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PENETRATING AN ISOLATED MARKET: INDONESIA'S STRATEGIC RATIONALITY IN THE 2023 INDONESIA-IRAN PREFERENTIAL TRADE AGREEMENT

Abutalib Manouchehr Arabi,[1] Imam Mahdi[2]

[1.] Universitas Muhammadiyah Yogyakarta, abutalibmanouchehra@gmail.com

[2.] Universitas Muhammadiyah Yogyakarta, mahdi@umy.ac.id

This article examines why Indonesia, during President Joko Widodo's push to expand economic diplomacy into the Middle East, deepened economic cooperation with Iran through the Indonesia-Iran Preferential Trade Agreement (II-PTA), signed on May 23, 2023, despite Iran's international isolation under a sanctions regime lasting more than four decades. The question is sharper than simply identifying Indonesia's interests, since every country has multidimensional interests in any trade agreement; what distinguishes Iran is that international sanctions themselves create strategic opportunities for Indonesia. Using Nuechterlein's national interest framework and political economy, this research shows that the II-PTA reflects a strategic choice driven by economic interest, regional geopolitical considerations, and the need to maintain foreign policy autonomy under sanctions pressure. Rather than a pure obstacle, the sanctions have increased demand for Indonesian non-energy commodities such as palm oil, paper, and light manufactured goods that fall outside their scope. The free and active principle is treated here as an operational mechanism for balancing economic benefit against geopolitical risk. Indonesia's exports to Iran are projected to reach USD 494 million by 2030 with a USD 468 million surplus, though success will depend on implementing countertrade mechanisms and resolving the banking obstacles created by US sanctions.

Keywords: *National Interest; Iran Sanctions; Preferential Trade Agreement; Jokowi's Economic Diplomacy; Strategic Hedging*

INTRODUCTION

On May 23, 2023, the 7th President of Indonesia, Joko Widodo, along with the then President of Iran, Seyyed Ebrahim Raisi, signed the Indonesia-Iran Preferential Trade Agreement (II-PTA) at the Bogor Presidential Palace. This signing was not a decision made in a short time, but rather the result of a long negotiation process that began in 2010, encompassing seven rounds of official negotiations and ten intersessional meetings. This agreement marks a new chapter in Indonesia-Iran bilateral relations while reaffirming Indonesia's commitment to continue expanding its trade cooperation network with countries in non-traditional regions (Santia, 2023).

The signing of the II-PTA needs to be placed within a broader analytical framework than just a general reading of trade interests. If it is only understood as a manifestation of economic interests, export promotion, and strengthening diplomatic relations, then this explanation is not sufficient to capture the uniqueness of the Indonesia-Iran case. What is actually important to examine is the reason Indonesia chose to deepen economic cooperation with Iran at a time when the country was still under the pressure of international isolation and a prolonged sanctions regime. In this context, Iran cannot be positioned the same as Indonesia's other PTA partners, because the geopolitical conditions surrounding it present different consequences, risks, and opportunities. Therefore, the II-PTA is better understood as the result of Indonesia's strategic calculations in responding to a specific economic-political configuration, where the sanctions situation against Iran is not merely seen as an obstacle, but also as a factor that shapes the strategic value of the agreement for Indonesia.

As a country that has adhered to an independent and active foreign policy since the era of independence, Indonesia has the freedom to establish cooperation with any country without being bound to any specific military bloc or pact (Santia, 2023). This principle serves as a solid foundation for Indonesia to maintain economic relations with Iran despite the country facing international sanctions imposed by the United States, the United Nations, and the European Union since 1979. These sanctions have significantly impacted Iran's economy, including a decrease in oil production and exports, contraction of Gross Domestic Product (GDP), high inflation, and currency depreciation (Farzanegan, 2023). In the context of the II-PTA, the principle of an independent-active foreign policy provides space for Indonesia to continue economic cooperation with Iran despite the pressure of international sanctions. A more detailed explanation of the operationalization of the free-active principle as a strategic hedging mechanism is discussed in the analytical framework section: Indonesia consciously accepts the geopolitical cost of potential US diplomatic pressure in order to gain strategic benefits in the form of access to markets that are experiencing a demand vacuum due to the withdrawal of Western exporters (Haris, 2023).

Unlike other PTA trading partners of Indonesia, Iran operates under unique structural conditions due to an international sanctions regime that has been in place for over 40 years (Cirlig, 2025). The comprehensive sanctions imposed by the United States since 1979 and reinforced through President Trump's maximum pressure policy in 2018 have fundamentally distorted Iran's financial, banking, and insurance systems. As a result, despite Iran having a GDP of around USD 404 billion in 2023 and the second-largest energy reserves in the world, its market access to consumer products, processed foods, and light manufacturing from abroad is very limited (Farzanegan, 2023). This condition actually creates a very high demand for Indonesia's leading commodities such as palm oil (CPO), paper, coffee, and manufactured products that are not directly affected by the energy and technology sanctions that are at the core of the US sanctions regime. Thus, the context of the sanctions, which have long been perceived as an obstacle, has actually become a factor that widens the market gap for Indonesian products in Iran (Haris, 2023).

US sanctions against Iran have empirically proven to significantly alter Iran's trade patterns. Data shows that Iranian exporters have successfully shifted trade from Western destinations to markets in Asia, Africa, and Latin America (Haidar, 2013). In this context, Indonesia is in a very advantageous position: as a non-energy product exporter with high commodity complementarity to Iran, Indonesia can actually fill the market gap left by Western exporters due to sanctions (Laudati, 2023). This explains why the decrease in competition from Europe and North America, due to the reluctance of Western companies to operate in Iran, actually increases the attractiveness of the Iranian market for Indonesia (Biro Humas Kementrian Perdagangan RI, 2024).

In addition to being a bilateral market, Iran is also seen as having regional strategic value due to its position connected to the Eurasian cross-border trade network, including through the INSTC which links India with Russia via Iranian territory (Haris, 2023). With a population of 88 million and an untapped market, Iran represents a significant opportunity for the expansion of Indonesian products, which have so far been hindered by relatively high tariff structures (Biro Humas Kementrian Perdagangan RI, 2024).

The signing of the new II-PTA materialized in 2023 after a long negotiation process lasting 13 years, influenced by the interconnection of four main factors. First, the completion of seven rounds of technical negotiations covering the harmonization of tariff item lists, rules of origin, and countertrade mechanisms, factors that technically took a long time given the complexity of Iran's tariff structure. Second, President Raisi's state visit to Indonesia in May 2023 provided high-level diplomatic momentum that accelerated the finalization of the agreement. Third, the escalation of the US-China trade war since 2018, which has shaken global supply chains, has prompted Indonesia to accelerate the diversification of its export markets to non-traditional regions as a strategy to mitigate structural risks. Fourth, the domestic factor is the legacy policy agenda of President Jokowi, who wants to finalize as many trade agreements as possible before the end of his term in October 2024, a commitment reflected in the 27 trade agreements signed during his two terms (Antara, 2024). From a substantive perspective, the II-PTA 2023 has significant novelties: first, it is the first preferential trade agreement between Iran and any ASEAN member country (TEMPO, 2023); second, the II-PTA includes a countertrade clause, a bilateral barter mechanism that Indonesia has included in its trade agreements for the first time as a pragmatic solution to banking obstacles due to international sanctions (Niaga Asia, 2024).

