The Impact of International Trade on Indonesia's Economic Growth

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Abstract

Especially in the current era of globalization, international trade is crucial for the economic progress of a country, particularly Indonesia. The purpose of this study is to examine how international trade, encompassing import and export activities, has influenced Indonesia's economic growth in recent years. This study uses a literature review approach to investigate several factors, including exchange rates, the balance of payments, and fiscal and monetary policies, that influence the relationship between economic growth and international trade. The study's findings indicate that while imports help meet demand for commodities that are difficult to produce effectively domestically, export growth has a significant effect on GDP growth. However, heavy reliance on imports can make it difficult to maintain economic stability. Therefore, to optimize the contribution of international trade in driving sustainable Indonesian economic growth, an export diversification strategy and increased competitiveness of domestic products are needed.

I. INTRODUCTION

A country's economic growth is significantly aided by international trade, which encompasses import and export operations. Trade between countries not only increases the flow of products and services in the era of economic globalization but also provides opportunities for nations to maximize their economic potential. Numerous studies have shown that imports and exports can significantly impact a number of important elements, including per capita income, job creation, and knowledge transfer, thus contributing to economic growth.(Prasetiyo & Bachtiar, 2024).

According to Mankiw's theory of comparative advantage(Aji et al., 2017)Trade between countries is mutually beneficial by allowing each country to concentrate on producing the goods and services it can produce at the lowest cost. International trade thus promotes efficiencies that benefit all, increasing output, and ultimately improving economic well-being.(Matondang et al., 2024)This directly supports economic growth, as increased exports can boost a country's GDP and build economic stability.

However, imports also play an important role, especially in supplying the need for goods and services that are not produced effectively domestically.(Carolin et al., 2024)Imports give countries access to more advanced technology and cheaper goods, which ultimately helps increase domestic production capacity. Consequently, international trade involving imports and exports not only improves economic performance in the short term but also lays the foundation for long-term, stable growth.

Furthermore, the trade balance between imports and exports is influenced by exchange rate policies and balance of payments issues, both of which impact a country's economic stability. When a country's balance of payments is in surplus, it indicates that investment and export revenues exceed import costs, which helps boost the economy.(Zukesi et al., 2025)Therefore, to maximize economic potential and reduce the negative effects of excessive import dependence, it is crucial for countries to regulate international trade effectively.

According to Mankiw, trade between countries is based on comparative advantage, which means that each country can specialize in the area in which it is most effective, making trade profitable.(Mankiw, 2003)Economic growth can be seen as an expansion of economic activity that leads to an increase in the output of products and services to society.(Suhada et al., 2022). Economic growth is defined as the increase in a country's real GDP during a given year that corresponds to an increase in the economy's per capita income.(Mankiw, 2003). A long-term increase in total output, if it is greater than population growth and subsequent changes in the structure of the economy, is called economic growth.(Yunianto, 2021).

II. RESEARCH METHODS

The main method used in this research is a literature study approach.(Rukhmana et al., 2022). Reviewing related materials, such as books, scientific journals, magazines, and notes, as well as the findings of previous studies examining the relationship between foreign trade and Indonesia's economic expansion, is how data is collected. This approach was chosen because of its effectiveness and adaptability to achieve the research objective, namely to understand the impact of global trade without requiring fieldwork to collect primary data. To gain a deeper understanding, this method allows researchers to examine important concepts, secondary data, and current economic theories. Therefore, by using qualitative conceptual research and quantitative data analysis from secondary sources, a literature review is the best way to examine how international trade affects the domestic economy.

III. RESULTS AND DISCUSSION

A. Study on the Impact of International Trade on the Indonesian Economy

A country's economic growth is significantly influenced by international trade. Exporting more than importing increases national income, which ultimately promotes economic expansion. One benefit of international trade is that it allows a country to focus on efficiently producing goods and services for export to other countries. Increased national income, foreign exchange reserves, capital investment, and employment opportunities are all benefits of international trade.

The following are some of the advantages of global trade, according to Sukirno(Asiyan, 2013):

a. Fostering positive international relations
b. Purchasing goods not produced domestically. Many factors, including geographic location, climate, level of scientific and technological expertise, and so on, influence the gap in production output between countries. Each country can fulfill requirements that cannot be met by domestic production through international trade.
c. Take advantage of specialization. Taking advantage of specialization is a primary goal of international trade. Although a country can produce goods comparable to those of other countries, importing commodities from other countries is often more profitable for the nation.
d. Growing markets and generating more revenue. Because they fear that overproduction will lower the price of their products, entrepreneurs often underutilize their production equipment. Entrepreneurs can sell their excess products to foreign markets and maximize their production equipment through international trade.
e. Transfer of modern technology. A country can learn more about the latest management practices and more efficient manufacturing procedures through international trade.(Lestari et al., 2013).

