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# UNPACKING INDONESIA'S MOTIVES THE IUAE-CEPA THROUGH THE LENS OF CROSS-REGIONAL TRADE AGREEMENTS

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**Abstract**

This study examines Indonesia's motives in establishing a cross-regional economic partnership with the United Arab Emirates through the IUAE-CEPA. Departing from Indonesia's typical trade strategy focused on large or geographically proximate economies, this agreement reflects a shift in economic diplomacy. Applying cross-regional trade agreement partner selection theory and a qualitative document analysis method, the research reveals that Indonesia's motivations extend beyond economic interests to include political and diplomatic strategy. The findings contribute to understanding how emerging economies leverage trade agreements for geopolitical positioning and regional economic integration.

**Keywords**: comprehensive economic partnership agreement, cross regional trade agreement, Indonesia, trade, and United Arab Emirates

## Introduction

International economic cooperation has emerged as a strategic pillar for countries seeking to advance national development while navigating increasingly complex global challenges. In an era marked by shifting geopolitical alignments, supply chain disruptions, and digital transformation, such cooperation is no longer limited to traditional trade flows—it now encompasses broader frameworks of mutual benefit, resilience, and strategic positioning. One of the most prominent instruments of this cooperation is the free trade agreement (FTA), designed to foster economic openness, expand market access, reduce trade barriers, attract investment, and enhance both exports and imports. The proliferation of FTAs worldwide reflects a growing trend toward bilateral and plurilateral arrangements, where states pursue tailored partnerships to secure economic advantages, assert regional influence, and respond to evolving global dynamics.

However, while FTAs are often framed as universally beneficial, their strategic value varies depending on the political economy context and the specific interests of participating states. Indonesia has become increasingly active in this arena, with 44 FTAs recorded as of 2024—18 signed, 10 under negotiation, and 16 in the consultation or exploration stage. Notably, nine of these are bilateral agreements (ARIC, n.d; Indonesian Cabinet Secretariat, 2023; FTA Center MoT RI, 2023a), reflecting a broader global trend toward more targeted, interest-driven economic partnerships rather than multilateral consensus-building. This shift underscores the importance of understanding not only the economic logic but also the political and strategic calculations behind such agreements.

One such bilateral initiative is the Indonesia–United Arab Emirates Comprehensive Economic Partnership Agreement (IUAE-CEPA). As a mixed trade agreement, CEPA goes beyond tariff reduction to include market access, capacity building, and trade facilitation. It encompasses provisions on trade in goods and services, investment, competition policy, and intellectual property protection (Siswanto et al., 2023). The IUAE-CEPA was initiated on March 30, 2021, during a meeting commemorating 45 years of diplomatic relations. Formal negotiations began on September 2, 2021, and concluded within nine months, an unusually swift timeline that signals strong political will on both sides. The agreement was signed on July 1, 2022, in Abu Dhabi, with both presidents in attendance, and was later ratified through Presidential Regulation Number 43 of 2023. It covers a wide range of sectors, including trade, investment, intellectual property, Islamic economics, customs procedures, economic cooperation, and digital trade (FTA Center MoT RI, 2023b).

The IUAE-CEPA is a strategic free trade agreement (FTA) that has the potential to enhance the economic prospects of both Indonesia and the UAE, while also advancing South–South cooperation between two influential Muslim-majority economies. It signals Indonesia's commitment to advancing free trade with the UAE, despite the geographical distance between the two countries. As Indonesia's first comprehensive trade agreement with a Middle Eastern nation (Indonesian Cabinet Secretariat, 2023), it is expected to stimulate economic growth by expanding market access, gradually eliminating import tariffs on Indonesian products, increasing competitiveness, and encouraging exports to the UAE (DG of International Trade Negotiations MoT RI, 2022). However, the agreement also raises concerns. Indonesia's imports from the UAE consistently exceeded its exports between 2017 and 2022, resulting in a persistent trade deficit (UN Comtrade Database, n,d). This paradox highlights the need to investigate Indonesia's motivations for pursuing the IUAE-CEPA, particularly given the asymmetry in trade performance.