Several previous studies have examined the theme of Indonesia's PTA with various trading partners. Sakinah Arif and Paksi (2022) examined the Indonesia-Mozambique PTA as Indonesia's stepping stone in the African continent. Pratama (2014) analyzes Indonesia's motivation for signing a PTA with Egypt. Nugroho (2021) examined the effectiveness of the IP-PTA on Indonesia's tea exports to Pakistan. Pulungan and Nurhayati (2020) examined the optimization of the utilization of the Indonesia-Peru PTA, while Ingot and Ulfa (2023) researched the potential increase in trade through the ASEAN-Bangladesh PTA. However, there has been no research specifically discussing the interests of the Indonesian Government in the Indonesia-Iran PTA in 2023. This research gap is the basis for the novelty of this article.

This research aims to explain the strategic rationality behind Indonesia's decision to deepen economic cooperation with Iran under conditions of international isolation and sanctions, by tracing how economic interests, geopolitical configurations, and the free-active principle interact within the framework of the II PTA: Indonesia utilizes the free-active principle not merely as a descriptive label, but as an operational mechanism to pursue long-term economic interests in a market that is experiencing a demand vacuum due to sanctions, while simultaneously asserting foreign policy autonomy amidst great power competition (Rosyidin & Andika, 2017). The novelty of this research lies in the contextual analysis that explains why the timing factor (2023) and the agreement format (PTA with countertrade clause) have strategic significance that goes beyond merely signing a regular trade agreement.

ANALYTICAL FRAMEWORK

National Interest

Each country has different goals known as national interest. This concept has evolved into a fundamental foundation in the study of international relations, highlighting the importance of the state's role as a primary contributor in the process of shaping the framework of international interaction. National interest can be defined as the goals to be achieved in relation to the needs of the nation or state, and simultaneously serves as a benchmark for decision makers before formulating foreign policy attitudes or actions (Aliza, 2024).

Historically, the theory of national interest was first proposed by Hans J. Morgenthau in his essay 'The Primacy of the National Interest' (1949). Morgenthau asserts that the national interest of each country is fundamentally the pursuit of power, specifically all means that can build and maintain a country's dominance over another. Morgenthau categorizes national interest into two levels: primary (vital) national interest, which relates to the preservation of a country's physical, political, and cultural identity as well as the security of its existence; and secondary national interest, which can be negotiated and discussed with other countries (Mas'oed, 1990).

Furthermore, Donald E. Nuechterlein categorizes national interests into four fundamental goals that drive a country's foreign relations: (1) defense and security interests; (2) economic interests aimed at improving the economy through cooperation with other countries; (3) world order interests; and (4) ideological interests. In his explanation, Nuechterlein believes that economic interest is the most important aspect beside defense objectives, as the contemporary economy serves as a new source of influence that earns a country global respect (Nuechterlein, 1979).

However, the use of Donald E. Nuechterlein's framework in analyzing II-PTA is insufficient if it only stops at categorizing interests into general categories. Analytically, what is more important is to prioritize these interests and explain the relationships between them in shaping policy decisions. In the context of the II-PTA, economic interests hold the highest position because this agreement is directly related to Indonesia's need to expand its export market to non-traditional regions, while also taking advantage of the opened demand niche in the Iranian market due to the reduced involvement of Western exporters amid the sanctions regime. The significance of this interest is reflected in the opening of preferential tariff access and the projected increase in Indonesia's exports to Iran after the agreement is implemented. (Biro Humas Kementrian Perdagangan RI, 2024).

Under these economic interests, there are other secondary interests, namely those related to Iran's strategic position in the regional trade network and South-South economic relations. At the secondary level, Iran's value lies in its position as a strategic hub in the regional trade network, which expands the meaning of the II-PTA beyond bilateral relations. Moreover, the closeness between Indonesia and Iran in forums for cooperation among developing countries, including D-8, demonstrates that II-PTA also has a broader dimension in efforts to strengthen economic networks beyond traditional markets.. (Haris, 2023).

Meanwhile, the supporting dimensions of Indonesia's interests in the II-PTA can be seen in the ideational and diplomatic aspects. The principle of an independent-active foreign policy allows Indonesia to continue building cooperation with Iran without having to fully submit to the pressures of certain power blocs, while the element of identity closeness as fellow Muslim countries also provides a normative foundation that strengthens the relationship between the two countries. However, the ideational factor does not stand alone as the main explanation; rather, it functions as a supporting element that facilitates the realization of more dominant economic and strategic interests. Thus, the hierarchy of Indonesia's interests in the II-PTA can be understood as a structure primarily based on economic interests, then reinforced by strategic interests in the international trade system, and further supported by diplomatic and ideational dimensions that provide additional legitimacy to the policy (Athallah et al., 2025).

The arrangement of interests needs to be stated explicitly because this is where the main distinction of this research lies compared to most previous studies that only inventory interests without specifying which ones most determine the direction of policy. In the II-PTA framework, economic interests are the main drivers, while the diplomatic and ideational dimensions serve as supporting elements for the policy choices made, rather than as independent and autonomous driving forces from economic-strategic calculations (Haris, 2023).

Indonesia's national interest, as stipulated in Law Number 3 of 2002 on State Defense, is to ensure the continued integrity of the Unitary State of the Republic of Indonesia (NKRI) based on Pancasila and the 1945 Constitution, as well as to guarantee the smooth progress of national development (Kementerian Pertahanan RI, 2015). However, national interests cannot be verified solely from legal texts. In practice, national interests are operational and manifested in concrete directives given by the government to its diplomatic apparatus. In the context of the II-PTA, Indonesia's operational national interests can be verified through a series of official policy documents, including: (1) a strategic study by the Center for Policy Studies and Development of the Indonesian Ministry of Foreign Affairs, which explicitly identifies Iran as an untapped strategic market (Haris, 2023); (2) (2) a study by Sabaruddin (2017) from the Indonesian Ministry of Foreign Affairs that classifies Iran among the 219 non-traditional priority markets for Indonesia (Sabaruddin, 2017); (3) an official statement by Minister of Trade Zulkifli Hasan when advocating for the ratification of the II-PTA in the House of Representatives (Biro Humas Kementrian Perdagangan RI, 2024); and (4) a consistent record of bilateral diplomatic visits from 2006 to 2023, reflecting the government's sustained commitment to strengthening Indonesia-Iran relations (US-ASEAN Business Council, 2023).

In the modern era, conflicts between countries do not always take the form of direct military confrontations, but have instead evolved into trade conflicts or trade wars. Economic protectionism has become one of the main instruments in modern trade wars, where countries implement various protective policies in the form of tariffs, quotas, and embargoes to protect their domestic interests. Developing countries tend to be the most affected due to their dependence on exports to developed countries and the vulnerability of their economic structures (Rosdiana et al., 2025). In this context, developing countries including Indonesia must devise smart strategies, one of which is utilizing PTAs and other trade agreements to strengthen their economic resilience (US-ASEAN Business Council, 2023).

It is also important to understand the conceptual distinction between stated interests and actual strategic interests in the study of II-PTA. The official statements of the Indonesian government regarding "encouraging market diversification" or "utilizing Iran as a gateway" are normative stated interests (Biro Humas Kementrian Perdagangan RI, 2024). At the level of actual strategic interests, Indonesia's choice of Iran in the sanctions situation cannot be explained merely by referring to the size of the market potential, but rather by the fact that the market has become increasingly attractive due to the reduction of competitors from Western countries as a result of the sanctions regime. This conceptual distinction helps prevent the analysis from being trapped in merely repeating the official government narrative, and forces the explanation to move toward the actual dynamics of decision-making (Haris, 2023).

