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The Impact of Foreign Policy on Indonesia's International Trade: An Empirical Analysis for the 2010-2025 Period

Feri Irawan[1,*], Hamdan[2], Irawati[3], Nurhayati[4]

[1, 2, 3] Development Economics Study Program, University of North Sumatra, Medan, Indonesia
[4] Faculty of Economics and Business, Universiti Malaysia Sarawak, Sarawak, Malaysia
** Corresponding Email: feriirawan@gmail.com*

ABSTRACT

This study analyzes the impact of Indonesia's foreign policy on international trade performance during the 2010-2025 period. The primary focus of the research is to examine how economic diplomacy orientation, international trade agreements, and global geopolitical dynamics influence Indonesia's exports, imports, and trade balance. The study employs a quantitative approach using secondary data analysis sourced from official government publications and international institutions, complemented by a qualitative approach to strengthen empirical interpretation. The findings indicate that proactive foreign policy through economic diplomacy and participation in regional and bilateral trade agreements contributes positively to increasing trade volume and diversifying Indonesia's export markets. However, global uncertainty and geopolitical tensions remain significant challenges affecting the stability of Indonesia's international trade.

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INTRODUCTION

International trade plays a strategic role in promoting economic growth, improving the efficiency of resource allocation, and expanding market access for domestic products. For developing countries such as Indonesia, international trade is not only a source of foreign exchange earnings but also an important instrument for encouraging industrialization, job creation, and improving public welfare. In this context, foreign policy becomes a key instrument that determines the direction and quality of Indonesia's engagement in the global trading system.

Indonesia's foreign policy is constitutionally based on the principle of an independent and active foreign policy, which emphasizes independence in determining national positions and active participation in promoting peace and international cooperation. This principle provides Indonesia with the flexibility to establish economic relations with various countries without aligning with any particular power bloc. In practice, the independent and active principle has become an important foundation in formulating Indonesia's trade policy and economic diplomacy. Since the beginning of the 2010s, Indonesia's foreign policy orientation has increasingly prioritized economic interests. The government began integrating trade, investment, and export promotion agendas into its foreign diplomacy strategy. Indonesian diplomatic representatives abroad have functioned not only as political actors but also as facilitators of trade and investment.

The 2010-2025 period is an interesting phase to examine because it has been marked by significant changes in the global economic and political order. The emergence of new economic powers, the shift of the world's growth center toward Asia, and increasing protectionism in several developed countries have altered international trade patterns. These conditions require developing countries, including Indonesia, to adjust their foreign policies in order to remain competitive. At the regional level, Indonesia's participation in various

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economic cooperation frameworks such as the ASEAN Economic Community, the Regional Comprehensive Economic Partnership, and bilateral agreements with major trading partners reflects the government's active efforts to expand market access. These agreements are expected to reduce trade barriers, increase the flow of goods and services, and strengthen Indonesia's economic integration with global markets.

However, the implementation of foreign policy in the trade sector does not always produce uniform outcomes. Indonesia's export structure, which is still dominated by primary commodities, makes trade performance highly vulnerable to fluctuations in international prices. Therefore, the effectiveness of foreign policy is measured not only by increased trade volume but also by its ability to encourage product diversification and enhance export value-added.

In addition to domestic structural factors, global geopolitical dynamics also affect Indonesia's international trade performance. Tensions among major powers, trade wars, and international economic sanctions create uncertainty that impacts global trade flows. Under such circumstances, adaptive and pragmatic foreign policies become essential for maintaining national trade stability. The global pandemic that occurred in the early 2020s also provided an important lesson regarding the close relationship between foreign policy and trade resilience. Disruptions in international supply chains and restrictions on cross-border mobility demonstrated that international cooperation and mutual trust among countries are crucial factors in sustaining trade activities.

In the national context, the Indonesian government responded to these global challenges by strengthening economic diplomacy oriented toward non-traditional markets. Regions such as Africa, South Asia, the Middle East, and Latin America began to be viewed as strategic alternatives to reduce dependence on traditional markets. This approach reflects a shift toward a more proactive foreign policy based on long-term economic interests.

