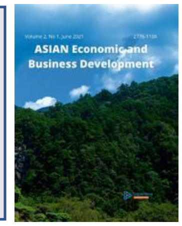
ISSN 2776-110X

Contents list are available at Journals.indexcopernicus.com

ASIAN Economic and Business Development

Journal homepage: aebd.tripleninecommunication.com




# Analysis of Factors Affecting International Trade on Economic Growth in Indonesia

Muhammad Fiqri Pratama[1] , Rangga Anugrah Alifrianto[2], Alfin Khoirun Niam[3], Tiara Mardhatillah[4], Ratna Yuliawati[5], Erien Dwi Wahyu[6]

[1,2,3,4,5,6]Economics Department, Faculty of Economics and Business, University of Jember, Indonesia

**Abstract**

International trade has become an important factor in a country's economic growth. The aim of this study is to analyze the factors that influence international trade and their affect on economic growth. In this study, identification of economic factors that influence international trade, such as exports and imports, and how these factors relate to economic growth. The method used in this study is a qualitative approach to literature study which provides an in-depth description of the phenomenon under study. The outcome of the study show that differences in the manufacture and price of goods between countries are the drivers of international trade.

**Keyword :** International Trade, Export, Import, Economic Growth

**JEL Classification :** C01, E24, J24, P18

Received May 30, 2023; Revised June 11, 2023; Accepted June 20, 2023

DOI : 10.54204/AEBD/Vol6No1August2023007

## Background

International trade serves as a catalyst for economic growth in today's era of globalization. The factors that affect international trade can have a significant affect on a country's economic development. Analyzing these factors enables us to gain a better understanding of how international trade relations influence a country's economic progress. In the modern world, many countries heavily rely on international trade as their primary source of income and economic expansion. International trade allows countries to leverage their comparative advantages, access broader markets, and acquire superior resources and technology. However, comprehending how international trade affects a country's economic growth requires considering several factors (Singh, 2010).

The trade regulations implemented by a country exert a substantial influence on economic growth. Protectionist measures or trade liberalization can impact market access, tariffs, import quotas, and other relevant regulations. Analyzing these factors helps us grasp how a country's trade policies affect its economic growth (Viphindrartin & Bawono, 2021).

Technological advancements and innovation also play a pivotal role in international trade and economic growth. Information and communication technology has revolutionized trade practices by enabling companies to participate in global supply chains and enhancing trade efficiency. Examining these factors provides insights into how technology and innovation can influence economic growth through international trade. Furthermore, macroeconomic factors such as political stability, inflation rates, currency exchange rates, and global economic growth need to be analyzed within the context of international trade and economic development. These factors can have both direct and indirect impacts on international trade, thereby affecting a country's economic growth. Analyzing these factors aids in understanding the intricate relationship between international trade and economic growth (Su, Naqvi, Shao, Li, & Jiao, 2020).

Based on research findings, it can be inferred that exports have a significant affect on Indonesia's economic growth in partial analysis, whereas imports do not. However, in a simultaneous analysis, both exports and imports demonstrate an influence on Indonesia's economic growth (Zatira, Sari, Apriani, 2021). However, the research conducted and the ensuing discussions indicate that international trade does not have a substantial affect on economic growth. This is primarily due to sluggish movement in net export values and the high value of Indonesia's imports compared to its exports, resulting in a negative net export value. Conversely, investment exerts a significant positive affect on economic growth, aligning with the existing theory that higher levels of investment contribute to increased economic growth. Greater investment levels boost a country's income, thereby driving economic expansion (Wulandari, Soleha, & Wulandari, 2023). The primary aim of this research is to determine the elements that impact the economic expansion by means of global commerce. Through this analysis, we can identify policies and strategies that can be implemented to strengthen the positive connection between the global trade and a country's economic growth.

**Literature Review**

The Global trade encompasses the exchange of goods and services between countries through agreements involving individuals, governments, or both. It plays a vital role in increasing a country's Gross Domestic Product (GDP) and contributes to industrialization, transportation, globalization, and the presence of multinational companies (Carayannis, Acikdilli, & Ziemnowicz, 2020).