Free-Active as a Strategic Hedging Mechanism

The main analytical contribution of this article lies in the operational explanation of how the free-active principle works in the context of the II-PTA. The free-active principle in the context of Indonesia's foreign policy has evolved far beyond the mere non-aligned principle inherited from independence. Recent literature shows that Indonesia consistently implements a hedging strategy operationalized by the free-active principle, namely maintaining a balance of relations with various major powers while preserving strategic autonomy (Rosyidin & Andika, 2017). In the context of II-PTA specifically, the free-active principle as a hedging mechanism explains four aspects that cannot be solely explained through economic calculations. First, Indonesia consciously accepted the geopolitical cost of real risks from US diplomatic pressure due to secondary sanctions as a trade-off to gain access to a market experiencing a demand vacuum (Haris, 2023). Second, Indonesia chose the PTA format (not a comprehensive FTA) as a cautious form of geopolitical risk management: sufficient to open market access, but not too far to worsen relations with the US. Third, the addition of countertrade clauses reflects Indonesia's diplomatic adaptability in using conventional trade instruments to navigate a complex geopolitical environment (Niaga Asia, 2024). Fourth, the II-PTA is positioned as part of a broader portfolio of diversified trade partners, ensuring that dependence on Iran is never exclusive (Ditjen PPI kemendag, 2023).

In the perspective of contemporary international relations, Indonesia's actions are consistent with what is called a partial multi-alignment strategy: Indonesia is no longer merely non-aligned, but selectively manages engagement with various actors based on differentiated interest calculations (Rosyidin & Andika, 2017). Free-active in the Jokowi era is no longer passive-reactive, but rather active-assertive: proactively building trade networks in non-traditional markets while maintaining strategic relations with major powers. This strategy aligns with Indonesia's increasingly pragmatic-calculative foreign policy orientation, where national interests are shaped not only by norms but also by dynamic geopolitical considerations (Trianjani et al., 2025).

As a form of strategic hedging, the signing of the II-PTA demonstrates Indonesia's efforts to expand its international economic maneuvering space without exclusively relying on a single group of trading partners for strategic independence in international economic policy (Mulya, 2025). In this context, the principle of free and active foreign policy not only serves as a philosophical foundation but also as a policy instrument that provides the necessary maneuvering space for Indonesia to establish trade relations with Iran without facing unmanaged diplomatic consequences (Haris, 2023).

Sanctions as a Strategic Explanatory Variable

To understand II-PTA in depth, international sanctions against Iran must be viewed not merely as obstacles, but also as variables that paradoxically strengthen Indonesia's strategic calculations. Empirical research shows that US sanctions against Iran inadvertently created conditions favorable for non-Western exporters (Laudati, 2023). First, the withdrawal of European and American companies from the Iranian market created a supply gap that could be filled by exporters from Global South countries, including Indonesia (Haidar, 2013). Second, the limited access of Iran to conventional imported products increased the price premium that Iranian consumers were willing to pay for available commodities. Third, although sanctions hit oil exports, Iran's service sector contributes about 50 percent of the total GDP, while the oil sector only contributes 23 percent, and the manufacturing-mining sector contributes 20 percent, creating a sustained demand for raw materials and consumer products from abroad (Trading Economics, 2024).

This condition explains the II-PTA analytical paradox: sanctions that seemingly should deter Indonesia actually become a variable that strengthens Indonesia's strategic calculation to sign a trade agreement with Iran. Several studies in the field of international economics confirm this phenomenon, where the one-sided restriction of a country's market access actually opens up opportunities for other countries that are not bound by similar restrictions (Laudati, 2023). In the case of Indonesia, leading export commodities such as CPO, paper, and light manufacturing products are not the primary targets of sanctions, which focus on Iran's energy, military, and nuclear technology sectors, thus leaving room for normal trade to continue despite payment mechanism restrictions (Farzanegan, 2023).

It is also important to note that the biggest obstacle to the implementation of the II-PTA does not stem from the substance of the agreement itself, but rather from the supporting infrastructure for financial transactions affected by sanctions. The countertrade mechanism included in the II-PTA is an innovative response to this obstacle: by allowing direct exchange of goods without fully relying on the US dollar-based international banking system, Indonesia and Iran have created an alternative trade route that pragmatically circumvents the sanctions barrier (Niaga Asia, 2024). The innovation of this mechanism reflects the depth of understanding of Indonesian diplomats regarding the geopolitical complexities surrounding Iran, while also proving that the identified economic interests are not merely theoretical aspirations, but policies accompanied by concrete implementation plans.

Political Economy and International Trade in the Context of Iran

Political economy refers to the interaction between political and economic interests within the framework of society and governance. As Bruno S. Frey (1994) defines it, political economy is a collection of theories based on the understanding of the interconnection between the fields of economics and politics, where these two fields interact in the allocation of resources, distribution of income, and efforts to maintain stability (as cited in Mufti, 2018). Adam Smith's The Wealth of Nations (1776) is often invoked to illustrate the close relationship between economics and politics manifested through government policies, where the role of state regulation is necessary to ensure a fair distribution of wealth (as cited in Samuel & Kugler, 2023). This framework becomes relevant for understanding the goals and methods of the Indonesian Government in implementing the II-PTA, as through this agreement, the government pursues economic benefits while simultaneously strengthening its political position and strategic bilateral relations.

In the framework of WTO law, a Preferential Trade Agreement (PTA) is a trade agreement between two or more countries that provides special treatment in the form of tariff reductions or eliminations and other trade barriers for goods and services originating from the member countries of the agreement, while the Most Favored Nation (MFN) tariff remains applicable to non-member countries (Islam & Alam, 2009). PTAs are permitted within the WTO legal framework through three main foundations: Article XXIV of GATT 1947; Article V of GATS; and the Enabling Clause of 1979, which specifically allows developing countries to establish preferential arrangements (Matsushita, 2002). In the specific context of Indonesia-Iran trade, the WTO Enabling Clause of 1979 is the most relevant foundation as it explicitly facilitates preferential arrangements among developing countries without having to adhere to the stricter requirements of Article XXIV (Teh & Rocha, 2011). This means that the II-PTA is not only legally valid under international law but also reflects the spirit of South-South trade, which is increasingly becoming an important trend in post-pandemic global trade, especially amid rising geopolitical fragmentation that drives developing countries to seek alternative partners outside the circle of Western powers (Mattoo et al., 2020).

Since the early 1990s, the number of active PTAs has surged sharply. WTO data shows that if in 1990 there were only about 70 PTAs in effect, by 2010 the number approached 300, with 378 PTAs notified and currently in effect (Teh & Rocha, 2011). For developing countries, participation in well-designed PTAs can help integrate into the global value chain, expand markets for manufactured goods and services, and support development goals through more inclusive economic growth (Maur & Chauffour, 2011).

International trade with Iran, as stated by Farzanegan (2023), cannot be analyzed using the conventional free market framework. Iran operates outside the mainstream international trade system due to sanctions that have lasted for more than four decades, resulting in its trade structure being formed under conditions where international financial mechanisms such as SWIFT, correspondent banking, and cargo insurance experience serious disruptions. This has led to significantly increased transaction costs and political risks for Iran's trading partners, including Indonesia (Haris, 2023). Nevertheless, the production structure patterns of both countries show strong complementarity: Indonesia has an advantage in tropical products, processed foods, and light manufacturing, while Iran has an advantage in energy, petrochemicals, and region-specific agricultural commodities (Azad, 2020). This complementarity is the basis of the rationality of the II-PTA, because trade based on differences in production structures and complementary import needs allows for the creation of trade relations that are not mutually exclusive, but rather expand mutually beneficial cooperation.