**Table 1.1 Trade Comparison between Indonesia and its CEPA/EPA Partners 2017-2022 Period (US Dollar)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Indonesia – UAE** | | | | | | | |
| | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **Avg/Year** |
| Export | 1,626,363,331 | 1,460,698,872 | 1,471,228,495 | 1,243,961,864 | 1,892,738,336 | 2,300,356,179 | 1,665,891,180 |
| Import | 2,080,212,059 | 1,862,004,716 | 2,183,652,309 | 1,682,991,995 | 2,142,989,351 | 2,760,473,471 | 2,118,720,650 |
| Total | 3,706,575,390 | 3,322,703,588 | 3,654,880,804 | 2,926,953,859 | 4,035,727,687 | 5,060,829,650 | 3,784,611,830 |
| Balance | -453,848,728 | -401,305,844 | -712,423,814 | -439,030,131 | -250,251,015 | -460,117,292 | -452,829,471 |
| **Indonesia – Japan** | | | | | | | |
| | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **Avg/Year** |
| Export | 17,798,800,690 | 19,479,891,977 | 16,003,261,514 | 13,664,728,614 | 17,855,409,214 | 24,845,365,325 | 18,274,576,222 |
| Import | 15,240,036,557 | 17,976,711,408 | 15,661,831,471 | 10,672,054,176 | 14,644,286,874 | 17,176,667,363 | 15,228,597,975 |
| Total | 33,038,837,247 | 37,456,603,385 | 31,665,092,985 | 24,336,782,790 | 32,499,696,088 | 42,022,032,688 | 33,503,174,197 |
| Balance | 2,558,764,133 | 1,503,180,569 | 341,430,043 | 2,992,674,438 | 3,211,122,340 | 7,668,697,962 | 3,045,978,248 |
| **Indonesia – Republic of Korea** | | | | | | | |
| | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **Avg/Year** |
| Export | 8,200,326,740 | 9,532,500,318 | 7,234,408,618 | 6,507,557,506 | 8,980,472,020 | 12,813,689,301 | 8,878,159,084 |
| Import | 8,122,335,641 | 9,088,875,758 | 8,421,259,397 | 6,849,367,950 | 9,427,193,748 | 11,718,181,613 | 8,937,869,018 |
| Total | 16,322,662,381 | 18,621,376,076 | 15,655,668,015 | 13,356,925,456 | 18,407,665,768 | 24,531,870,914 | 17,816,028,102 |
| Balance | 77,991,099 | 443,624,560 | -1,186,850,779 | -341,810,444 | -446,721,728 | 1,095,507,688 | -59,709,934 |
| **Indonesia – Australia** | | | | | | | |
| | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **Avg/Year** |
| Export | 2,524,361,564 | 2,800,076,332 | 2,328,625,110 | 2,505,717,328 | 3,222,969,363 | 3,469,605,478 | 2,808,559,196 |
| Import | 6,008,949,217 | 5,825,541,411 | 5,515,308,742 | 4,646,556,118 | 9,425,007,794 | 9,863,268,333 | 6,880,771,936 |
| Total | 8,533,310,781 | 8,625,617,743 | 7,843,933,852 | 7,152,273,446 | 12,647,977,157 | 13,332,873,811 | 9,689,331,132 |
| Balance | -3,484,587,653 | -3,025,465,079 | -3,186,683,632 | -2,140,838,790 | -6,202,038,431 | -6,393,662,855 | -4,072,212,740 |
| **Indonesia – Chile** | | | | | | | |
| | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **Avg/Year** |
| Export | 158,528,619 | 158,974,481 | 126,678,181 | 144,761,616 | 258,687,933 | 354,657,012 | 200,381,307 |
| Import | 119,896,093 | 115,105,072 | 149,101,295 | 108,901,941 | 165,209,184 | 229,344,401 | 147,926,331 |
| Total | 278,424,712 | 274,079,553 | 275,779,476 | 253,663,557 | 423,897,117 | 584,001,413 | 348,307,638 |
| Balance | 38,632,526 | 43,869,409 | -22,423,114 | 35,859,675 | 93,478,749 | 125,312,611 | 52,454,976 |

Source**:** Adapted from UN Comtrade Database (n.d).

To provide context, Table 1.1 presents a comparison of Indonesia's trade performance with selected CEPA/EPA partners. Indonesia typically cooperates with countries that demonstrate strong trade ties, geographic proximity, or a favorable trade balance—exceptions being Chile and the UAE. Analyzing the data from 2017 to 2022, it appears that Indonesia's partnership pattern is primarily driven by three key criteria: strong economic ties, geographical proximity, or a favorable balance of trade. Regional partners with significant trade ties stand out in this regard. For instance, Japan recorded an average total trade of approximately USD 33.5 billion per year, accompanied by an average Indonesian surplus of around USD 3.045 billion. South Korea's average total trade was around USD 17.8 billion per year. Australia, despite an average trade deficit for Indonesia of approximately USD –4.07 billion, still maintains a high average trade value of around USD 9.69 billion per year. This makes Australia a notable partner in terms of geographical proximity and supply chain connectivity. Indonesia's cooperation with Chile exhibits a surplus and profitable trend, despite a relatively smaller average total trade value of around USD 348 million per year. This cooperation results in a net surplus for Indonesia of approximately USD 52 million. On the other hand, the UAE has a lower average total trade of around USD 3.78 billion per year and tends to be in deficit for Indonesia, making it less representative of Indonesia's general partnership pattern.

Supporting this observation, Musfiroh (2020) noted that Indonesia has often established economic and trade cooperation with major partner countries and those with relatively large economic relations. While Japan, South Korea, and Australia represent significant trading partners with both strong economic ties and geographic proximity, the UAE's trade volume is comparatively modest and consistently disadvantageous for Indonesia. Chile, another geographically distant partner, differs from the UAE in that Indonesia recently recorded a trade surplus. Over the six-year period analyzed, Indonesia's trade balance with the UAE consistently showed a deficit, averaging USD –452,829,471 annually. These contrasts underscore that the IUAE-CEPA deviates from Indonesia's typical pattern of prioritizing partners with substantial trade flows or favorable balances.

