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Recovering Stronger: Indonesia’s Economic Diplomacy towards Ethiopia in the Post-pandemic Era

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Abstract: The COVID-19 pandemic has brought severe effects on the international trade sector. Many countries have suffered losses because of bilateral and multilateral trade imbalances. Indonesia and its strategic partner, Ethiopia, are among the countries affected by the spread of the pandemic. This article discusses Indonesia’s economic diplomacy strategy for improving trade relations with Ethiopia. Ethiopia is one of the Indonesia’s strategic partners in the African continent. The authors use the concept of economic diplomacy to explain Indonesia’s strategy for rebuilding bilateral trade between the two countries. This article offers an argument that a state can leverage its economic diplomacy in the post-pandemic era by focusing on collaboration between the government and the private sector to penetrate the targeted market, promote competitive products, and increase cooperation, particularly in the health sector. To be more specific, the Indonesian government should focus its economic diplomacy towards Ethiopia in these three areas to improve the trade balance following the COVID-19 pandemic.

Keywords: economic diplomacy, Indonesia, Ethiopia, COVID-19

Introduction

State and non-state actors use diplomacy as a mean to achieve their goals. States employ diplomatic means to address security issues and international trade. Diplomacy also play a role in fostering inter-religious dialogue. Indonesia places a high value on diplomacy as a tool for achieving peace. The Indonesian government frequently engages in economic diplomacy to improve trade relations. The 1945 Constitution, which emphasizes foreign policy based on equality and mutual respect, mandates the implementation of Indonesia’s economic diplomacy. The Indonesian government hopes that its economic diplomacy can distribute prosperity more
evenly among countries. The principal goal of this economic diplomacy is to promote economic growth between Indonesia and other countries.

According to the Indonesian Ministry of Foreign Affairs, Ethiopia’s economic growth rate reached 10 percent between 2004 and 2017. This growth rate is amongst the highest in sub-Saharan African countries. Several Indonesian firms, including PT Indofood Tbk, PT Sinar Antjol, among others, compete to invest in Ethiopia. The Indonesian government promotes entering the Ethiopian market in a variety of ways. One of them is raising awareness among Ethiopian entrepreneurs about Indonesian export products and commodities. The Indonesian government hopes to increase its exports to Ethiopia and strengthen bilateral relations between the two countries through exhibitions and expos.

The total value of direct trade between Indonesia and Ethiopia exceeds US$80 million. Meanwhile, the value of indirect trade reached US$560 million. The value of exports from Indonesia to Ethiopia showed an increase for some products during the period of 2016-2019, mainly in intermediate goods, wood, chemicals, stone and glass, plastic, rubber, along with footwear. On the other side, exports from Ethiopia to Indonesia were less impressive over 2015-2018, showing that Indonesia is not yet a major export destination for Ethiopia. The data does indicate a slight increase in Ethiopia exports, especially in the products of vegetable and intermediate goods. Although trade between the two countries is still relatively small, Indonesia appears eager to increase the value of trade with Ethiopia. This is not only due to the potential of the Ethiopian market, but also that Ethiopia is increasingly open to foreign investment. Ethiopia is currently one of the investment hubs in East Africa, challenging the economic predominance of Rwanda and Kenya.

Nevertheless, the COVID-19 pandemic has changed the economic constellation and trade relations of almost all countries in the world. In the second quartile of 2020, global trade value fell by 14.3 percent. The pandemic caused a disruption in the supply and demand processes. The COVID-19 pandemic had far-reaching consequences for both importing and exporting countries. Importing countries faced price increases for some commodities due to extremely high market demand. Exporting countries reduced production to prevent the spread of virus among their workers and population. Indonesia has had to confront a mass exodus of foreign capital with more than US$10 billion withdrawn from its capital market, causing the rupiah exchange rate to slump. Ethiopia also experienced a slowdown in economic growth, complicated by high foreign debt, low levels of resource mobilization, high inflation, and high unemployment. Both countries confront challenges following the pandemic to rebuild trade and investment relations. This article analyzes what Indonesia can do to strengthen economic relations with Ethiopia through diplomatic channels in the post-pandemic era.