Philosophy and Policy of Indonesia in PTA Diplomacy

Understanding Indonesia's interests in the II-PTA requires an understanding of why Indonesia philosophically and strategically chose the PTA format as a policy instrument. Since the era of President Susilo Bambang Yudhoyono, Indonesia has systematically built a network of bilateral and multilateral trade agreements as part of its strategy to expand export market access. The Jokowi government continued and accelerated this strategy: during his two terms in office (2014-2024), Jokowi successfully signed 27 trade agreements, an achievement that reflects a strong commitment to the agenda of expanding export market access as a pillar of national economic growth (Antara, 2024).

And this is in line with what was stated in the State Address on the 72nd Anniversary of the Republic of Indonesia in front of the Joint Session of the DPR-DPD on August 16, 2017, where President Jokowi explicitly stated: "In economic diplomacy, our diplomatic machinery continues to work on non-traditional markets in Africa, the Middle East, and Asia" (Salim, 2017). This is not just rhetoric; this is a directive from the head of state that is then translated by the Ministry of Trade and the Ministry of Foreign Affairs into concrete trade negotiation agendas. In the Trade Ministry Working Meeting in February 2017, President Jokowi clearly emphasized the potential of the Middle Eastern market: "The Middle East has a very large opportunity, USD 975 billion, we have only entered USD 5.2 billion." The President specifically ordered that the completion of negotiations with potential countries be expedited and emphasized that Iran and the Middle East region are priorities that "we have never managed for decades." This directive is direct evidence that Indonesia's interest in the II-PTA has explicit political backing from the highest levels of government, something that cannot be obtained merely by reading laws or constitutions (Humas Kemensetneg RI, 2017).

In selecting PTA partners, Indonesia uses the export market clustering framework developed by Sabaruddin (2017) at the Indonesian Ministry of Foreign Affairs. This framework divides potential partner countries into traditional markets (12 countries, including Japan, the United States, and China) and non-traditional markets (219 economic entities). The criteria for selecting PTA partners in Indonesia encompass three dimensions: (1) the potential of untapped markets, measured by the magnitude of unmet import demand; (2) the complementarity of commodities, which refers to the alignment between Indonesia's export strengths and the import needs of the partner; and (3) regional geopolitical interests, which pertain to the potential of the partner country as a gateway to larger markets in the region. Iran meets all three criteria simultaneously, which explains why the II-PTA negotiations have been maintained for 13 years despite the ongoing obstacles of international sanctions (Sabaruddin, 2017).

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Philosophically, Indonesia's approach to PTAs is selective-pragmatic: Indonesia does not pursue deep economic integration hastily, but rather opts for phased agreements that provide verified concrete benefits while carefully managing geopolitical risks (Haris, 2023). This is different from the approach of several developed countries that promote comprehensive FTAs covering investment, intellectual property rights, and government procurement. In the context of Iran, Indonesia chose the PTA format that only includes selective tariff reductions as the most realistic approach considering the complexity of international sanctions, and the addition of a countertrade clause in the II-PTA is a pragmatic innovation that demonstrates the ability of Indonesian diplomats to adapt conventional trade instruments to the existing geopolitical conditions (Rusmalina, 2023).

PTA is also the most realistic stepping stone given the sanctions surrounding Iran. As stated by the Director General of International Trade Negotiations at the Ministry of Trade, Djatmiko Bris Witjaksono, the PTA with Iran is aimed at being a solution to "penetrate export shares in non-traditional markets such as the Middle East region" (Rusmalina, 2023). In a situation where Iran's payment and banking systems are still disrupted by US sanctions, a PTA with a countertrade clause is a more pragmatic choice compared to an FTA, which requires much more comprehensive rule harmonization. The track record of Indonesia's PTA diplomacy shows a consistent pattern in partner selection, namely countries with high market potential and commodity complementarity (Sabaruddin, 2017). Indonesia's PTAs with Egypt (2010), Pakistan (2012), Peru (2017), and Mozambique (2022) follow the same pattern, and Iran follows this pattern too, with an additional, more complex geopolitical dimension due to international sanctions.

RESEARCH METHOD

This research uses a descriptive qualitative approach to uncover data and information regarding Indonesia's interests in signing a Preferential Trade Agreement (PTA) with Iran. A descriptive qualitative approach is a type of research aimed at understanding the meaning and uniqueness of the object being studied by using descriptive data analysis, where the data collected consists of words or images and emphasizes the process rather than the outcome (Nasution, 2023).

This research focuses on Indonesia as the main subject of analysis and uses secondary data sources. Data were collected from various sources, including books, scientific journals, official reports, government publications, and leading online articles relevant to the topic of the Indonesia-Iran PTA and Indonesia's international trade policy. To strengthen the empirical verification of national interests that are operational in nature, this research specifically relies on official policy documents from the Indonesian government, including studies from the Ministry of Foreign Affairs of the Republic of Indonesia, the Ministry of Trade of the Republic of Indonesia, and records of bilateral diplomatic visits as evidence that national interests in the II-PTA are not merely a normative construction of legal texts, but are manifested in verified policy actions. After data collection, the research draws conclusions through deductive reasoning, moving from general principles to specific applications in the case of the II-PTA. The scope of the research is limited to the year 2023, namely the time of the PTA agreement signing by the two related countries.

This research also applies a conceptual distinction between stated interests and actual strategic interests to avoid the analytical trap of merely repeating the government's official justifications without explaining the actual decision-making dynamics. Additionally, the strategic hedging framework is used to explain how the free-active principle operates as an explanatory variable, rather than merely a descriptive conclusion. These two approaches together enable a more in-depth analysis of Indonesia's strategic rationality in signing the II-PTA amidst the complexities of international sanctions (Rosyidin & Andika, 2017).

DISCUSSION

The Dynamics of Indonesia-Iran Relations: From History to the Signing of the II-PTA

Understanding why Indonesia signed the II-PTA in 2023 requires the right historical context, not just a chronicle of the long bilateral relationship, but the identification of specific moments where Indonesia's national interests toward Iran crystallized and why the II-PTA only materialized in 2023, not earlier.

The relationship between Iran (formerly known as Persia) and the Nusantara region (now Indonesia) had been established thousands of years before official diplomatic relations were formed. The Chinese traveler I-Tsing noted that in the autumn of 671 AD, he sailed from Canton to Sumatra on an Iranian ship, indicating that Iranian traders had been trading with China via sea routes through the Nusantara before the arrival of Islam

(Iqbal, 2022). The deep cultural relationship between the two nations is also evidenced by the absorption of around 400 Persian words into the Indonesian language, such as bandar, menara, anggur, and gandum (Jakarta, 2019b). The historical depth of the Indonesia-Iran relationship is analytically relevant because it explains that the decision to sign the II-PTA was not something done suddenly. On the contrary, the II-PTA is the institutionalization of a bilateral relationship that has long-standing historical, cultural, and complementary interests but has never been optimally formalized in a trade agreement.

Official diplomatic relations between Indonesia and Iran began in 1950 at the ministerial level and were later elevated to ambassadorial level in 1959 (Jakarta, 2019a). The Friendship Agreement between the two countries was signed in 1958 (Undang-Undang Nomor 17 Tahun 1959). The first international sanctions against Iran were imposed by the United States through Executive Order 12170 in November 1979 by President Jimmy Carter (Widowati, 2020). After that, the UN issued six sanctions resolutions gradually from 2006 to 2010, namely Resolutions 1696, 1737, 1747, 1803, 1835, and 1929 (Mahdi, 2016; Kerr, 2019).