Indonesia's decision to pursue IUAE-CEPA represents a notable departure from its typical trade partner selection, which tends to favor countries with strong economic ties, geographic proximity, or favorable trade balances. Unlike Japan, South Korea, or Australia, the UAE ranks relatively low in Indonesia's trade hierarchy and has consistently produced a trade deficit. This anomaly raises a critical question: Why did Indonesia prioritize a comprehensive agreement with a partner that defies its usual economic logic? This study addresses that gap by examining the strategic motivations behind IUAE-CEPA, beyond conventional trade measures. The objective of this study is to analyze the underlying strategic considerations that led Indonesia to pursue IUAE-CEPA, despite an unfavorable trade balance, and to assess how this agreement reflects broader shifts in Indonesia's foreign economic policy priorities. Academically, it contributes to the literature on trade diplomacy and partner selection by challenging assumptions of economic rationality in foreign policy. Practically, it offers policymakers a nuanced understanding of how non-economic factors—such as geopolitical positioning, Islamic economic cooperation, and long-term strategic interests—can shape trade agreements in ways that transcend immediate trade balances.

## Literature Review

Research on CEPAs has expanded in recent years, highlighting their influence on economic partnerships across regions. Much of the existing literature has focused on the pursuit of national interests by participating countries. Studies by Avivi & Siagian (2020), Cholif & Paksi (2022), Darmastuti et al. (2022), Islamawati (2019), Minhajuddin (2023), and Wa'Uina et al. (2024) underscore that CEPAs function as strategic instruments through which states advance economic and geopolitical objectives. These works collectively highlight how CEPA frameworks are leveraged to secure market access, enhance export competitiveness, and reinforce diplomatic ties.

Beyond national interest, scholars have also explored CEPAs as vehicles of economic diplomacy. Research by Bahri (2024), Dewi & Santoso (2022), Bila & Wijayati (2022), and Santoso & Moenardy (2023) interprets CEPA agreements as mechanisms for expanding trade and investment flows, particularly in emerging economies seeking to reposition themselves within global value chains. These studies emphasize the role of CEPAs in fostering institutional cooperation, reducing trade barriers, and signaling economic openness to international partners.

A third thematic strand in the literature examines the intersection of economics and politics within CEPA negotiations and implementation. Juned & Sutiono (2024), Musfiroh (2024); and Sabaruddin & Marks, (2016) argue that while CEPA processes are often complex and politically sensitive, they yield tangible benefits that extend beyond economic metrics, including enhanced bilateral trust and strategic alignment. Complementary to this, Andriani & Andre (2017), and Ismail & Mulyaman (2018) investigate the influence of domestic political actors, bureaucratic capacity, and institutional coordination on the success of CEPA outcomes. Meanwhile, Rosita et al., (2024), foreground the normative legal dimensions of CEPA agreements, asserting that regulatory clarity and legal harmonization are critical to strengthening Indonesia's global economic positioning.

Despite the breadth of existing scholarship, a critical synthesis remains underdeveloped. Most studies conceptualize CEPAs as instruments for economic diplomacy, national interest advancement, or legal stability. However, few interrogate the strategic logic behind partner selection in cross-regional CEPA arrangements—particularly when economic complementarities appear limited or asymmetrical. What is well established is that CEPAs offer multidimensional benefits; what remains insufficiently explored is the rationale for Indonesia's engagement with specific partners, such as the United Arab Emirates, in contexts where conventional economic indicators may not fully explain the partnership.

This study addresses that gap by situating itself within the broader literature on international political economy and economic diplomacy, while contributing a novel analytical lens through the application of the Cross-Regional Trade Agreement (CRTA) partner selection theory by Solis & Katada. By examining Indonesia's participation in the IUAE-CEPA, this research foregrounds three core motivations—economic interests, political strategy, and leverage considerations—as explanatory variables. In doing so, it advances a more nuanced understanding of Indonesia's strategic consideration in cross-regional trade cooperation and clarifies the theoretical and empirical contours of CEPA engagement beyond traditional economic rationales.

## Theoretical Framework: Cross-Regional Trade Agreement Partner Selection

The theory of Cross-Regional Trade Agreement (CRTA) partner selection proposed by Solis & Katada , seeks to explain the motivations behind a country's decision to establish economic and trade cooperation with partners outside its geographical region. In their framework, a region is defined as a contiguous territorial area characterized by internal integration and distinct external boundaries (Solis & Katada, 2008). This definition is deliberately narrow and geographically bounded, emphasizing spatial proximity and regional cohesion. CRTA partner selection challenges the conventional assumption that economic integration is primarily a regional phenomenon, often driven by lower transportation and transaction costs, as well as shared cultural, economic, or political ties. However, the proliferation of trade agreements that span across regions contradicts this assumption (Solis & Katada, 2008).