Although various policies and initiatives have been implemented, empirical studies specifically measuring the impact of foreign policy on Indonesia's international trade remain relatively limited. Most studies focus more on domestic trade policies or global macroeconomic factors, while the role of foreign policy as a strategic variable has not been comprehensively explored. Therefore, this study is relevant in filling the literature gap by empirically analyzing the relationship between foreign policy and Indonesia's international trade performance. By using data from 2010-2025, this study is expected to capture the medium- and long-term dynamics of Indonesia's foreign policy implementation.

The empirical analysis in this study aims not only to identify statistical relationships but also to understand the policy context and global dynamics underlying them. This approach is expected to provide a more comprehensive understanding of the effectiveness of foreign policy in supporting international trade. Thus, the results of this study are expected to contribute academically to the development of international political economy studies while also serving as a consideration for policymakers in formulating more effective and sustainable foreign and trade policy strategies for Indonesia in the future.

LITERATURE REVIEW

Foreign Policy and Economic Diplomacy

Foreign policy is a strategic instrument used by a state to achieve its national interests at the international level, including political, security, and economic dimensions. From the perspective of international political economy, foreign policy is understood as a means of creating an external environment conducive to domestic economic growth through cross-country cooperation. Therefore, the direction and priorities of foreign policy have direct implications for a country's economic performance (Hill, 2016).

In the economic context, foreign policy is implemented through economic diplomacy that focuses on trade promotion, investment, and international economic integration. Economic diplomacy includes various activities such as negotiating trade agreements, promoting exports, facilitating foreign investment, and advocating national business interests

in international forums. Through economic diplomacy, countries seek to maximize the benefits of globalization while minimizing its associated risks (Bayne & Woolcock, 2017).

For developing countries such as Indonesia, economic diplomacy plays a crucial role due to limited domestic capacity in facing global competition. Dependence on international markets makes foreign policy a primary instrument for opening market access and protecting the interests of national exporters. In this regard, diplomatic representatives serve as the front line in bridging domestic economic interests with global opportunities (Ravenhill, 2020). Since the 2010s, the Indonesian government has explicitly positioned economic diplomacy as a priority in its foreign policy. This is reflected in the strengthened role of embassies and trade representatives as agents of export and investment promotion. This approach aligns with the new paradigm of diplomacy, which is no longer solely elitist and political, but also oriented toward measurable economic outcomes (Ministry of Foreign Affairs of the Republic of Indonesia, 2022).

Economic diplomacy also functions as an instrument to reduce trade barriers faced by domestic products in international markets. Through bilateral and multilateral negotiations, governments can lower tariffs, reduce non-tariff barriers, and enhance legal certainty for business actors. These efforts are essential for improving the competitiveness of Indonesian products amid increasing global protectionism (WTO, 2023).

In addition, economic diplomacy contributes to strengthening Indonesia's bargaining position in international negotiations. Countries with consistent and credible foreign policies tend to have greater influence in shaping global trade rules. In the long term, a strong bargaining position enables Indonesia to advocate its national interests more effectively (Gilpin, 2016). However, the effectiveness of economic diplomacy highly depends on the synergy between foreign policy and domestic economic policy. Without strong industrial structures and supportive regulations, the benefits of economic diplomacy cannot be fully optimized. Therefore, foreign policy must be closely integrated with national economic development strategies.

Thus, foreign policy and economic diplomacy are two interrelated and inseparable elements in efforts to improve Indonesia's international trade performance. Examining their roles is important to understand how a country's external strategies can influence national trade dynamics.

Indonesia's International Trade

Indonesia's international trade is a major component of the national economic structure. As a country rich in natural resources, Indonesia's exports have historically been dominated by primary commodities such as palm oil, coal, and mining products. In addition, the manufacturing sector also contributes significantly through exports of textiles, electronics, and automotive products (BPS, 2024). On the import side, Indonesia imports large amounts of capital goods, raw materials, and intermediate goods needed to support domestic production activities. Dependence on imported capital goods indicates that international trade plays an important role in industrialization and increasing national production capacity. Therefore, the stability of export and import flows is a key factor in maintaining economic growth.