Despite facing international sanctions, Indonesia remains consistent in strengthening trade relations with Iran. This spirit is reflected in various high-level diplomatic visits between the two countries, starting from President Ahmadinejad's visit to Indonesia in 2006, which resulted in the signing of six cooperation agreement documents (Detik.com, 2006), President Joko Widodo's visit to Tehran in December 2016, which resulted in three strategic MoUs (Setkab RI, 2016a), to President Raisi's visit to Indonesia in May 2023, which finally marked the signing of the II-PTA (US-ASEAN Business Council, 2023).

During President Joko Widodo's era, the strategy toward Iran and the Middle East was part of a broader vision for diversifying export markets. During Jokowi's first term (2014-2019), a visit to Tehran in December 2016 resulted in three strategic MoUs in the fields of energy, industry, and agriculture, as well as a commitment to promote direct trade without the involvement of third countries. a breakthrough considering that, until now, Indonesia-Iran transactions had to go through a third country due to banking limitations (Setkab RI, 2016b). In the second period (2019-2024), the focus shifted to the finalization of the II-PTA in line with the increasing urgency of market diversification due to the US-China trade war. The signing of the II-PTA on May 23, 2023, just 17 months before the end of Jokowi's term, marks the culmination of a coherent and sustainable policy toward Iran. Furthermore, the ratification of the II-PTA by Commission VI of the Indonesian

House of Representatives in April 2024 proves that the national interests identified in this article are not merely policy rhetoric, but have gained institutional legitimacy through a democratic legislative process (Biro Humas Kementrian Perdagangan RI, 2024).

During the leadership era of President Susilo Bambang Yudhoyono, Indonesia's exports to Iran continued because many commodities were in demand by Iran, especially crude palm oil (CPO), paper, and light manufactured products (Husain et al., 2021). During the first term of President Joko Widodo (2014-2019), President Jokowi's visit to Tehran in 2016 became an important moment to affirm the great potential for cooperation in the energy sector, oil and gas, and the trade of commodities such as CPO, coffee, and cocoa, which are mainstay exports of Indonesia to Iran. However, the unilateral withdrawal of the United States from the JCPOA in 2018 and the reimposition of economic sanctions on Iran have once again created uncertainty for bilateral trade relations (Setkab RI, 2016b).

One interpretative error that must be corrected in the study of II-PTA is viewing Iran solely as an economy devastated by sanctions. Data shows a much more complex picture. Based on Trading Economics data, the services sector contributes about 50 percent of Iran's total GDP, while the oil sector contributes only 23 percent, and manufacturing-mining contributes 20 percent (Trading Economics, 2024). This is a sectorally diversified economy, unlike the Gulf petrodollar countries that are almost entirely dependent on oil. Iran's GDP in 2023 was recorded at USD 404.63 billion, with an economic growth of 5.4 percent according to the IMF (Parstoday, 2024). This growth is primarily driven by the industrial, mining, and services sectors, rather than just oil expansion. Iran's economic resilience amid these sanctions reflects that Iran has developed adaptation mechanisms over decades, including alternative export routes and trade networks bypassing third-country intermediaries (World Bank, 2024). Nevertheless, the ongoing sanctions remain a structural issue that complicates further economic expansion in Iran.

Why was the II-PTA only signed in 2023 and not earlier? This is a question that needs to be answered specifically. There are four converging factors that explain the timeliness of this: (1) the unilateral withdrawal of the US from the JCPOA in 2018, which actually strengthened Iran's determination to seek non-Western partners, thereby increasing Iran's willingness to offer more attractive tariff concessions to Indonesia; (2) the escalation of the US-China trade war, which created an urgency for Indonesia to diversify (Rosdiana et al., 2025); (3) President Raisi's state visit, which provided high-level diplomatic momentum; and (4) Jokowi's legacy policy agenda toward the end of his term,

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which encouraged the acceleration of the agreement's finalization (Antara, 2024). Without the convergence of these four factors, the II-PTA would likely still be delayed even though the technical negotiations were nearly complete.

Primary Interest: Export Diversification and Opportunities from Sanctioned Markets

The Indonesian government's decision to sign the II-PTA is based on multidimensional national interests. Referring to the categorization of national interests proposed by Nuechterlein (1979), economic interest is the main factor driving the signing of this agreement. Indonesia faces structural challenges in the form of high export concentration in traditional markets, so diversifying export markets to non-traditional countries like Iran becomes an important strategy to strengthen national economic resilience (Hotsawadi & Widyastutik, 2020).

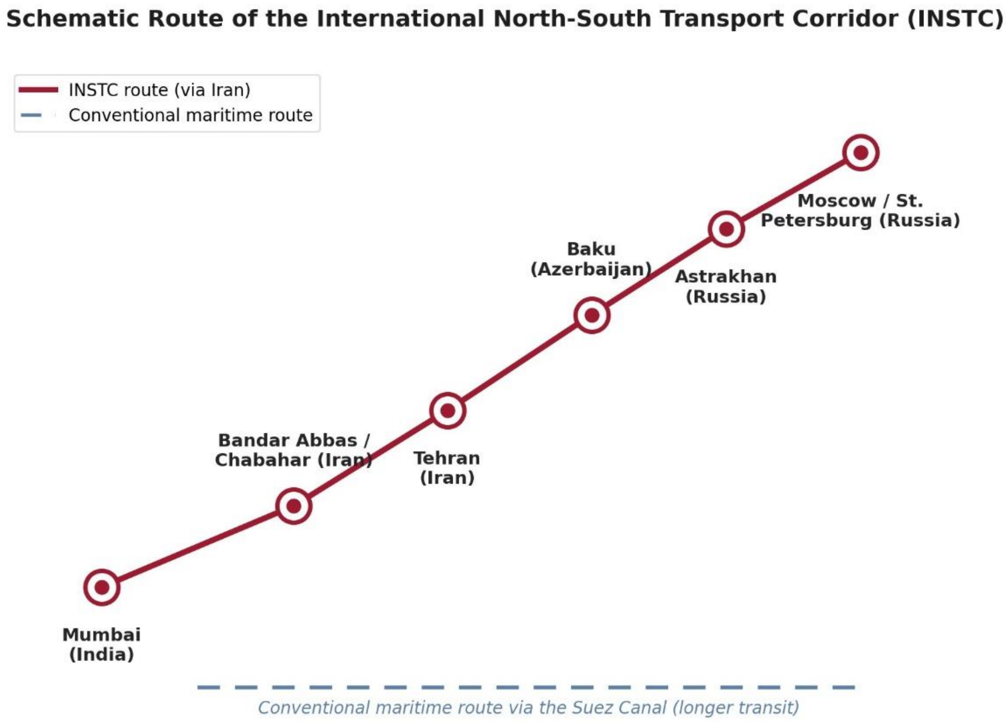
In this context, sanctions against Iran play a paradoxical dual role: on one hand, they hinder payment and logistics systems, but on the other hand, they create unique competitive opportunities. The reduction of competition from the West due to the reluctance of European and American companies to operate in Iran to avoid secondary sanctions effectively opens up a larger market space for exporters from non-Western bloc countries, including Indonesia. This is a strategic niche that is not available in Indonesia's PTA agreements with non-isolated countries (Haidar, 2013).

