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# Improving International Trade Competitiveness through Inflation Control, Unemployment Reduction, and Target Country Strategies

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## Abstract

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International trade is a major driver of economic growth, yet it is influenced by macroeconomic factors such as inflation, unemployment, and the conditions of partner countries. High inflation and uncontrolled unemployment can weaken export competitiveness, while dependence on specific target countries increases the risk of trade instability. In developing countries like Indonesia, these challenges are exacerbated by the economic structure and the limited availability of skilled labor, necessitating an in-depth analysis to understand these dynamics. This study aims to examine the influence of inflation, unemployment, and the role of target countries on the performance and sustainability of international trade, as well as to identify strategies to enhance trade competitiveness and stability based on scientific literature. This research employs a Systematic Literature Review (SLR) approach, drawing from Web of Science and Google Scholar publications published between 2019 and 2025. Inclusion criteria include empirical studies in English or Indonesian that discuss inflation, unemployment, trading partner countries, and international trade. The analysis is conducted through thematic qualitative methods, with source triangulation to ensure the validity of the findings.

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## 1. Introduction

Globalization has become a dominant phenomenon driving economic integration among countries worldwide. Through the flow of information, technology, capital, goods, and services across borders, global economic relations have become increasingly intensive. One of the most evident manifestations of economic globalization is the rise of international trade activities, both in the form of exports and imports. Countries strive to meet domestic needs that cannot be fulfilled independently through cross-border trade relations, creating mutual dependency in global supply chains (Tanasiichuk et al., 2024).

However, the dynamics of international trade are inseparable from various macroeconomic factors that significantly influence them. Among these key variables are unemployment, inflation, and the conditions of trading partner countries. These three play an essential role in determining the efficiency, competitiveness, and sustainability of international trade activities (Rumasukun, 2024).

High inflation rates in a country, for example, can lead to a decline in purchasing power, trigger depreciation of the domestic currency, and ultimately reduce the competitiveness of the country's export products in international markets. When inflation rises, the value of domestic currency weakens, making imported goods more expensive, and potentially worsening the trade balance deficit. As occurred in Indonesia during the 1997/1998 economic crisis, inflation soared to 77.6%, severely affecting the stability of the rupiah exchange rate and causing a deep economic contraction. This impact extended to the industrial sector, particularly industries dependent on imported raw materials, which eventually stagnated or even went bankrupt (Vîrjan et al., 2023).

On the other hand, unemployment is also an important indicator that reflects imbalances in the labor market and inefficiencies in human resource utilization. High unemployment rates not only burden the government's budget in the form of subsidies and social security but can also disrupt social stability and lower national productivity. In the context of international trade, unemployment can be an indicator of a country's unpreparedness to compete in the global system, especially when facing more capital-intensive developed countries. This structural economic disparity often results in developing countries becoming consumer markets rather than globally competitive producers (Aman et al., 2022).

The conditions of trading partner countries or target countries also play a crucial role in determining the direction and success of international trade. Countries with high economic stability, strong purchasing power, and open trade policies are considered potential trade partners (Kramskyi et al., 2024). In this regard, the United States often serves as a primary partner for many developing countries, including Indonesia. The economic strength of the U.S., along with the U.S. dollar's status as the main currency in international transactions, causes exchange rate fluctuations against the dollar to have significant impacts on trade balances and capital flows (Chen, 2022).

Although international trade offers great opportunities for enhancing economic growth and national welfare, its realization does not always proceed smoothly. High inflation and unemployment, for instance, can be major obstacles to increasing export volumes and maintaining global competitiveness. In addition, dependence on one or two trading partner countries also creates vulnerability if economic shocks or policy changes occur in those countries (Kaczmarczyk & Flashbeck, 2023). For example, the depreciation of the rupiah against the U.S. dollar not only leads to higher prices of imported goods but also affects domestic industries that rely on imported raw materials. This highlights the need for a deeper understanding of the relationship between domestic macroeconomic conditions and international trade dynamics (Emegha, 2025).

Another issue is how the simultaneous effects of unemployment, inflation, and the conditions of trading partner countries impact international trade activities, particularly for developing countries like Indonesia (Rangkuty et al., 2024). To what extent does unemployment reduce productivity and efficiency in export production? How does inflation affect exchange rates and the competitiveness of national products in international markets? And how does dependence on major trade partners such as the United States amplify the risks of external economic shocks (Topić, 2024)?

By analyzing the interconnections among these three variables and their impact on international trade, this study is expected to contribute to the formulation of macroeconomic policies that support exchange rate stability, enhance export competitiveness, and promote the strategic and adaptive management of international trade relations in response to global dynamics.

## 2. Research Method

This study adopts a Systematic Literature Review (SLR) approach to comprehensively examine the impact of unemployment rates, inflation, and the conditions of trade partner countries on the dynamics of international trade. The SLR method is chosen for its systematic, transparent, and structured process in identifying, evaluating, and synthesizing scientific literature, which helps minimize subjective bias and ensures comprehensive analysis. This approach allows the research to map the relationship patterns between macroeconomic variables—such as inflation and unemployment—and the role of target countries in international trade, while also identifying research gaps that remain unaddressed.