A country's decision to engage in cross-regional trade cooperation is typically driven by three key motivations. *First*, economic motivations include market access and trade diversion. Market access reflects a desire to expand into new markets through preferential trade and investment liberalization, while trade diversion involves efforts to avoid exclusion and mitigate the effects of existing FTAs that may redirect trade and investment flows. *Second*, political motivations relate to a country's ambition to elevate its international status by joining progressive trade liberalization initiatives or positioning itself as a regional hub. *Third*, the leverage motive enables a country to strengthen its influence both domestically and globally. By engaging in cross-regional agreements, a country can enhance its reputation as a credible and capable trade partner, which may serve as a strategic asset in future negotiations with larger economic powers (Solis & Katada, 2008).

## Research Method

### *Design*

This study adopts a qualitative research methodology, which is particularly suited to examining the interpretive dimensions of international trade cooperation. As Lamont (2015) outlines in "*Research Methods in International Relations*", qualitative approaches enable researchers to explore how actors construct meaning around political and economic processes, especially through detailed case studies. In this context, a document-based qualitative method was selected to investigate Indonesia's strategic motives in negotiating the IUAE-CEPA, given the institutional nature of trade diplomacy and the limited availability of direct stakeholder interviews. This approach allows for a nuanced understanding of policy narratives, institutional framing, and strategic intent—elements often overlooked in quantitative analyses. By engaging deeply with official documents, policy statements, and media coverage, the study captures the symbolic and discursive dimensions of Indonesia's trade diplomacy, offering insights into how national interests are articulated and negotiated in complex international settings.

***Data Collection***

Data collection was conducted through archival and document-based research, a method widely employed in International Relations for its capacity to trace institutional narratives and policy evolution. The dataset comprises both primary and secondary sources. Primary data were drawn from official government documents, including the Ministry of Trade's Strategic Plan for International Trade Negotiations 2020–2024, the Explanatory Note on the Ratification of the IUAE-CEPA, and relevant trade-related legislation. These documents were selected based on their direct relevance to Indonesia's negotiation strategy and institutional framing of the agreement. Secondary data were obtained from institutional reports, webinars—such as the IUAE-CEPA Utilization Socialization Webinar—media articles, and scholarly literature. The inclusion criteria emphasized credibility, relevance to the IUAE-CEPA, and analytical depth.

***Data Analysis***

The analysis employed narrative content analysis. Documents were systematically examined and interpreted through the lens of theoretical variables of partner selection motives in cross-regional trade agreements—economic rationale, political alignment, and leverage potential—allowing for a structured understanding of Indonesia's strategic considerations. This methodological approach ensures analytical depth and contextual sensitivity, making it well-suited to uncovering the strategic and normative drivers behind Indonesia's choice of the UAE as a CEPA partner. By focusing on narrative patterns and institutional framing, the analysis reveals how Indonesia positions itself within the global trade architecture and articulates its economic diplomacy goals. Furthermore, this approach enables the identification of recurring themes, discursive shifts, and strategic priorities embedded in official texts, offering a nuanced understanding of the interplay between national interest and regional engagement.

### *Indonesia's Economic Motives*

#### *Expanding Indonesia's Market Access to the United Arab Emirates*

Indonesia's trade deficit with the UAE as already mentioned is largely driven by structural differences in comparative advantage. While the UAE dominates in oil and gas exports, Indonesia's strengths lie in non-oil and gas sectors such as jewelry, palm oil, motor vehicles, and electronics. Between 2017 and 2022, Indonesia consistently recorded a trade deficit with the UAE, primarily due to high-value energy imports (UN Comtrade Database, n.d.). However, non-oil and gas exports show a growing surplus trend, indicating untapped potential for market expansion. This increasing trend in non-oil and gas exports is also reflected in the study by Suryanto & Kurniati (2022), which explains that in recent years Indonesia's international trade has relied on the non-oil and gas sector, continuing to experience steady growth. Consequently, the Indonesian government has introduced various policies to support these exports, one of which is through the comprehensive partnership of the IUAE-CEPA. IUAE-CEPA is thus positioned as a corrective mechanism to rebalance trade flows and enhance Indonesia's export competitiveness (Wa'Uina et al., 2024). The agreement aims to implement policies that reduce trade barriers, increase market access, and strengthen the competitiveness of Indonesian products.

**Table 1.2 Indonesia - United Arab Emirates Trade Balance 2019-2022 in Million USD Value**

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| **Trade Total** | **3,654.9** | **2,927.0** | **4,037.3** | **5,057.6** |
| Oil and Gas | 1,344.3 | 1,137.1 | 1,405.1 | 1,901.6 |
| Non-Oil and Gas | 2,310.6 | 1,789.8 | 2,632.2 | 3,156.0 |
| **Export** | **1,471.2** | **1,244.0** | **1,894.3** | **2,297.1** |
| Oil and Gas | 3.2 | 3.9 | 28.1 | 2.2 |
| Non-Oil and Gas | 1,468.0 | 1,240.1 | 1,866.2 | 2,294.9 |
| **Import** | **2,183.7** | **1,683.0** | **2,143.0** | **2,760.5** |
| Oil and Gas | 1,341.1 | 1,133.3 | 1,377.0 | 1,899.3 |
| Non-Oil and Gas | 842.6 | 549.7 | 766 | 861.1 |

| | | | | |
|---|---|---|---|---|
| **Trade Balance** | **-712.4** | **-439** | **-248.7** | **-463.3** |
| Oil and Gas | -1,337.9 | -1,129.4 | -1,349.0 | -1,897.1 |
| Non-Oil and Gas | 625.5 | 690.4 | 1,100.2 | 1,433.7 |

Source: Adapted from Ministry of Trade RI (n.d).