The concept of comparative advantage underpins trade between countries, where each country focus in producing goods or services in which they have a comparative advantage and trades with others to obtain goods or services that are not efficiently produced domestically (Zou, Shen, Zhang, & Lee, 2022).

Economic growth refers to the progress in economic activity that leads to an increase in the production of goods and services by the community. It is measured by the real GDP of a country in a given year, indicating an increase in per capita income (Magdalena & Suhatman, 2020).

Economic growth involves a long-term increase in total output, accompanied by changes in the structure of the economy (Keghter, Oliver, & Afamefuna, 2020).

Exports involve selling a country's goods to foreign nations, complying with government regulations, with the expectation of receiving payments in foreign currency and engaging in foreign language interactions. Exports have a significant affect on a country's economic growth as they increase national income and accelerate development and economic progress (Viphindrartin & Bawono, 2021). Increasing exports can lead to a surplus in the balance of payments, positively affecting economic growth (Blecker, 2022).

Import refers to the purchase or entry of goods from abroad into a country's domestic economy. The impact of imports on economic development is explained by the Hecksher-Ohlin theory, where countries import goods that utilize factors of production not abundantly available domestically. Higher levels of imports can lead to increased consumption, resulting in a balance of payments deficit and negatively affecting economic development (Hubacek, Chen, Feng, Wiedmann, & Shan, 2021).

Imports have conflicting effects on a country's economic growth. While they contribute to increased consumption, they can also lead to a deficit in the balance of payments, which negatively impacts economic development (Wang, Su, Lobonţ, & Umar, 2021).

Economic growth serves as a universal indicator that reflects a country's progress over a specific period, demonstrating an increase in added value compared to the previous period. Evaluating a country's economic development can involve various indicators, including economic growth, unemployment rate, poverty rate, inflation, among others. The speed and stability of economic growth are expected to have a positive affect on other economic variables, directly or indirectly (David, 2019). Economic development entails the growth of economic activities that result in increased production of goods and services by the population (Fan & Hao, 2020).

## Research Methods

This study applies a qualitative method of literature study which aims to provide an in-depth description of the phenomenon under study. A qualitative approach is a research method used in the natural context of the research object, where the researcher acts as the main instrument for collecting data. This approach focuses on describing economic growth and export-import activities. The sources for writing in this article refer to previous research.

## Results and Discussion

### Factors Inhibiting International Trade

International trade refers to the economic activity involving the transaction of goods and services between two or more countries with the aim of meeting the needs of their respective populations. It facilitates the free flow of goods and services through cooperative trade agreements between countries (Ratten, 2020). International trade plays a vital role in driving a country's economic growth. It enables countries to benefit from the exchange of goods, services, and resources. Additionally, international trade creates job opportunities and enhances overall prosperity.

However, international trade is not always smooth, as there are factors that can influence its course. These factors can be categorized as either supportive or inhibiting. Inhibiting factors include differences in currency values, trade policies, inadequate human resources, and conflicts (Zheng & Walsh, 2019).

Differences in currency values serve as a common hindrance in international trade. The exchange rates between countries significantly impact the prices of exported and imported goods. Growth in the exchange rate of a country's currency can make its exported goods cheaper, leading to increased exports. Conversely, the difference in exchange rates may result in higher prices for goods imported from other countries, potentially reducing imports (Abreo, Bustillo, & Rodriguez, 2021). A decrease in the price of domestic goods can boost exports and reduce imports, increasing the demand for the domestic currency and strengthening the exchange rate. However, an increase in domestic goods' prices can lead to reduced exports, increased imports, and a higher demand for another country's currency, resulting in a weakening of the domestic currency. This can have a negative affect on economic growth by slowing down the growth rate (Ikechi & Nwadiubu, 2020)..

**Factors Driving International Trade**

International trade involves both drivers and obstacles that shape its activities. Factors such as differentiated production outcomes, price disparities, and the desire to enhance productivity play crucial roles in driving international trade (Wang, Wang, & Tang, 2020). Amelia (2022) emphasizes that international trade expands into new market sectors or regions, enabling the utilization of domestic products and minimizing limitations to create larger markets.