The SLR process begins with the establishment of inclusion and exclusion criteria for selecting relevant literature. The inclusion criteria encompass scientific articles, reports, or academic publications published between 2019 and 2024. Literature searches are conducted through academic databases such as Scopus, Web of Science, Google Scholar, and local repositories, using keywords such as "inflation," "unemployment," "trade partner," "international trade," "export competitiveness," and "trade dynamics."

The selection phase consists of three steps: (1) initial screening based on titles and abstracts to assess relevance; (2) full article review to ensure alignment with the research objectives; and (3) data extraction from selected studies. The analysis is conducted using a thematic qualitative approach, categorizing findings into themes such as the effects of inflation on exchange rates, the relationship between unemployment and production efficiency, and the influence of trade partner countries on trade structure. The validity of the findings is reinforced through source triangulation, ensuring that conclusions are supported by diverse perspectives and research methods, including quantitative, qualitative, and mixed-method studies. This approach enables the research to understand the complex relationships among the variables and to identify the need for further studies, particularly concerning market diversification and regional trade policy.

## 2.1 Inflation and Unemployment as Determinants of International Trade Competitiveness

A systematic review of 25 scholarly articles reveals that inflation and unemployment significantly affect a country's international trade performance, with implications for export competitiveness, economic stability, and labor productivity. High inflation weakens the competitive position of export products in global markets, while unemployment reflects structural challenges in production efficiency and integration into global value chains (Onifade et al., 2020). Although international trade has the potential to reduce unemployment through labor-intensive sectors, its success depends on coordinated macroeconomic policies and the readiness of domestic industries. Controlling inflation and optimizing labor absorption are key to strengthening competitiveness and fostering sustainable trade growth (Hwang & Lee, 2019).

High inflation has a direct impact on international trade by raising the prices of domestic goods, making exports less competitive in global markets. These price increases reduce international demand, particularly for developing countries that rely heavily on commodity or manufactured goods exports. Unstable inflation also triggers the depreciation of domestic currencies, resulting in ambivalent effects. On one hand, depreciation can make exports cheaper, but on the other hand, it raises the cost of importing raw materials or capital goods, thereby causing imported inflation (Hongo et al., 2019). This worsens domestic price pressures and disrupts trade stability, especially in countries reliant on imports. Price stability, achieved through tight monetary policy, becomes a prerequisite for maintaining export competitiveness and supporting long-term trade growth. Economic uncertainty caused by uncontrolled inflation also reduces foreign investor confidence, hindering capital inflows needed for export sector expansion (Moridian et al., 2025).

Unemployment, although indirectly influential, is a critical factor affecting international trade performance through productivity and production efficiency. High unemployment rates, as often observed in developing countries such as Indonesia, indicate unabsorbed labor, especially in labor-intensive sectors. This inefficiency increases production costs due to low productivity, weakening product competitiveness in the global market (Olufemi et al., 2024). Moreover, high unemployment reflects a skills mismatch, where local labor does not meet the needs of industries integrated into global value chains. For example, export-oriented manufacturing or technology sectors often require skilled labor, which is difficult to supply without investment in education or training. As a result, countries fail to fully leverage international trade opportunities, particularly in increasing the export of high value-added goods (Bashir & Rashid, 2019).

However, international trade also presents opportunities to reduce unemployment, particularly through the development of labor-intensive sectors such as textiles, agriculture, or processing industries. These sectors can absorb large numbers of workers, increase household income, and strengthen the domestic economy. In Indonesia, for instance, exports of agricultural or textile products can generate employment for low-skilled workers, reducing unemployment in rural areas (Cizakca, 2024). Nevertheless, these positive impacts are only achievable if domestic industries are ready to compete, supported by adequate infrastructure, relevant technology, and trained labor. Without such preparation, international trade may worsen unemployment by increasing reliance on imports or foreign labor, ultimately harming the local economy (Daniel et al., 2021).

These findings affirm that inflation and unemployment are interrelated macroeconomic variables that require integrated management to support international trade. Monetary policies aimed at maintaining price stability, such as interest rate or exchange rate management, must be balanced with fiscal policies that promote investment in labor-intensive sectors (McKay, 2019). Skills training and vocational education programs are also necessary to align the labor force with global market demands, particularly in export-oriented sectors. Additionally, governments must ensure synergy between trade and labor policies to minimize the negative effects of depreciation or imported inflation while maximizing export benefits (Amiti et al., 2024). With a coordinated approach, countries can overcome the challenges of inflation and unemployment while leveraging the opportunities of international trade to achieve inclusive and sustainable economic growth.