Based on Sabaruddin's (2017) quantitative study at the Indonesian Ministry of Foreign Affairs, Iran falls into the category of untapped markets for Indonesia. Out of the 219 economic entities in that category, Iran is considered to have very high strategic value due to its population of 88 million, its strategic geopolitical location, and its wealth of energy resources that complement Indonesia's advantages in the tropical products and manufacturing sectors (Azad, 2020). The concretization of Indonesia's national interests in the II-PTA is evident from the acquisition of preferential tariff access for 239 tariff lines, covering mineral, industrial, agricultural, and fishery products (Biro Humas Kementrian Perdagangan RI, 2024). With the acquisition of these tariff preferences, Indonesia's leading products such as legumes, motorcycles, industrial monocarboxylic fatty acids, wood fiber boards, and motor vehicle accessories now have a more competitive price in the Iranian market. Before the II-PTA, Iran's tariffs on these products ranged from 10-30%, making Indonesian products less competitive compared to those from countries that already had preferential tariff arrangements with Iran. Referring to the projections of the Ministry of

Trade, after the full implementation of the II-PTA, Indonesia's export value to Iran is expected to increase to USD 494 million by 2030, with a potential trade surplus of USD 468 million (Biro Humas Kementrian Perdagangan RI, 2024).

Beyond its bilateral value, Iran is also positioned as a connector to a broader regional trade network, thereby enhancing the strategic significance of the II-PTA for Indonesia. Iran's strategic position as a multimodal connector has concrete significance for Indonesia's export strategy. Through the International North-South Transport Corridor (INSTC) route, which connects the Port of Mumbai (India) with Russia via Iran and the Caspian Sea, Indonesian products entering through Indian ports can be forwarded to Eurasian markets, including Russia, Kazakhstan, Azerbaijan, and the Caucasus countries, with shorter transit times and lower logistics costs compared to conventional routes through the Suez Canal. The Indonesian Ministry of Foreign Affairs explicitly mentions the INSTC as one of the strategic considerations in finalizing the II-PTA, particularly for Indonesian commodities such as CPO, paper, and textile products that are in demand in Central Asian markets. Furthermore, Iran is also a member of the Economic Cooperation Organization (ECO), which connects 10 countries in Central Asia, the Caucasus, and the Middle East, making trade partnerships with Iran a potential gateway for Indonesian products into the intra-ECO trade network (Haris, 2023).

Figure 1. Political Map: International North-South Transport Corridor (INSTC)



Source: author's own illustration of the INSTC route

The concretization of Indonesia's economic interests in the II-PTA can also be seen from the strong complementarity of the trade commodities between the two countries. Indonesia's leading export products to Iran include nuts, motorcycles, industrial monocarboxylic fatty acids, fiberboard, and motor vehicle accessories; while Iran exports to Indonesia products that do not directly compete with domestic industries such as dates, figs, natural and synthetic alkaloids, grapes, medical equipment instruments, and industrial packaging containers (Biro Humas Kementrian Perdagangan RI, 2024). This complementarity makes the Indonesia-Iran trade relationship mutually beneficial, rather than zero-sum, thereby strengthening the economic rationale behind the signing of the II-PTA (Azad, 2020).

Furthermore, it is important to understand that the II-PTA not only creates new trade (trade creation) but also diverts trade (trade diversion) that has been conducted through intermediaries in third countries such as Dubai, Turkey, and Oman into direct bilateral trade (Essra, 2017). Before II-PTA, some Indonesian commodities reached the Iranian market through re-export from Dubai or through other intermediaries, which increased transaction costs and reduced profits for Indonesian exporters. With the presence of tariff preferences and countertrade clauses, the II-PTA opens a more efficient direct trade route.

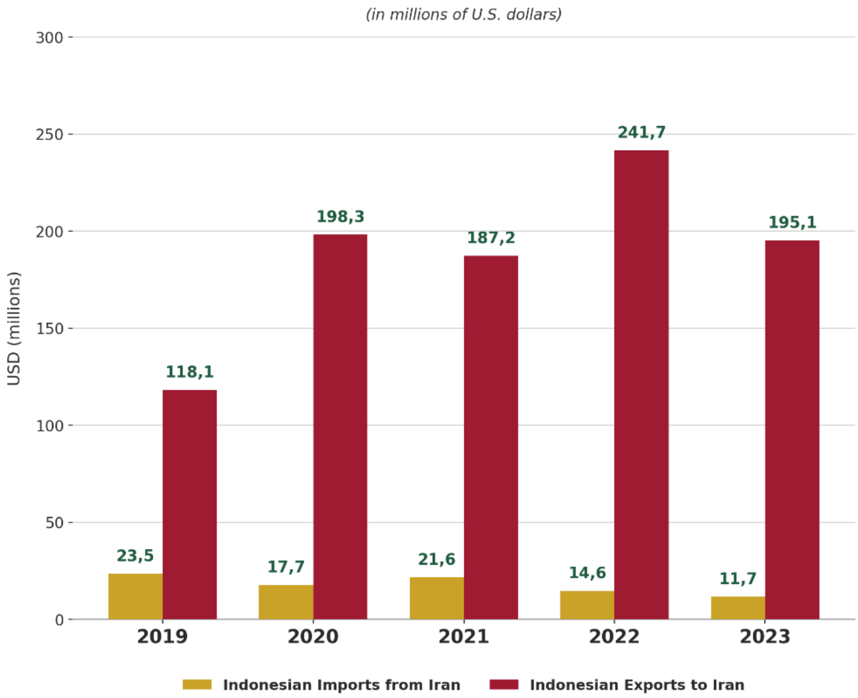
II-PTA is Indonesia's second trade agreement with a country in the Middle East after the Indonesia-UAE Comprehensive Economic Partnership Agreement (IUAE-CEPA) signed in 2022 (Ditjen PPI kemendag, 2023). This expansion pattern reflects the strategic orientation of the Indonesian government to build a strong trade network in a region that has not been optimally utilized until now. From this perspective, the II-PTA is not just a standalone bilateral agreement, but rather a part of the broader Middle Eastern trade architecture that Indonesia is systematically building.

Secondary Interests: Political Economic Interests and Jokowi's Vision

From a political economy perspective, the II-PTA reflects the interaction between political and economic interests within the framework of government policy (Mufti, 2018). Indonesia and Iran have strong economic complementarity: Iran possesses abundant energy resources, while Indonesia has advantages in tropical products and manufacturing (Azad, 2020).

The bilateral trade data between Indonesia and Iran during the period 2019-2023 strengthens the argument regarding the political-economic interests underlying the II-PTA. In 2019, total trade was recorded at around USD 141.6 million, then surged to around USD 216 million in 2020 and around USD 208.8 million in 2021. Trade performance peaked in 2022 with a value of around USD 256.3 million, before dropping again to around USD 206.8 million in 2023. If compared between 2019 and 2023, the total trade between Indonesia and Iran shows an increasing trend of about 46% over the past five years (Bisnis.com, 2024). Indonesia consistently recorded a trade surplus with Iran throughout that period, and this fact is one of the foundations of optimism for Minister of Trade Zulkifli Hasan in advocating for the ratification of the II-PTA (Biro Humas Kementrian Perdagangan RI, 2024).

Table 1. Total Trade Value Between Indonesia and Iran



Source: (Bisnis.com, 2024)

The signing of the II-PTA by President Joko Widodo on May 23, 2023, just a few months before the end of his term, is a concrete manifestation of the government's efforts to leave behind an ambitious and long-term trade policy legacy. During his two terms in office, Jokowi positioned trade agreements as the main instrument for strengthening Indonesia's economic diplomacy as a pillar of the national economic growth strategy (Antara, 2024). In the context of geopolitical interests, Jokowi's vision for Iran and the Middle East can be identified from a series of coherent policies: the IUAE-CEPA (2022) and the II-PTA (2023) are two strategic pillars in establishing Indonesia's presence in the Middle Eastern market, which has long been dominated by exporters from East Asia (China, Japan, South Korea) and Europe (Ditjen PPI kemendag, 2023).