A key driver of international trade, as stated by Ajriah (2019), is the differentiation in production outcomes between countries worldwide. Each country possesses unique assets, such as capital wealth, natural resources, technology, and diverse cultural backgrounds, which lead to the production of distinct goods and services. For instance, Indonesia is known for its abundant agricultural production, while Korea and Japan excel in sophisticated electronic goods. This disparity in production outcomes provides opportunities for international trade, where countries can exchange excess goods or services for those they lack. By leveraging each other's strengths and advantages, countries can achieve greater efficiency and prosperity. Moreover, price disparities also act as a driving force in international trade.

The price of a specific item may vary across countries, and this variation supports international trade (Gereffi, 2020). For example, if the price of smartphones in South Korea and Japan is more affordable than in Indonesia, Indonesian consumers may opt to purchase these smartphones from Korea or Japan and import them to Indonesia for resale at a higher price. The variation in buying and selling prices becomes a source of profit for international trade participants. They exploit these price differences to maximize their profits and stimulate trade flows between countries. Additionally, beyond economic factors, there are non-economic factors that drive international trade, such as the desire to enhance productivity (Chun, Matsumoto, Chinen, Endo, Gan, & Tahara, 2022).

Every country has diverse needs and interests in various goods, but it is more economically efficient for countries to concentrate their production on a few types of goods that they can produce with high efficiency. By specializing in certain areas of production, countries can increase productivity in producing these goods. Through international trade, they can then fulfill their needs for other goods that they are unable to produce efficiently. In this collaborative manner, countries enhance overall productivity and achieve greater profits through international trade (Fróna, Szenderák, & Harangi-Rákos, 2019).

## Conclusion

The International or Global trade involves the exchange of goods and services between countries to fulfill the needs of their respective populations. It plays a critical role in the economic development of a country by generating employment opportunities and increasing prosperity. However, international trade encounters obstacles that can impede its smooth operation. One significant hindrance is the differentiation of currency values between countries. Currency exchange rate fluctuations impact the prices of traded goods and services, reduce a country's product competitiveness, and affect demand from other countries. Additionally, varying trade policies between countries can also limit international trade. Each country implements its own trade policies, including import tariffs and regulations, which can disrupt the flow of trade. In addition to these hindrances, there are driving factors in international trade. Differences in production outputs between countries create opportunities for mutually beneficial exchanges of goods and services. Price disparities between countries also incentivize international trade, as traders can profit from buying goods at lower prices and selling them at higher prices. Moreover, the desire to increase productivity serves as a driving factor, leading countries to specialize in production to enhance efficiency and meet the demand for goods they cannot efficiently produce themselves. To boost international trade, countries need to overcome existing obstacles such as currency value disparities and unfavorable trade policies. Cooperation and dialogue between countries are essential in establishing a favorable trading environment and ensuring mutual benefits for all parties involved.

## References

Abreo, C., Bustillo, R., & Rodriguez, C. (2021). The role of institutional quality in the international trade of a Latin American country: evidence from Colombian export performance. Journal of Economic Structures, 10(1), 1-21.

Ajriah, D. (2019). Perdagangan Internasional. *Kemdikbud. Retrieved (https://sumber. belajar. kemdikbud. go. id/repos/FileUpload/Perdagangan Internasional-KIS/topik2. html)*.

Amelia, F. (2022). Perdagangan Internasional Booster Dalam Pertumbuhan Ekonomi. *Change Think Journal*, *1*(02), 151-157.

Blecker, R. A. (2022). New advances and controversies in the framework of balance-of-payments-constrained growth. Journal of Economic Surveys, 36(2), 429-467.

Bontempi, E., & Coccia, M. (2021). International trade as critical parameter of COVID-19 spread that outclasses demographic, economic, environmental, and pollution factors. Environmental Research, 201, 111514.