## 2.2 Target Countries of Trade Their Influence on the Sustainability of International Trade

A review of various scholarly studies confirms that trade partner countries, or target markets, play a strategic role in shaping the structure, intensity, and sustainability of international trade. Large economies such as the United States, China, and the European Union have a significant influence on the export performance of developing countries, including Indonesia, due to their market capacity and economic stability. However, dependence on one or two partner countries increases the risk of instability caused by economic fluctuations or policy changes. Therefore, diversifying export destinations and strengthening regional trade cooperation are key strategies to mitigate risks and ensure sustainable trade growth (Xu et al., 2020).

The market capacity of the target country is a major factor determining the success of international trade. Countries with high GDP, such as the United States and China, offer strong consumer demand that drives export growth in developing nations. This strong demand allows exporters to increase sales volumes and expand production scales, which in turn supports domestic economic growth. In Indonesia, for example, trade relations with China and the United States have been major drivers of export performance, especially for commodities such as palm oil, textiles, and manufactured products. However, heavy dependence on these markets also makes Indonesia vulnerable to external shocks, such as economic recessions in partner countries or changes in trade policies, including tariffs or sanctions (Sudsawasd et al., 2020).

The economic stability of the target country also affects the intensity of trade. Exchange rate fluctuations, for instance, can create significant uncertainty. In the context of Indonesia, depreciation of the rupiah against the U.S. dollar during economic crises increased the cost of importing raw materials, negatively impacting domestic industries reliant on imported inputs. Such instability not only reduces export competitiveness but also hinders the ability to meet international market demand. Additionally, geopolitical tensions between major powers—such as the rivalry between the United States and China—can disrupt global trade flows, increasing risks for developing countries dependent on both markets (Nguyễn & Phan, 2023).

Beyond economic factors, preferences and regulations in the target countries also significantly influence export success. Developed countries, such as EU members, often impose strict technical standards, such as environmental or product safety certifications, which can pose barriers for exporters from developing nations (Nathaniel et al., 2021). While these regulations can be challenging, they also incentivize improvements in product quality and production processes, ultimately enhancing long-term competitiveness. For example, Indonesian exporters that meet EU standards for agricultural or fishery products can access premium markets with higher profit margins. However, without the capacity to meet these standards, these market opportunities remain difficult to exploit, highlighting the importance of investment in technology and training (Sarangi, 2019).

Non-tariff barriers, such as import quotas or documentation requirements, also affect trade structures. Developing countries often face challenges in navigating these barriers, requiring bilateral or multilateral negotiations to ensure broader market access. In this context, regional trade cooperation initiatives such as ASEAN or the Regional Comprehensive Economic Partnership (RCEP) offer strategic alternatives (Green et al., 2019). Such cooperation enables Indonesia to expand its market access to neighboring countries with lower transaction costs and more harmonized regulations, thereby reducing dependence on traditional markets such as the U.S. or China (Ji et al., 2020).

Export destination diversification strategies are increasingly important in mitigating the risks of overdependence. By expanding into other developing countries or regional blocs, Indonesia can reduce exposure to economic or policy shocks from a single partner country (Ali et al., 2021). For example, boosting exports to ASEAN countries or India could generate more stable trade flows while supporting regional economic integration. Furthermore, strengthening trade ties with countries that share similar product preferences or complementary needs can help build a more balanced trade structure (Ma & Wang, 2021).

These findings underscore that target trade countries are not merely destinations, but strategic factors that influence the sustainability of international trade. The Indonesian government must design adaptive trade policies, including negotiations to reduce non-tariff barriers, investments in product quality improvement, and market diversification (Khan et al., 2020). With an integrated approach, Indonesia can maximize the benefits of trade relations with major economies while minimizing external risks, ensuring a more resilient and sustainable international trade landscape.

## 3. Conclusion

This study, through a Systematic Literature Review (SLR) approach, concludes that inflation, unemployment, and the conditions of trade partner countries significantly influence the performance and sustainability of international trade. High inflation weakens export competitiveness by increasing domestic product prices and triggering imported inflation through currency depreciation—especially in developing countries like Indonesia. Price stability is a critical prerequisite for maintaining investor confidence and global competitiveness. Unemployment, as an indirect variable, reduces productivity and production efficiency, hindering integration into global value chains due to skills gaps. However, international trade can help reduce unemployment through the development of labor-intensive sectors, such as agriculture and manufacturing, provided it is supported by adequate infrastructure and workforce training.

Trade partner countries such as the United States, China, and the European Union—play a strategic role due to their large market capacity and economic stability, driving export growth in developing nations. Nevertheless, dependence on one or two key partners increases risks arising from economic fluctuations or policy changes. Strict regulations and non-tariff barriers in developed countries pose challenges for exporters but also encourage improvements in product quality. Market diversification and the strengthening of regional cooperation—such as ASEAN and the RCEP—are key strategies to reduce risk and enhance trade stability.

The implications of these findings emphasize the need for synergistic macroeconomic policies, including inflation control through tight monetary policy, investment in skills training to reduce unemployment, and export market diversification. With an integrated approach, countries can minimize the negative impacts of inflation and unemployment while maximizing the benefits of international trade for inclusive and sustainable economic growth.

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