**Defining Economic Diplomacy**

Economic diplomacy has many variants such as commercial diplomacy and trade diplomacy. However, the concept of economic diplomacy focuses on how countries use economic instruments to fight for their national interests. State activities in economic diplomacy are focusing on resolving macro-problems, such as protectionism, tariffs, import duties, and excise duties. The goal is to penetrate markets to expand business so economic diplomacy is a
practice or strategy to increase the value of bilateral trade.\textsuperscript{26} Each country seeks to increase import-export activities with the other through economic diplomacy.\textsuperscript{27} The principal goal is to increase opportunities to improve the efficiency and effectiveness of economic growth.\textsuperscript{28} States often harness economic instruments such as export-import trade, investment, loans, aid, and migration.\textsuperscript{29} The most important point to emphasize in this context is that economic diplomacy is an activity that extends beyond the borders of a country's sovereignty.\textsuperscript{30}

The authors highlight three key points in the concept of economic diplomacy, namely: actors, processes, and outcomes.\textsuperscript{31} Who conducts negotiations and diplomacy? Is it a state actor or a non-state actor? In terms of process, international relations actors play an important role in policy formulation and negotiation.\textsuperscript{32} Every economic diplomacy process must have an outcome reflected in the improvement of several economic indicators, one of which is trade surplus.\textsuperscript{33} However, an increase in exports is not the sole significant indicator. Every country that wishes to be successful in economic diplomacy must be able to open markets and increase the competitive value of its products through free trade or trade agreements.\textsuperscript{34} Economic diplomacy might be driven by a desire to get economic benefits, yet political interests are frequently at the heart.

Discussion

Due to the COVID-19 pandemic in 2020, bilateral trade between Indonesia and Ethiopia suffered an 11.4 percent decline.\textsuperscript{35} Several commodities exported to Ethiopia fell in price, particularly pharmaceuticals, electronics, plastics, and palm oil. However, Indonesia's exports of paper, fiber, and cooking spices remained stable. The Indonesian government, through the Ministry of Foreign Affairs, continues to lead economic diplomacy to Ethiopia but also involves business actors. Despite the trade deficit in 2020, economic cooperation between Indonesia and Ethiopia has developed remarkably, including in the public health sector. We examine three areas as critical to understanding Indonesian economic diplomacy, namely, (i) collaboration between the government and business actors, (ii) export-import recovery strategy by increasing supply and competitive products, and (iii) Indonesia's strategy to build Indonesia-Ethiopia trade cooperation.\textsuperscript{36}

Indonesia's economic diplomacy in Ethiopia calls for cross-sector collaboration, specifically strategic partnerships between state and non-state actors. Diplomacy and negotiation processes at the state level can serve as a tool for promoting the state's interests and a forum for resolving many disputes.\textsuperscript{37} The Indonesian government more actively incorporate business actors in the diplomatic process. There are compelling reasons the Indonesian government cannot afford to ignore the private sector. By the year 2040, projections indicate foreign direct investment will increase by 33 percent.\textsuperscript{38} Another critical point is the interdependence of the public and private sectors. The state is involved in the establishment of trade policies, market protection, and the development of new markets.\textsuperscript{39} The private sector is involved in the business processes of a market that is regulated by the government.\textsuperscript{40}

Maintaining economic cooperation with Ethiopia in trade and investment by further involving the private sector is something that the Indonesian government could pursue. However, there are several barriers for the private sector to participate directly in economic cooperation between the two countries. Entrepreneurs in both countries still lack adequate
information about the potential and opportunities for collaboration. Indonesian businesses frequently choose to invest in major destination countries that have long been trading partners. Ethiopia also faces a lack of foreign currency for investment financing due to its policy of prioritizing massive infrastructure development.41

Another factor to consider is that the private sector lacks authority in terms of economic diplomacy. Business firms constantly expand their operations outside of their home territory.42 However, because they do not control the target area, they frequently find it difficult to enter the market. Here, the state can serve as a market analyst in economic diplomacy. In this context, both countries must constantly provide up-to-date information to the private sector about the state of the targeted market. Consequently, a substantial budget is required for economic diplomacy, particularly in promoting the private sector.43 State funding to facilitate economic diplomacy is an investment to increase the number of exports.44

Indonesia actively helped facilitate dialogue forums involving business actors from both countries through the Indonesia-Ethiopia Business Connect (IEBC) in October 2019. Previously, Indonesia initiated the establishment of the Indonesia-Africa Forum (IAF) in 2018, and then followed with the establishment of the Indonesia-Africa Infrastructure Dialogue (IAID) in August 2019. The IEBC fostered collaboration between Indonesian and Ethiopian entrepreneurs via various social media platforms. Opening investment opportunities for start-up companies and micro, small, and medium enterprises (MSMEs) involved in digital transformation is one of the internal economic diplomacy strategies that the Indonesian government can optimize.45 Infrastructure development must undoubtedly accompany the advancement of digitalization in the trade and investment. As a result, IAID is an appropriate forum initiative to bridge the infrastructure gap between the two countries.