The IUAE-CEPA agreement introduces significant tariff liberalization measures. The UAE has committed to eliminating 93.97% of its 7,581 tariff lines, including immediate removal of 5,523 posts and phased elimination of an additional 1,474 over five years. Import duties on 127 items will be reduced to 2.5–3% (Explanatory Manuscript for the Ratification of the CEPA Between Indonesia and UAE, 2023). These concessions directly benefit Indonesia's key export sectors—jewelry, palm oil, automotive, and telecommunications—creating structural advantages that unilateral liberalization cannot guarantee (Martha, 2023). This aligns with Solis & Katada's (2008) CRTA theory, which emphasizes preferential agreements as tools for securing concrete market access benefits.

Beyond trade, IUAE-CEPA serves as a platform for deepening investment ties. Prior to the agreement, UAE investment in Indonesia was modest but steady, with USD 16.1 million across 77 projects in 2021, concentrated in energy, agriculture, and infrastructure sectors. Between 2017 and 2022, UAE investments totaled USD 226.91 million, accounting for 67.75% of Middle Eastern investment in Indonesia (Ministry of Investment, 2024). The establishment of the UAE–Indonesia Investment Technical Council institutionalizes mechanisms for investment promotion, oversight, and dispute resolution, signaling a shift toward long-term economic cooperation.

**Table 1.3 Investment Realization by Country (Middle East Region) Period 2017-2022 in USD Value**

| Country | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|---|---|
| **UAE** | 26,624,900 | 69,942,700 | 69,733,000 | 21,577,500 | 16,149,200 | 22,883,000 | 226,910,300 |
| **Saudi Arabia** | 3,536,300 | 5,359,200 | 5,408,200 | 5,745,000 | 3,639,700 | 1,743,100 | 25,431,500 |
| **Qatar** | - | 200,000 | - | 6,935,600 | 16,250,000 | 287,800 | 23,673,400 |
| **Yemen** | 2,600,000 | 6,560,500 | 3,187,200 | 1,865,000 | 356,400 | 3,309,600 | 17,878,700 |
| **Iran** | 11,509,100 | 298,700 | 325,100 | 61,600 | 48,800 | 228,100 | 12,471,400 |
| **Syria** | 4,780,300 | 783,100 | 1,023,100 | - | 918,000 | 1,956,200 | 9,460,700 |
| **Jordan** | 2,504,600 | 3,378,800 | 1,401,000 | 1,024,000 | 312,800 | 602,800 | 9,224,000 |
| **Kuwait** | 710,000 | 500,700 | 145,700 | 83,200 | 576,400 | 1,018,500 | 3,034,500 |
| **Lebanon** | 280,300 | 44,800 | 1,011,000 | 693,800 | 345,200 | 170,400 | 2,545,500 |
| **Iraq** | 1,717,200 | 49,100 | 106,900 | 10,000 | - | 383,300 | 2,266,500 |
| **Bahrain** | 664,200 | 86,600 | - | - | - | - | 750,800 |
| **Afghanistan** | 205,400 | 113,500 | 238,300 | 163,500 | - | - | 720,700 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Palestine** | - | - | 376,000 | 9,700 | 112,600 | 22,900 | 521,200 |
| **Israel** | 33,600 | - | - | - | - | - | 33,600 |
| **Total** | | | | | | | **334,922,800** |

Source: Adapted from *Ministry of Investment and Downstream* (2024).

Indonesia's pursuit of IUAE-CEPA exemplifies the strategic logic of cross-regional trade agreements. According to Solis & Katada (2008), CRTAs enable countries to diversify trade relations and secure preferential access to underutilized markets. The UAE's role as a regional hub offers Indonesia a gateway to broader geoeconomics networks. By engaging a non-traditional partner outside Asia, Indonesia reduces its dependence on dominant markets and repositions itself within a more resilient global trade architecture. This reflects a deliberate strategy to institutionalize market access as both an economic buffer and a growth pathway for non-oil exports.

The liberalization commitments embedded in IUAE-CEPA reinforce Solis & Katada's argument that CRTAs are designed to deliver tangible access benefits. The near-total removal of UAE tariffs provides Indonesia with structural entry points into the Middle Eastern market, enhancing its export competitiveness and signaling credibility as a trade partner. Rather than a conventional bilateral agreement, IUAE-CEPA should be viewed as a cross-regional economic maneuver aimed at reconfiguring Indonesia's external trade orientation. This has important policy implications: it suggests that Indonesia's trade diplomacy is increasingly shaped by strategic calculations that transcend immediate trade balances, prioritizing long-term positioning and institutional leverage.

