method used is a quantitative approach with descriptive and verifiable methods.

METHOD

The qualitative method in the research on the analysis of Indonesia's international trade and the aspects that influence it involves an in-depth approach to the observed phenomena. In this context, qualitative methods will be used to understand the aspects that affect Indonesia's international trade in more detail, going beyond numbers and statistics. The following is the definition of the qualitative method in this context: The qualitative method in the analysis of Indonesia's international trade and the factors that influence it is a research approach that focuses on an in-depth understanding of various aspects that affect the international trade of a country, in this case Indonesia. Qualitative research often explores information through interviews, observations, and document analysis, and uses techniques such as content analysis to explore themes and patterns that emerge from qualitative data. This approach allows researchers to better understand the social, political, and economic contexts that affect Indonesia's international trade, as well as capture the perspectives and experiences of economic actors, governments, and communities involved in the trade process. The qualitative method allows researchers to explore the underlying complexities and dynamics of international trade, thus providing richer and deeper insights into understanding the phenomenon.

RESULTS AND DISCUSSION

Cross-border trade is an economic activity that is very important for the growth and development of a country. The main goal is to improve the standard of living and welfare of the community. Although international trade has significant benefits, many countries have difficulty obtaining maximum benefits due to the challenges and complexities that must be faced, such as fluctuations in currency exchange rates, inflation, government effectiveness, and the level of trade openness. The current trend of international trade tends to be towards free trade with cooperation both bilaterally and multilaterally, with the aim of avoiding obstacles in trade and accelerating global economic growth. Indonesia, as a country with an open economy, is very sensitive to turmoil in the global economy, especially fluctuations in the rupiah exchange rate which can have a significant impact on international trade flows, foreign investment, foreign exchange reserves, inflation rates, and balance of payments. Some of the factors that affect international trade include currency exchange rates, inflation rates, government effectiveness, and trade openness rates. This study aims to investigate these factors comprehensively, especially in the context of Indonesia's international trade, using quantitative approaches and descriptive and verifiable methods. It is hoped that this research can provide valuable insights for policymakers in an effort to improve the economic welfare of Indonesia and other countries.

Cross-border trade is a key pillar in economic interactions between countries, aiming to optimize the exchange of goods, services, and investments to improve global economic prosperity and growth. Despite its noble goals, international trade is not without its challenges. Volatility in currency exchange rates, unstable inflation rates, and varying levels of trade openness are some of the challenges that must be overcome. Especially for countries like Indonesia, which adheres to an open economy, fluctuations in the rupiah exchange rate can have a significant impact on economic stability and international trade flows. Other factors such as high inflation rates can reduce a country's export competitiveness, while the effectiveness of the government in managing economic policies also plays an important role in determining the direction of international trade.

Through comprehensive research, including analysis of factors such as currency exchange rates, inflation rates, government effectiveness, and trade openness, it is hoped that it can provide a better understanding of the dynamics of international trade, especially in the context of Indonesia. Using a quantitative approach and descriptive and verifiable methods, this study aims to identify variables that have a significant influence on international trade, so that it can provide a strong basis for policymakers in formulating effective trade strategies. Thus, it is hoped that this research can make a meaningful contribution in efforts to improve Indonesia's economic welfare and strengthen its position in the global economy.

CONCLUSION

The implementation of this protection policy is first of all a response from the European Union to China's policy involving massive subsidies to its solar panel sector. This Chinese policy has succeeded in boosting the growth of their solar panel sector, making them the world's largest producer in this regard. However, the impact is the occurrence of excess production capacity which puts pressure on other manufacturers and disrupts the stability of the solar panel market. Second, the European Union has benefited significantly from the development of renewable energy, especially in terms of solar panels, which has experienced positive growth year on year. These gains mainly impact their ability to reduce dependence on fossil fuel imports and realize their ambition to become a leader in the use of renewable energy. Therefore, the EU needs the strength and stability of domestic producers so that the interests of the EU are well achieved. Third, a decrease in productivity from solar panel manufacturers can potentially trigger employment problems, which is one of the important factors for a country's economic sustainability. Therefore, the EU uses protection strategies to maintain and protect their domestic solar panel sector so that it continues to operate properly and is able to achieve the interests of the European Union.

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