However, Indonesia's political economy interests in the II-PTA also contain structural challenges that need to be anticipated. The unilateral sanctions imposed by the United States on Iran, which include restrictions on banking transactions, insurance, and the shipment of goods, remain a significant obstacle to realizing the benefits of the II-PTA. Haris (2023) in a study by the Indonesian Ministry of Foreign Affairs emphasizes that without concrete strategies to address financial transaction barriers such as local currency settlement mechanisms, countertrade, or the use of third-party banks, the goal of increasing trade value mandated by the II-PTA will be difficult to fully achieve. Therefore, from a

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political economy perspective, the success of the II-PTA does not only depend on high-level political commitment but also on the government's ability to build institutional infrastructure capable of pragmatically addressing these geopolitical challenges (Haris, 2023).

From the perspective of foreign policy, economic relations with Iran also demonstrate Indonesia's efforts to maintain its policy autonomy amid geopolitical pressures, even though the country faces unilateral sanctions from the United States (Trianjani et al., 2025). This principle allows Indonesia to avoid being subordinated to the pressures of major powers in managing bilateral relations, while also demonstrating its foreign policy autonomy. This pattern of relations emphasizes that Indonesia's political economy interests in the II-PTA are layered: on one hand, pursuing long-term economic benefits, and on the other hand, asserting Indonesia's foreign policy independence that is not subordinated to the pressures of certain power blocs (Mulya, 2025).

The second dimension of political economy interest is the Indonesia-Iran relationship in the context of D-8 and the strengthening Global South agenda. Indonesia will take over the leadership of D-8 in January 2026, making the strengthening of bilateral cooperation with Iran, as one of the D-8 members, a medium-term strategic investment (Sofia, 2025). Strengthening the D-8 forum is part of Indonesia's agenda to enhance the diplomatic weight of Global South countries in an increasingly geopolitically fragmented international trade order (Guler, 2021). In this context, the II-PTA is not only a bilateral trade instrument but also an expression of Indonesia's geopolitical interests as the leader of the growing significance of the bloc of developing Muslim countries.

Furthermore, from the perspective of Indonesia's domestic political economy, the ratification of the II-PTA by the Indonesian House of Representatives (DPR RI) holds significance that goes beyond the technical aspects of legislation. The ratification process through Commission VI of the Indonesian House of Representatives (DPR) shows that Indonesia's national interest in the II-PTA has passed a stringent democratic legitimacy test: representatives from various factions collectively agreed that this agreement benefits Indonesia (Biro Humas Kementrian Perdagangan RI, 2024). Cross-faction support in this ratification is concrete evidence that Indonesia's political economy interests in the II-PTA are not only the executive's interests but also a broader institutional consensus, thereby strengthening the validity of the analysis in this article.

Indonesia's Interests in II-PTA from an International Trade Perspective

From the perspective of international trade, the II-PTA can be understood as a form of selective trade liberalization designed to reduce tariff barriers on certain commodities in order to enhance the efficiency of resource allocation and deepen bilateral economic integration. Through this agreement, Indonesia obtains facilities for tariff reductions and eliminations on a number of strategic commodities covering the mineral, industrial, agricultural, and fisheries sectors (Biro Humas Kementrian Perdagangan RI, 2024). This tariff preference becomes an important instrument considering that Iran's relatively high tariff structure has been a significant barrier to the competitiveness of Indonesian exports. With the reduction of tariff barriers, Indonesia is expected to be able to increase its market penetration in Iran more significantly, especially for leading commodities that already have a demand base there.

In conducting trade diplomacy, the Indonesian government has categorized partner countries into two groups: traditional markets and non-traditional markets. In the map of Indonesia's trade diplomacy, Iran is classified as a non-traditional market that is considered to have high potential for development through preferential instruments. This fact shows the immense untapped potential of the Iranian market, making the II-PTA a concrete instrument to open access to a market that has been closed until now (Sabaruddin, 2017).

Table 2. Trends In Indonesia's Export and Import Values, 2019-2022

(Billions Of USD)

Tahun	*Ekspor (Miliar USD)*	*Impor (Miliar USD)*	*Surplus/Defisit (Miliar USD)*
2019	167,7	171,3	-3,6 (defisit)
2020	163,3	141,6	+21,7
2021	231,6	195,7	+35,9
2022	292	237,4	+54,6

Source: (Revindo et al., 2023)

Table 2 shows that Indonesia's overall export performance significantly increased from 2019 to 2022. However, dependence on traditional markets makes Indonesia vulnerable to external shocks, including the dynamics of the trade war between the United States and China (Rosdiana et al., 2025). Therefore, the II-PTA can be seen as one of the instruments to strengthen Indonesia's export resilience against external shocks to bolster national export resilience (Hotsawadi & Widyastutik, 2020).

II-PTA can also be positioned as a stepping stone toward deeper economic integration, as it provides initial experience for both countries in managing the architecture of preferential trade rules, harmonizing standards, and gradually resolving non-tariff technical barriers (Mulya, 2025). This agreement is Indonesia's first trade agreement with a country in the Middle East that includes a countertrade scheme as an alternative trade facilitation mechanism, and it is also Iran's first trade agreement with the Southeast Asian region (TEMPO, 2023).

Indonesia also needs to pay attention to the aspect of rules of origin (ROO) in the implementation of the II-PTA, considering that this provision is one of the key elements that determine the effectiveness of preferential benefits for business actors. Cadot et al. (2006) estimate that the cost of compliance with ROO ranges from 6.8% to 8% of the value of goods, which means that the tariff preference margin can be significantly eroded by this administrative burden. Therefore, socializing the ROO provisions in the II-PTA to Indonesian business actors becomes a strategic step that cannot be overlooked (World Trade Organization, 2011).

In the context of international trade theory, the II-PTA simultaneously creates complementary trade creation and trade diversion effects. The trade creation effect occurs because the tariff preferences granted encourage Iranian consumers to switch from more expensive domestic products to Indonesian products, which are now more competitively priced (Essra, 2017). Meanwhile, the trade diversion effect arises because the Indonesia-Iran trade route, which previously went through third countries like Dubai and Turkey, is now redirected to a more efficient direct trade, thereby reducing intermediation costs and increasing the net value received by Indonesian exporters. These two effects together enhance the economic welfare of both countries, which in turn strengthens the economic rationale behind the signing of the II-PTA (Mattoo et al., 2020).

Supporting Interests: Free-Active, Islamic Solidarity, and Middle Power Affirmation

In addition to the primary economic interests and secondary geopolitical interests, II-PTA also has a supporting dimension that cannot be overlooked. At the supporting level, II-PTA also reflects Indonesia's consistency in maintaining its foreign policy autonomy amid external pressures, even though the country faces unilateral sanctions from the United States (Trianjani et al., 2025). By signing the II-PTA amid the pressure of unilateral US sanctions against Iran, Indonesia also indirectly reaffirms its commitment to the principles of multilateralism and non-discrimination in international trade as mandated by the WTO framework (Mulya, 2025).

The dimension of Islamic solidarity as a supporting interest is also relevant to discuss, although it is not the main interest. Athallah's (2025) research uses a constructivist framework to argue that a shared Islamic identity acts as a catalyst facilitating the II-PTA negotiations beyond mere rational economic calculations, by providing an ideational foundation that defines cooperation as a normatively appropriate action (Athallah et al., 2025). However, it is important not to overstate the role of Islamic solidarity: although it facilitated the negotiation process, the interest in Islamic solidarity alone cannot explain why the II-PTA negotiations lasted for 13 years and why a technical-economic PTA format was chosen. Strategic economic interests remain the main driving force, and Islamic solidarity functions as an ideational catalyst that facilitates, rather than replaces, these economic interests (Sabaruddin, 2017).