## ***Mitigating Trade Diversion: IUAE-CEPA as a Defensive Strategy in the Middle East***

Indonesia's decision to pursue the IUAE-CEPA reflects a calculated response to the competitive pressures posed by the UAE's extensive network of bilateral and regional trade agreements. As a member of the Gulf Cooperation Council (GCC), the UAE benefits from a unified tariff regime that sets import duties at 5% for most goods and 0% for agricultural products, while maintaining high tariffs on select items such as tobacco and alcohol (Prost et al., 2023). The GCC's collective negotiations with major economies—including the EU, China, and India—further enhance the UAE's trade leverage, creating a risk of trade diversion for non-preferential partners like Indonesia.

In addition to GCC-wide benefits, the UAE has independently negotiated bilateral FTAs with countries such as India, South Korea, Turkey, and Israel, securing preferential access and streamlined customs procedures (MOEC, n.d.). These agreements position UAE importers to favor goods from countries with lower tariffs and regulatory alignment, placing Indonesian exports at a competitive disadvantage. Without a preferential framework, Indonesian products—particularly in key sectors such as palm oil, jewelry, and automotive—face higher tariffs and diminished market share.

IUAE-CEPA functions as a corrective mechanism to counteract these trade-distorting effects. By eliminating 93.97% of UAE tariff lines on Indonesian goods, the agreement restores parity and prevents exclusion from the UAE's import portfolio. This strategic move aligns with Solis & Katada's (2008) argument that CRTAs are often driven by defensive motivations, where countries seek to protect existing markets from erosion caused by third-party agreements. In this context, IUAE-CEPA is not merely a tool for expanding market access, but a safeguard against competitive displacement.

Moreover, the UAE's role as a re-export hub amplifies the stakes of exclusion. Without preferential access, Indonesian firms risk losing indirect entry into broader Middle Eastern and African markets. IUAE-CEPA enables Indonesian products to remain competitive within these regional value chains, capturing spillover benefits that extend beyond bilateral trade. This reinforces the agreement's strategic utility as a gateway to cross-regional integration.

Indonesia's willingness to prioritize IUAE-CEPA despite a persistent trade deficit with the UAE further illustrates the nuanced logic of trade diplomacy. Rather than viewing deficits as deterrents, Indonesia treats the agreement as a structural intervention to prevent further erosion of its trade position. This reflects a pragmatic adaptation to the competitive FTA landscape in the Middle East, where avoiding exclusion is as critical as securing new market access.

### *Indonesia's Political Interests*

#### ***<u>Strategic Diplomacy and Domestic Legitimacy</u>***

Indonesia and the United Arab Emirates have maintained diplomatic relations since 1976, with Indonesia among the first countries to recognize the UAE after its independence in

1971. This longstanding relationship is reinforced by shared cultural and religious identities, particularly as Muslim-majority nations promoting moderate Islamic values. In recent years, political ties have intensified, culminating in the IUAE-CEPA agreement. The partnership reflects not only mutual economic interests but also a convergence of diplomatic priorities and strategic aspirations.

A defining feature of the IUAE-CEPA negotiations was the close personal rapport between President Joko Widodo and President Sheikh Mohammed bin Zayed al-Nahyan, which became a cornerstone of the deepening Indonesia–UAE partnership. This relationship was rooted in the growing intensity of bilateral engagement since 2015, when President Joko Widodo's first official visit to Abu Dhabi marked the beginning of a new phase of cooperation. The momentum was sustained through frequent high-level exchanges, expanding trade activities, and consistent leader-to-leader communication that strengthened institutional and strategic ties. Notably, official visits from the UAE to Indonesia increased from just two in 2015 to thirteen in 2020, reflecting the accelerating pace and strategic depth of relations that shaped the IUAE-CEPA process (Farisa, 2022; Saptowalyono, 2023; Baqi, 2022). These acts of mutual recognition serve as strategic political signaling, reinforcing bilateral trust and accelerating the negotiation process.

According to Solis & Katada, CRTA formation is often driven by a desire to enhance international standing and align with global liberalization trends. In this context, personalized diplomacy functions serve as a mechanism for political legitimacy and status projection. The swift conclusion of IUAE-CEPA exemplifies how leader-to-leader engagement can embed economic agreements within broader diplomatic frameworks.

The IUAE-CEPA is closely linked to Indonesia's domestic political agenda, particularly the development of its relocation of the capital city (IKN) in East Kalimantan. President Widodo has actively sought foreign investment to support this project, leveraging his relationship with Sheikh Mohammed bin Zayed to secure UAE involvement. Notably, Sheikh Mohammed was invited to co-chair the IKN steering committee alongside global figures such as Masayoshi Son and Tony Blair (CNBC Indonesia, 2020). This move illustrates how trade agreements can be strategically tied to high-profile national initiatives, transforming IUAE-CEPA into a vehicle for political leverage and international visibility.

Research by Putri et al. (2024) further reveals the oligarchic dimensions of the IKN project, with land concessions and business permits linked to political elites. The UAE's investment in IKN thus intersects with domestic power structures, reinforcing the political utility of IUAE-CEPA beyond its economic provisions.