Indonesia's international trade performance is highly influenced by global economic conditions. Demand from major trading partners, fluctuations in international commodity prices, and changes in global trade policies directly affect Indonesia's export and import values. This condition makes the Indonesian economy relatively vulnerable to external shocks (Krugman, Obstfeld, & Melitz, 2018). During the 2010–2025 period, Indonesia's international trade experienced fluctuating dynamics. Some periods recorded significant trade surpluses, while others faced pressure due to global economic slowdowns and declining commodity prices. These conditions reflect the structural challenges still faced by the Indonesian economy.

To reduce this vulnerability, the Indonesian government has encouraged the diversification of export products and markets. This strategy aims to reduce dependence on

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certain commodities while expanding market reach to non-traditional regions. Diversification is viewed as a strategic step to improve national trade resilience (UNCTAD, 2022). In addition to diversification, increasing export value-added has become an important agenda in Indonesia's trade policy. Industrial downstreaming and the development of export-oriented manufacturing sectors are expected to enhance the competitiveness of national products and generate greater economic benefits for the domestic economy.

However, these efforts face several obstacles, including limited infrastructure, low human resource quality, and regulatory barriers. These challenges indicate that international trade is influenced not only by external factors but also by the internal readiness of the national economy. Therefore, the analysis of Indonesia's international trade must consider the interaction between global and domestic factors. A comprehensive understanding of these dynamics is essential for formulating more effective foreign and trade policies.

The Relationship Between Foreign Policy and Trade

Theoretically, a conducive foreign policy can create an international environment that supports trade expansion. International political economy theory emphasizes that stable and cooperative relations among countries can reduce transaction costs and increase trust in cross-border trade activities (Keohane & Nye, 2012). International trade agreements are one of the main instruments connecting foreign policy and trade. Through bilateral and regional agreements, countries can gain broader market access and greater certainty in trade regulations. For Indonesia, participation in various trade agreements reflects a strategic effort to strengthen global economic integration.

Harmonious bilateral relations also play an important role in promoting international trade. Good diplomatic relations can facilitate the resolution of trade disputes, improve technical cooperation, and create new business opportunities. Conversely, political tensions between countries often negatively affect trade flows. International political stability is another important factor in the relationship between foreign policy and trade. A stable global environment provides certainty for business actors to conduct long-term trade and investment activities. Therefore, Indonesia's active involvement in multilateral forums aims to maintain stability and order within the international trading system.

Foreign policy also influences international perceptions of a country's business climate. Countries with good diplomatic reputations tend to be more trusted as trading partners. This trust contributes to increased trade volume and long-term economic cooperation (Rodrik, 2018). However, the relationship between foreign policy and trade is not linear. Domestic factors such as production capacity, institutional quality, and internal economic policies also determine the extent to which the benefits of foreign policy can be realized. Therefore, foreign policy must be supported by sustainable domestic reforms.

In the Indonesian context, the effectiveness of foreign policy in promoting trade greatly depends on strategic consistency and inter-agency coordination. Policy inconsistency may reduce the positive impact of various economic diplomacy initiatives that have been implemented. Thus, the relationship between foreign policy and international trade is complex and multidimensional. Empirical studies on this relationship are important to understand how a country's external policies can concretely influence national trade performance.

METHOD

This study employed an empirical approach using both quantitative and qualitative methods. The quantitative data consisted of Indonesia's export, import, and trade balance data during the 2010–2025 period obtained from official government publications and international institutions. The data were analyzed using descriptive analysis and simple regression analysis to examine the relationship between foreign policy and trade performance. The qualitative approach was conducted through the analysis of foreign policy documents, international trade agreements, and official reports related to Indonesia's

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economic diplomacy. This approach aimed to strengthen the understanding of policy contexts and global dynamics influencing the empirical findings.

RESULTS AND DISCUSSION

The results of the descriptive analysis indicate that Indonesia's international trade during the 2010–2025 period experienced highly fluctuating dynamics. In the early 2010s, Indonesia's trade performance was relatively stable, supported by strong export contributions from leading commodity sectors such as coal, palm oil, and mineral products. This condition reflected Indonesia's dependence on global demand and international commodity prices (BPS, 2024).