In a broader perspective, II-PTA also serves as an affirmation of Indonesia's middle power capacity. Indonesia consistently builds its identity as a middle power capable of playing on various strategic playing fields simultaneously: maintaining good relations with the US, managing economic dependence on China, and keeping open channels of cooperation with non-Western actors such as Iran (Rosyidin & Andika, 2017). The ability to build and implement the II-PTA amidst the complexities of international sanctions is a concrete demonstration of Indonesia's diplomatic capacity as an assertive middle power. Moreover, the success in adding an innovative countertrade clause to the agreement proves that Indonesian diplomats are capable of designing creative solutions to structural challenges that have no precedent in previous Indonesian trade agreements.

Implementation Challenges: From Signature to Realization

Although the II-PTA has been successfully ratified by Commission VI of the Indonesian House of Representatives in April 2024, the journey toward fully realizing the benefits of this agreement still faces significant structural challenges (Biro Humas Kementrian Perdagangan RI, 2024). First, banking and financial obstacles due to US sanctions against Iran remain the main challenge. Indonesian banks are generally reluctant to facilitate transactions with Iran due to the risk of secondary sanctions from the US, making it difficult for Indonesian businesses to open Letters of Credit and insure shipments to Iran. Secondly, the absence of direct shipping routes between Indonesia and Iran results in high logistics costs because goods must go through a third country. Third, the lack of market knowledge among Indonesian entrepreneurs regarding Iran's import regulations, consumer preferences, and local distributor networks poses a significant non-tariff barrier (Haris, 2023).

To address these obstacles, the II-PTA has anticipated by including a countertrade clause as an alternative mechanism that allows direct exchange of goods without relying on the US dollar-based international banking system (Niaga Asia, 2024). However, the effectiveness of this mechanism still depends on the government's ability to build supporting institutional infrastructure: a bilateral countertrade facilitation body, a product origin verification system, and a reliable logistics network. Paryadi's (2021) study identifies that Indonesia's bilateral trade agreements generally face low utilization issues due to information and technical barriers at the business level, a pattern that could potentially recur in the II-PTA if not anticipated with intensive socialization and facilitation programs (Paryadi, 2021).

The actual implementation of II-PTA requires a series of institutional steps that have not yet been fully met: (1) the issuance of a Presidential Regulation on the enactment of II-PTA; (2) the preparation of technical guidelines for countertrade; (3) a socialization program for Indonesian exporter associations; and (4) negotiations with Indonesian banks to develop a legally secure trade financing scheme. Without these implementation steps, the projected economic benefits of the II-PTA will remain aspirational, not verified achievements (Biro Humas Kementrian Perdagangan RI, 2024).

Recent geopolitical developments also present new risk variables that need to be observed. The increasing tension between the US and Iran creates new risks for Indonesia's diplomatic position, where the strategic hedging that has been effective in maintaining relationships with various parties simultaneously is now facing heightened pressure as the space between the rivalries of major powers narrows (Insights Indonesia, 2026). Experts remind that Indonesia needs to "play smart" in managing its relationship with Iran so that the economic benefits of the II-PTA can be achieved without sacrificing its strategic relations with the US and other Western partners. Therefore, a proactive diplomatic communication strategy with Washington is necessary to explain that the II-PTA is a legitimate trade instrument that does not violate US sanctions against prohibited sectors,

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but rather focuses on non-sensitive civilian commodities that are completely outside the scope of the sanctions (Haris, 2023).

CONCLUSION

Based on the overall analysis that has been presented, the reasons behind Indonesia's choice to deepen economic cooperation with Iran, despite the country being in international isolation and overshadowed by a strict regime of sanctions, can be seen more clearly. The explanation for these dynamics is structured in three layers of mutually reinforcing arguments.

First, from the dimension of primary economic interests, the sanctions against Iran, instead of being a pure obstacle, have become a variable that increases Iran's strategic value for Indonesia. The reduced competition from Western exporters due to sanctions creates a demand vacuum that can be filled by Indonesian commodities (CPO, paper, light manufactured products) that are not directly affected by energy sanctions (Haidar, 2013). Tariff preferences and projections of trade increases post-implementation demonstrate a concrete manifestation of these economic interests (Biro Humas Kementrian Perdagangan RI, 2024). Historically, this interest is verified not only from the constitutional text but also from President Jokowi's policy directives documented in various speeches and ministry working meetings, as well as from the Ministry of Foreign Affairs' export market clustering study, which explicitly places Iran as an untapped market with the highest strategic value (Haris, 2023).

Second, from the dimension of secondary geopolitical interests, the II-PTA also reflects Indonesia's efforts to leverage Iran's position in the regional trade network and broader South-South cooperation (Guler, 2021). President Jokowi's vision for Iran and the Middle East, documented in various policy speeches and directives to his diplomatic apparatus, proves that Indonesia's national interest in the II-PTA is operational and empirically verified (Humas Kemensetneg RI, 2017). IUAE-CEPA (2022) and II-PTA (2023) together form a strategic pillar of Indonesia's presence in the Middle Eastern market, a geo-economic architecture that has been consistently built throughout two terms of Jokowi's leadership (Ditjen PPI kemendag, 2023).

Third, from the dimension of supporting interests, the free and active principle functions as a framework that allows Indonesia to balance geopolitical risks and economic

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interests in establishing relations with Iran, explaining how Indonesia processes the cost-benefit calculation of engagement with a sanctioned country: accepting the geopolitical cost in the form of the risk of US diplomatic pressure to maintain foreign policy autonomy and secure long-term economic interests (Trianjani et al., 2025). Islamic identity solidarity as fellow Muslim countries strengthens the ideational foundation of cooperation, although it is not the main determining factor, as evidenced by the fact that the negotiation process lasted for 13 years and was only finalized when the economic-strategic calculations were fully matured (Athallah et al., 2025).

The signing of the II-PTA should also be seen as a reflection of structural changes in the global trade order. Amid the increasing geopolitical fragmentation and great power rivalry, developing countries are becoming more active in building alternative trade networks outside the architecture dominated by developed countries (Mattoo et al., 2020). Indonesia, as a developing country with middle power ambitions, is leveraging this momentum to build a more independent and influential position on the global trade map. II-PTA in this context is not just a technical trade agreement, but rather a strategic statement about how Indonesia positions itself in the changing geopolitical order.

The ratification of the II-PTA by Commission VI of the Indonesian House of Representatives in April 2024 is concrete evidence that the national interests identified in this study have received institutional legitimacy through a democratic process (Biro Humas Kementrian Perdagangan RI, 2024). However, the true success of the II-PTA will only be measurable when the actual trade volume increases significantly, an achievement that requires serious implementation of alternative banking aspects, countertrade facilitation, and the enhancement of domestic business actors' capacities (Paryadi, 2021). Without adequate implementation infrastructure, signing the agreement will not automatically result in a substantial increase in trade, and the identified national interests will remain unrealized potential.

This article proposes conducting further research in two main directions: (1) a quantitative study using the Computable General Equilibrium (CGE) model or the Global Trade Analysis Project (GTAP) to more accurately measure the macroeconomic impact of the II-PTA after the agreement comes into effect; and (2) a comparative study analyzing why other ASEAN countries have not yet replicated Indonesia's step in forming a bilateral PTA with Iran, which could significantly contribute to the literature on South-South trade diplomacy. These two research agendas will provide a stronger empirical verification dimension to the analytical findings produced by this article.

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