From the UAE's perspective, IUAE-CEPA supports its broader goal of diversifying trade partners amid shifting global dynamics, including U.S.–China tensions. In 2022, the UAE's outbound investments reached USD 24.8 billion, positioning it as the world's 15th largest source of international investment (Emirates News Agency-WAM, 2024). Indonesia's growing economy and regional influence make it an attractive partner for the UAE's economic expansion strategy. In addition, IUAE CEPA became a platform of faith-based economic diplomacy.

The agreement thus reflects strategic reciprocity: Indonesia gains investment and diplomatic prestige, while the UAE secures access to Southeast Asia's largest economy and a key player in South–South cooperation. This mutual recognition aligns with Solis & Katada's view that CRTAs are shaped by political motivations to enhance diplomatic influence and establish precedents for future negotiations.

Ultimately, IUAE-CEPA operates not only as a trade agreement but as a political instrument for status-seeking and strategic positioning. The integration of political capital—through personalized diplomacy, symbolic gestures, and alignment with national development projects—demonstrates how CRTAs can serve broader geopolitical agendas. By embedding economic liberalization within a framework of diplomatic prestige and strategic leverage, Indonesia and the UAE exemplify the political logic underpinning cross-regional trade cooperation.

## ***Enhancing Indonesia's Global Position as the Hub of the Islamic Economy***

The integration of Islamic economics within the IUAE-CEPA framework marks a pivotal advancement in Indonesia–UAE bilateral cooperation, signaling a deliberate shift toward faith-based economic diplomacy. This development aligns with the global expansion of the Islamic economy, driven by demographic growth, rising consumer demand, and strategic national initiatives. Between 2015 and 2019, the global Muslim population grew from 1.7 to 1.8 billion, catalyzing a surge in halal product consumption, which reached USD 2.2 trillion in 2019 (KNEKS, n.d.). The *State of the Global Islamic Economy Report*

*2022* identifies key drivers of this expansion: demographic momentum, increasing demand for halal-certified goods and services, and proactive national strategies to institutionalize Islamic economic sectors (Shikoh et al., 2022).

Indonesia ranks fourth globally in the Islamic economy, trailing Malaysia, Saudi Arabia, and the UAE (Shafaki, 2022). The UAE, ranks third, leads in sectors such as Islamic fashion, media, recreation, digital innovation, and finance. Indonesia, with 87% of its 273 million citizens identifying as Muslim (Wa'Uina et al., 2024), is a major consumer of halal products—accounting for 11.34% of global halal spending, or USD 184 billion in 2020 (Coordinating Ministry for Economic Affairs, 2022). However, despite its consumer dominance, Indonesia's halal exports represent only 3% of the global halal product value, ranking ninth globally. Its top exports—food and beverages, fashion, cosmetics, and pharmaceuticals—highlight a disconnect between domestic consumption and global market penetration (Dinar Standard & Indonesia Halal Lifestyle Center, 2021).

To address this gap, the Indonesian government launched the Sharia Economic Masterplan 2019–2024, aiming to transform Indonesia into a global halal hub through strategic partnerships and internationally recognized certification standards (KNEKS, n.d.). The IUAE-CEPA agreement plays a critical role in operationalizing this vision. Uniquely, it includes a dedicated working group on Islamic economics, facilitating bilateral dialogue and implementation. According to KNEKS, IUAE-CEPA directly supports the Masterplan's objectives, embedding Islamic economic cooperation into the architecture of trade diplomacy (KNEKS, 2021). The IUAE-CEPA document outlines key areas of collaboration such as mutual recognition of halal certification, MSME development, digital Islamic economy, research and innovation, human resource cooperation and engagement in international forums. These provisions reflect a shared commitment to advancing the Islamic economy beyond national borders, positioning both countries as co-architects of a global halal ecosystem.

Indonesia's engagement with the UAE through IUAE-CEPA exemplifies the political dimension of cross-regional trade agreements, as theorized by Solis and Katada. Their framework posits that states pursue CRTAs not solely for economic gains but to elevate their international status and diplomatic visibility. By aligning with the UAE—an established leader in the Islamic economy—Indonesia signals its intent to shift from a consumer-heavy market to a norm-setting actor. This strategic partnership enhances

Indonesia's credibility and visibility in global Islamic economic governance, extending its influence beyond ASEAN and into broader Muslim-majority regions.

Moreover, IUAE-CEPA's explicit focus on Islamic economics distinguishes it from conventional trade agreements. It institutionalizes faith-based economic principles—such as halal certification, Islamic finance, and digital innovation—within a formal trade framework. This move positions Indonesia as a pioneer in integrating religious values into economic diplomacy, reinforcing its role as a global reference point for Islamic economic governance.

Solis & Katada argue that participation in progressive liberalization frameworks can amplify a country's international profile by demonstrating leadership in emerging global trends. Indonesia's proactive inclusion of Islamic economic provisions in IUAE-CEPA serves not only to expand market access but also to project authority in shaping global norms. This form of political signaling reflects Indonesia's ambition to transcend its traditional regional role and assert itself as a central node in the global Islamic.