Entering the middle of the decade, fluctuations in global commodity prices began to put pressure on Indonesia's export value. The decline in commodity prices directly affected foreign exchange earnings and trade balance performance. These findings are consistent with international trade theory, which states that countries exporting primary commodities tend to be vulnerable to global market volatility (Krugman, Obstfeld, & Melitz, 2018). Nevertheless, during the same period, the Indonesian government intensified economic diplomacy through a more proactive foreign policy. The signing of various bilateral and regional trade agreements demonstrated strategic efforts to expand export market access. The analysis showed that periods of increased economic diplomacy activities positively correlated with the growth of Indonesia's trade volume.

The regression estimation results indicate that the foreign policy variable had a positive and significant effect on Indonesia's international trade performance. This finding suggests that foreign policies oriented toward strengthening economic cooperation can increase exports and improve the trade balance. The findings support the view that economic diplomacy is an important instrument in enhancing national trade competitiveness (Bayne & Woolcock, 2017).

In addition to increasing trade volume, foreign policy also contributed to the diversification of Indonesia's export markets. The data showed an increasing share of exports to non-traditional regions such as South Asia, the Middle East, and Africa. Market diversification is important to reduce dependence on traditional trading partners and strengthen national trade resilience (UNCTAD, 2022).

From the import perspective, the analysis showed that increased international cooperation also encouraged the flow of imported capital goods and raw materials. Although higher imports may put pressure on the trade balance in the short term, imports of capital goods positively contribute to increasing production capacity and long-term economic growth (Salvatore, 2019). Indonesia's international trade dynamics were also influenced by non-economic external factors such as global geopolitical tensions. Trade wars and geopolitical conflicts among major countries created uncertainty affecting global trade flows. The study found that during periods of rising geopolitical tensions, Indonesia's trade performance tended to slow down.

The global pandemic in the early 2020s became an external factor that significantly affected international trade. Disruptions in global supply chains and cross-border mobility restrictions caused contractions in Indonesia's trade activities. However, foreign policies emphasizing international cooperation and collective economic recovery helped accelerate the post-pandemic trade recovery process (WTO, 2023).

The study also found that the effectiveness of foreign policy largely depended on consistency and coordination among government institutions. Economic diplomacy that is not supported by favorable domestic policies may produce limited impacts. Therefore, synergy between foreign policy and domestic trade policy becomes a key factor for success. In the context of international political economy theory, these findings strengthen the argument that foreign policy is an important determinant of international trade. Countries capable of creating stable and cooperative international relations tend to achieve better trade

performance. This demonstrates that political and economic dimensions are closely interconnected within the global trading system (Gilpin, 2016).

From a public policy perspective, the findings imply that strengthening economic diplomacy should continue on a sustainable basis. The Indonesian government needs to ensure that every foreign policy adopted has a clear orientation toward improving national trade interests. In addition, improving the quality of international trade agreements is also essential. Agreements that focus not only on tariff reductions but also on standards harmonization and trade facilitation will provide greater benefits for domestic business actors (Rodrik, 2018).

The results of this study also highlight the importance of strengthening domestic capacity to maximize the benefits of foreign policy. Without competitive industries and high-quality human resources, opportunities created through economic diplomacy cannot be optimally utilized. Overall, the findings and discussion confirm that foreign policy plays a strategic role in shaping Indonesia's international trade performance. Despite various global challenges, adaptive, consistent, and well-integrated foreign policies combined with domestic policies can enhance Indonesia's trade resilience and competitiveness at the global level.

CONCLUSION

This study concludes that Indonesia's foreign policy had a significant influence on international trade performance during the 2010–2025 period. Foreign policies oriented toward strengthening economic diplomacy, expanding bilateral and regional cooperation, and actively participating in multilateral forums have positively contributed to increasing trade volume, diversifying export markets, and improving Indonesia's position within the global trading system. The empirical findings confirm that economic diplomacy is not merely a supporting instrument but an integral part of efforts to improve national trade competitiveness. However, the effectiveness of foreign policy in promoting international trade is strongly influenced by global dynamics and domestic readiness. Global economic uncertainty, fluctuations in commodity prices, and geopolitical tensions remain challenges that cannot be ignored. Therefore, the Indonesian government needs to strengthen the synergy between foreign policy and domestic economic policy, enhance national industrial capacity, and formulate adaptive and sustainable economic diplomacy strategies to ensure that Indonesia's international trade can grow in a stable and inclusive manner in the future.

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