Table 1. Development of Exports, Imports, and Economic Growth in Indonesia from 2018 to 2022(Nainggolan, 2024):

Year	Growth Econ-omy	Export (Million US$)	Import (Million US$)
2018	5.17	180012.7	188711.4

2019	5.02	167683.0	171275.7
2020	5.05	163191.8	141568.8

Data shows that between 2018 and 2020, Indonesian exports declined. Indonesia's average GDP growth rate during this period was 5.07 percent. The table above shows that Indonesia's imports and exports have declined. Since exports are the main driver of economic growth, an increase in exports will also result in increased economic growth.(Nainggolan, 2024).

Between 2018 and 2020, Indonesia's economic growth exhibited annual fluctuations. During that period, the Indonesian economy grew by an average of 5.07 percent. However, economic growth slowed significantly in 2019. However, Indonesia's import and export values also declined in 2019, likely due to import- and export-related variables. Since increased exports typically lead to increased economic growth, exports are a key contributor to economic growth.(Nainggolan, 2024)Indonesia's economy is heavily dependent on international trade due to its free-market system. This was evident in 2019, when imports exceeded exports, resulting in a decline in the country's economic growth percentage compared to 2018.(Nainggolan, 2024).

The primary metric used to assess a country's economic development is its GDP. According to the graph above, Indonesia's GDP peaked in October 2019 and then began to decline in early 2020, reaching its lowest point in July 2020. GDP has a significant impact on imports; the higher the GDP, the more Indonesia imports. GDP and imports have a negative relationship; that is, when imports rise, GDP tends to fall.(Kinski & Tanjung, 2023).

Economic growth and international trade are intertwined because both can increase a country's GDP through a free market. Exporting and importing goods to other countries are examples of trade operations that can increase a country's income and accelerate its infrastructure development. Many countries, such as those in the Middle East, rely heavily on oil exports to support their citizens' quality of life. They are able to maintain economic stability due to their substantial oil reserves.

A number of other countries rely on exports of technology, precious metals, and agricultural goods in addition to oil, demonstrating the importance of global trade in a country's economic development. Expanding production capacity is another element that strengthens this relationship. Production will inevitably increase in response to the growing demand for goods in producing countries, which also impacts the country's economy and wealth. Building infrastructure to support national security is another benefit of international trade. Consequently, to ensure its survival, every country must engage in international trade. Countries would struggle to receive assistance from other countries in times of need without international trade, and the absence of international engagement can have detrimental effects.

The level of economic growth can be used to assess a country's economy. A country's economic situation improves with a higher rate of economic growth. Demand for domestic goods and national production will benefit from a growing economy. Macroeconomic concerns are closely linked to economic growth. By optimizing current production parameters, citizens will strive to increase productivity. Natural resources, labor, and capital are examples of these production components. Increased investment will increase a country's production capacity by providing more capital, labor, and other resources.

International trade does have a significant impact on driving national economic growth in this era of globalization. Furthermore, several theories of international trade have been developed to explain why and how countries trade with each other. As you pointed out, the theory of absolute supremacy emphasizes that a country can gain from international trade if it specializes in producing goods that it can produce more cheaply than other countries. As a result, the global market becomes more efficient. Countries can more effectively import products they don't manufacture and export goods they do manufacture in a free trade system.(Kinski & Tanjung, 2023).

However, other theories have also emerged along with the growth of international trade. One such theory is the theory of comparative advantage, which focuses more on the idea that a country can still gain an advantage by specializing in the production of goods that have a lower opportunity cost than other countries, even if it does not have an absolute advantage in the production of those goods. The Heckscher-Ohlin theory also emphasizes the importance of production elements such as labor and capital in influencing global trade trends. Therefore, other theories also contribute to our understanding of trade dynamics in this era of globalization, although the theory of absolute superiority serves as the basis for understanding the efficiency of international trade.

B. Factors that Drive and Inhibit International Trade

There are many different elements that can help or hinder international trade. Some of the main enabling and hindering elements are as follows:

Supporting Factors:

1. Economic Integration and Globalization

One of the main forces behind international trade is globalization.(Matondang et al., 2024). Countries can access larger markets for their goods and services as a result of increasing global economic integration. Countries can communicate more easily without tariffs and other barriers thanks to the open markets created by free trade policies. Through international trade, countries with surplus production can sell their goods to countries with shortages, resulting in increased economic efficiency and mutually beneficial growth. This fosters the development of an interdependent global economy.

2. Natural Resource Gap

International trade is necessary because of the differences in natural resources between countries. Countries that lack certain raw materials or have limited natural resources will seek out other countries with excess supplies.(Amanda & Aslami, 2022)For example, oil-producing countries can export their oil products to the world market, while oil-deficient countries import from oil-producing countries. This difference allows countries to benefit from each other's advantages while enhancing economic relations and allowing them to import goods to meet domestic demand.

3. Increasing Demand from Consumers

Global trade is also driven by increasing demand for products and services in global markets.(Arif, 2024)Consumer demand is becoming more diverse across countries as a result of economic expansion and rising purchasing power. Countries with greater production capacity can exploit this situation to export their goods to foreign markets. Developing countries often purchase products such as electronics and cars made in developed countries. This interdependent global market is reinforced by these demand dynamics, which intensify trade between countries.