***Indonesia's Leverage Motives***

***<u>Strategic Signaling and Reputation as a Strategic Asset in Trade Diplomacy</u>***

Indonesia's ratification and implementation of IUAE-CEPA in 2023 served not only as a bilateral economic milestone but as a deliberate act of credibility signaling. By successfully negotiating and executing a comprehensive agreement with the UAE—one of the top three Islamic economies globally—Indonesia positioned itself as a dependable and capable trade partner. This strategic use of precedent aligns with Solis and Katada's (2008) theory of leverage motives in CRTAs, where early agreements are used to shape perceptions and strengthen bargaining power in future negotiations.

The subsequent launch of the Indonesia–Gulf Cooperation Council Free Trade Agreement (I-GCC FTA) in July 2024 illustrates the catalytic effect of IUAE-CEPA. Indonesia's demonstrated reliability encouraged GCC member states to pursue broader cooperation, recognizing Indonesia's institutional capacity and commitment to trade liberalization.

Solis & Katada argue that CRTAs are not isolated events but part of a cumulative negotiation process. Indonesia's IUAE-CEPA functions as a strategic anchor, generating spillover effects that influence the trajectory of subsequent agreements. The I-GCC FTA, covering trade in goods, services, and potentially Islamic finance and digital economy provisions, reflects a broader scope and deeper integration than IUAE-CEPA. In 2023, Indonesia's trade with GCC nations totaled USD 15.7 billion—significantly higher than its bilateral trade with the UAE—indicating the expanded economic stakes of this regional engagement.

This sequencing strategy allows Indonesia to build institutional momentum, refine negotiation templates, and project consistency in its trade diplomacy. IUAE-CEPA thus becomes a prototype for Indonesia's broader CRTA ambitions, especially in faith-based and South–South cooperation contexts.

Indonesia's emphasis on reliability is not merely reputational—it is instrumental. In CRTA theory, reputation functions as a form of soft power that enhances a state's ability to shape negotiation outcomes. By cultivating a track record of successful agreements, Indonesia increases its leverage in agenda-setting, dispute resolution, and rulemaking within future trade frameworks.

This reputational capital is particularly valuable in negotiations with GCC states, where trust, shared identity, and long-term partnership are critical. Indonesia's ability to deliver on IUAE-CEPA commitments—especially in halal certification, MSME support, and digital Islamic economy—reinforces its image as a credible and values-aligned partner.

In addition, IUAE-CEPA's inclusion of Islamic economic provisions adds a normative dimension to Indonesia's leverage. Unlike conventional trade agreements, IUAE-CEPA institutionalizes faith-based cooperation, aligning with the shared religious and cultural values of GCC states. This positions Indonesia not just as a reliable partner, but as a value-congruent actor capable of shaping faith-sensitive trade norms.

This normative alignment enhances Indonesia's bargaining position in the I-GCC FTA, allowing it to advocate for halal standards, Islamic finance protocols, and ethical investment frameworks that resonate with GCC priorities. It also amplifies Indonesia's role as a thought leader in Islamic economic governance.

Indonesia's use of IUAE-CEPA as a leverage-building mechanism reflects a sophisticated understanding of CRTA dynamics. By sequencing agreements, signaling credibility, and embedding normative values, Indonesia transforms bilateral cooperation into a platform for regional influence. The I-GCC FTA negotiations are not merely a next step—they are a strategic expansion of Indonesia's trade diplomacy architecture, rooted in precedent, reputation, and normative leadership.

## Conclusion

The IUAE-CEPA is a strategic tool to enhance Indonesia's trade position by expanding market access, attracting investment, and reducing reliance on traditional partners. It reflects Indonesia's evolving trade diplomacy, where economic agreements serve both commercial and geopolitical aims. The agreement strengthens Indonesia's role in the Islamic economy (global hub) and South–South cooperation, offering a platform to engage GCC members and support domestic priorities, including the development of the new capital city (IKN).

Strategically, IUAE-CEPA also functions as a leverage mechanism—enabling Indonesia to convert diplomatic goodwill and personalized leadership ties into tangible economic gains. The agreement allows Indonesia to strategically position itself within Middle Eastern investment flows, amplify its influence in regional trade governance, and negotiate future CEPA frameworks from a strengthened bargaining position. This leverage is not only economic but symbolic, reinforcing Indonesia's credibility as a modernizing Muslim-majority economy and a proactive South–South partner.

While the CRTA framework highlights political dimensions, it may oversimplify the complex realities of Indonesia's international engagement. Future research should explore the contextual factors shaping CEPA agreements, especially in emerging economies, where domestic political agendas, elite networks, and symbolic diplomacy often intersect with trade liberalization.

Practically, Indonesia should leverage IUAE-CEPA to develop sector-specific cooperation frameworks— particularly in the halal economy, digital trade, and sustainable energy. Establishing a joint implementation council and embedding sustainability principles into CEPA-linked projects will be critical to ensuring long-term impact. Through these measures, the IUAE-CEPA can evolve beyond traditional North–South frameworks and its initial transactional orientation, transforming into a strategic platform for inclusive, sustainable development and enhanced geopolitical leverage. It exemplifies a shift toward more equitable, multipolar economic partnerships—rooted in shared development priorities, cultural affinity, and the principles of South–South cooperation.

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