Indonesia can seek the best opportunities and minimize risks by having a thorough understanding of Ethiopia’s economic and market conditions. Ethiopia has great potential as a trading partner or investment destination, with a population of around 110 million people and the capital city Addis Ababa as the busiest hub in the African region. However, the COVID-19 pandemic that struck Ethiopia in mid-March 2020 reversed the situation, causing the country’s economy to suffer a setback. Ethiopia faced at least three economic challenges, all of which have worsened since the pandemic. First, Ethiopia has a relatively significant external debt burden, accounting for some 30 percent of GDP. Second, the Ethiopian currency (Birr) remained undervalued relative to the US dollar. Ethiopia’s currency depreciated by up to 17 percent in mid-April 2020 compared to the previous year. The poor performance of several economic sectors, particularly the national aviation sector, agriculture, health, and production sectors, was one of the reasons for the weak Birr exchange rates. Third, Ethiopia’s foreign exchange earnings from its citizen diaspora have decreased.46

Indonesia must consider the potential ramifications of Ethiopia’s setback for bilateral economic relations. In response to the economic impact of the pandemic, the Ethiopian government has implemented several policies, including: providing credit to MSMEs; tax exemptions for imported products aimed at combating the epidemic; providing liquidity facilities of 15 billion Birr (~450 million US$) to private banks; and increasing budget allocation to the tourism sector.47 Indonesia can take advantage of this policy change by exploring business opportunities in health, agriculture, tourism, and MSME collaboration. To boost
bilateral cooperation, the two countries signed memorandum of understanding on diplomatic and service visa exemption.

International trade in the health sector must expand during the pandemic and post-pandemic era. To restore health and the global economy, every country should lower tariffs on health products. There are two benefits of Indonesia’s economic diplomacy strategy toward Ethiopia in the health sector. First, as Ethiopia often faces medicinal product shortages, it can be a guideline for Indonesia to find new opportunities. Second, economic diplomacy in the health sector serves both humanitarian and political purposes. Low-income countries often have difficulty building health infrastructure and supplying medicines. Indonesia can address the gap by offering health system development assistance. This is also an opportunity for Ethiopia as Indonesia’s pharmaceutical’s industry has grown significantly — especially in the last five years — and even managed to grow 8.65 percent in the second quarter of 2020, when the COVID-19 pandemic hit. Despite Ethiopia’s considerable gains in health sector, its health system still faces some serious challenges, such as gaps in resource allocation, a shortage of qualified human resources, and lack of sustainable financing. Ethiopia’s private sector role in health service delivery has been increasing and this offers an opportunity for development partners, including Indonesia, to work in tandem in expanding the healthcare system.

Conclusion

Indonesia must devise the best economic diplomacy strategy based on its goals and the opportunities in a partner country. Commercial diplomacy in trade and investment is the most common economic diplomacy strategy. With the second-largest population in Africa and relatively stable economic growth, Ethiopia has great potential as a destination for exports and investment despite the pandemic exacerbating the challenges as economic growth slowed.

To maximize cooperation opportunities with Ethiopia, the Indonesian government must increase collaboration with the private sector. Here, the Ministry of Foreign Affairs, in collaboration with relevant technical ministries such as the Ministry of Trade, the Ministry of Industry, and others, is at the forefront of diplomacy and facilitating access for Indonesian private companies to the Ethiopian market. Distance, language, and a lack of information about Ethiopia’s market potential are some factors that contribute to private companies’ lack of interest in investing in Ethiopia. As a result, the Indonesian government can maximize its role in providing adequate information about market opportunities in Ethiopia. Private companies require information about the Ethiopian market to calculate the costs or risks associated with foreign investment. Adequate information can also change the mindset of entrepreneurs focused on traditional markets to see Ethiopia as an appealing investment destination. In accommodating the private sector, the Indonesian government must broaden its scope by providing opportunities for potential MSMEs.

The Indonesian government can optimize its role in multilateral forums, particularly those involving the two countries, such as the Indonesia-Africa Forum, the Indonesia-Africa Infrastructure Dialogue, and the Indonesia-Ethiopia Business Connect, as the next strategy to strengthen economic cooperation with Ethiopia. Separately, Indonesia’s status as a G20 member can strengthen its negotiating position with Ethiopia and other African countries. Strengthening economic cooperation between Indonesia and Ethiopia might begin with the health sector. The
COVID-19 pandemic has taught us that economic diplomacy in the health sector is the backbone of economic recovery. By increasing investment in health and medicine in Ethiopia, Indonesia can maximize its economic diplomacy.

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