4. Technology and Infrastructure Development

Improved infrastructure and technology are essential to facilitate global trade.(Istiqlal, 2023)International transactions and communications are facilitated by advanced information and communications technology. Furthermore, effective transportation technologies, including airplanes and container ships, facilitate the rapid and affordable distribution of commodities worldwide. Countries with robust infrastructure, such as contemporary ports and reliable transit systems, find it easier to import and export. Furthermore, technological advances have improved product quality and production, increasing nations' competitiveness in the global marketplace.

5. Inhibiting Factors

Every country desires smooth international trade, but it is undeniable that potential barriers can arise and impact outcomes. Countries involved in international trade may suffer as a result of these barriers. Common barriers to international trade include, for example,(Maryansyah, 2018):

a. Political Context

It is crucial for nations to have positive political relations with one another, as poor political relations will hinder trade between countries. Because applicable regulations may differ across countries, laws also play a significant role in creating barriers to international trade. For example, when Indonesia, under a democratic government, supported the Eastern Bloc, its relations with China and Russia were strained, making trade challenging.

b. Currency Differences

Trade is hampered by the fact that each country has its own currency. Typically, exporting countries use their own currency to request payment from importing countries. For example, Indonesia will demand payment in Rupiah, its national currency, if it exports to the United States.

c. Human Resources Not Very Good

International trade may be hampered by a shortage of skilled labor or human resources due to the production of substandard goods. Countries that produce low-quality goods will struggle to compete with those producing higher-quality goods.

d. A Country Has an Import Policy

It's normal for a country to protect its own products to avoid competition from other countries' products. In this case, import tariffs are one measure a country takes to protect domestic goods. People generally tend to avoid buying imported goods because they are more expensive than domestic goods due to high import duties.

C. Barriers to International Trade

International trade has many advantages, but it also has disadvantages, including complex regulations, volatile markets, and intense global competition. Therefore, for Indonesia to maximize its potential for international trade, sustainability measures and adaptation methods must be established.(Maryansyah, 2018).

1. Difficult Regulations

Regulations governing international trade are often complex and vary across countries. The import-export process may be hampered by the numerous policies, tariffs, and regulations each country has in place. For example, the imposition of high tariffs or quotas by some countries can reduce the competitiveness of Indonesian goods. Market access is further complicated by restrictions related to various technical requirements and quality standards. To remain competitive in the global market, Indonesia must understand evolving international laws and establish agreements that facilitate cross-border trade.

2. Variations in the Market

One of the biggest barriers to international trade is market volatility. The competitiveness of Indonesian goods can be affected by shifts in market demand, currency exchange rates, and global commodity prices. For example, production costs for exported goods will increase if raw material prices rise or the rupiah depreciates, which will reduce profit margins. Natural disasters, policy changes in major economies, and international economic crises can also cause market turbulence. Indonesia must diversify its export markets and develop risk reduction plans against global economic uncertainty to address these obstacles.

3. International Competition

With product quality and technical advancements superior to those of competing countries, global competition is intensifying. China and India, two countries with low production costs, often offer goods at lower prices, making it difficult for Indonesia to compete. Furthermore, more advanced technology allows rival countries to increase efficiency and output. Indonesia must focus on improving product quality, innovation, and human resource development to remain competitive. Gaining a competitive advantage through product originality and brand value will also be key tactics for capturing the market.

IV. CONCLUSION AND SUGGESTIONS

A. Conclusion

Indonesia's economic growth is heavily influenced by international trade. Various literature reviews have shown that import and export operations increase GDP and enhance economic stability. Through exports, Indonesia can benefit from its comparative advantage, increasing state revenue, replenishing foreign exchange reserves, and creating jobs. Imports, on the other hand, strengthen national production capacity by providing access to products and technologies that are difficult to produce effectively domestically.

However, there are drawbacks to over-reliance on imports, including the potential for balance of payments imbalances and the impact of exchange rate fluctuations, which can jeopardize economic stability. Therefore, managing international trade requires appropriate policies.

To promote sustainable economic growth, export diversification, increasing the competitiveness of domestic goods, and efficient exchange rate management are essential measures. Indonesia can reduce the risk of dependence on foreign markets while maximizing the benefits of international trade with the right approach.

B. Suggestion

Based on the conclusions above, the Indonesian government is advised to continue strengthening international trade policies oriented toward long-term economic sustainability. Strategic steps such as diversifying export products, improving the quality and competitiveness of domestic goods, and strengthening high-tech industries should be prioritized so that Indonesia becomes not only a market for foreign products but also an active player in the global market. Furthermore, exchange rate stability must be carefully managed to mitigate negative impacts on the balance of payments. Collaboration between the public and private sectors is also essential to expand export market access and encourage investment in the domestic production sector. In this way, Indonesia can create a more resilient trade structure and contribute significantly to national economic growth.

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