Carayannis, E. G., Acikdilli, G., & Ziemnowicz, C. (2020). Creative destruction in international trade: Insights from the quadruple and quintuple innovation helix models. Journal of the Knowledge Economy, 11(1), 1489-1508.

Chun, Y. Y., Matsumoto, M., Chinen, K., Endo, H., Gan, S. S., & Tahara, K. (2022). What will lead Asian consumers into circular consumption? An empirical study of purchasing refurbished smartphones in Japan and Indonesia. Sustainable Production and Consumption, 33(1), 158-167.

David, O. O. (2019). Nexus between telecommunication infrastructures, economic growth and development in Africa: Panel vector autoregression (P-VAR) analysis. Telecommunications Policy, 43(8), 1-10.

Fan, W., & Hao, Y. (2020). An empirical research on the relationship amongst renewable energy consumption, economic growth and foreign direct investment in China. Renewable energy, 146(1), 598-609.

Fróna, D., Szenderák, J., & Harangi-Rákos, M. (2019). The challenge of feeding the world. Sustainability, 11(20), 1-10.

Gereffi, G. (2020). What does the COVID-19 pandemic teach us about global value chains? The case of medical supplies. Journal of International Business Policy, 3(1), 287-301.

Hubacek, K., Chen, X., Feng, K., Wiedmann, T., & Shan, Y. (2021). Evidence of decoupling consumption-based CO2 emissions from economic growth. Advances in Applied Energy, 4(1), 1-10.

Ikechi, K. S., & Nwadiubu, A. (2020). Exchange rate volatility and international trade in Nigeria. International Journal of Management Science and Business Administration, 6(5), 56-72.

Keghter, K. K., Oliver, E. O., & Afamefuna, A. E. (2020). Health expenditure and economic growth nexus in Nigeria: Does institutional quality matter. Journal of Economics and Allied Research, 4(4), 1-15.

Magdalena, S., & Suhatman, R. (2020). The Effect of Government Expenditures, Domestic Invesment, Foreign Invesment to the Economic Growth of Primary Sector in Central Kalimantan. Budapest International Research and Critics Institute-Journal (BIRCI-Journal), 3(3), 1692-1703.

Ratten, V. (2020). Coronavirus and international business: An entrepreneurial ecosystem perspective. Thunderbird International Business Review, 62(5), 629-634.

Singh, T. (2010). Does international trade cause economic growth? A survey. The World Economy, 33(11), 1517-1564.

Su, C. W., Naqvi, B., Shao, X. F., Li, J. P., & Jiao, Z. (2020). Trade and technological innovation: The catalysts for climate change and way forward for COP21. Journal of environmental management, 269(1), 1-10.

Viphindrartin, S., & Bawono, S. (2021). International Economics. Singapore : Triple Nine Communication Press

Wang, K. H., Su, C. W., Lobonţ, O. R., & Umar, M. (2021). Whether crude oil dependence and CO2 emissions influence military expenditure in net oil importing countries?. Energy Policy, 153(1), 1-10.

Wang, S., Wang, X., & Tang, Y. (2020). Drivers of carbon emission transfer in China—An analysis of international trade from 2004 to 2011. Science of the total environment, 709(1), 1-10.

Wulandari, A., Soleha, D. M., & Wulandari, R. (2023). Analisis Dampak Globalisasi terhadap Perdagangan Internasional. *J-MAS (Jurnal Manajemen dan Sains)*, *8*(1), 1160-1165.

Zatira, D., Sari, T. N., & Apriani, M. D. (2021). Perdagangan Internasional Terhadap Pertumbuhan Ekonomi Indonesia. *Jurnal Ekonomi-QU*, *11*(1), 88-96.

Zheng, W., & Walsh, P. P. (2019). Economic growth, urbanization and energy consumption—A provincial level analysis of China. Energy Economics, 80(1), 153-162.

Zou, L., Shen, J. H., Zhang, J., & Lee, C. C. (2022). What is the rationale behind China's infrastructure investment under the Belt and Road Initiative. Journal of Economic Surveys, 36(3), 605-633.