International Journal of Business and Applied Economics (IJBAE)
Vol. 4, No. 4, 2025: 2033-2050

Analysis of the Influence of Political Stability, Corruption, Financial Development, and International Trade Barriers on International Trade with Foreign Exchange Reserves as a Moderating Variable in Indonesia

Rangga Abdillah Irfansyah[1]*, Wirya Wardaya[2]
Universitas Pembangunan Nasional "Veteran" Jawa Timur
Corresponding Author: M. Taufiq m.taufiq.ep@upnjatim.ac.id

A R T I C L E I N F O

Keywords: International Trade, Political Stability, Corruption, Financial Developement, Trade Barrier

Received : 11, June
Revised : 27, June
Accepted: 29, July

A B S T R A C T

This study aims to analyze the influence of political stability, corruption, financial development, and international trade barriers on international trade in Indonesia, as well as the role of foreign exchange reserves as a moderating variable in these relationships. The data used are annual data from Indonesia for the period 2008–2023, analyzed using multiple linear regression and Moderated Regression Analysis (MRA). The results indicate that political stability and financial development have a positive and significant impact on international trade, while corruption and trade barriers exert a negative influence. Foreign exchange reserves are proven to moderate the impact of several variables on international trade. These findings have important implications for fiscal and monetary policies aimed at supporting macroeconomic stability.

DOI: https://doi.org/10.55927/ijbae.v4i4.221
ISSN-E: 2963-6124
https://nblformosapublisher.org/index.php/ijbae

INTRODUCTION

In this era of globalization, economic growth is driven by international trade, which enables countries to access global markets. In this context, international trade is a crucial aspect in measuring the achievements of global economic growth, both theoretically and empirically. This is related to the increasing impact of international trade on a country's economic welfare (Ladolo et al., 2022). Globalization and economic integration have created a rise in interdependence among countries in the trade of goods and services. With advances in technology and communication, geographical boundaries have become increasingly blurred, allowing the flow of goods, services, information, and capital between countries to occur more quickly and efficiently.

Countries are now more interconnected through global supply chains, where the production of goods often involves several countries contributing at different stages of the production process. For example, raw materials may be sourced from one country, electronic components manufactured in another, and the final products marketed in global consumer countries. This interdependence extends beyond the industrial sector to include services such as information technology, finance, and tourism. Therefore, any changes in trade policies, exchange rates, or economic conditions in one country can affect many other countries, highlighting the tight interconnection among nations in today's global economy (Suprijanto, 2011).

According to a report by the Fiscal Policy Agency (2024), Indonesia holds a middle position in global international trade but plays a highly strategic role in the Southeast Asian region. In 2022, Indonesia's international trade reached USD 291.90 billion, but in 2023, it declined to USD 258.82 billion. In 2024, global economic activity is expected to continue facing risks and uncertainties, as reflected in the projected slowdown in global economic growth by various institutions, which is also accompanied by a moderation in commodity prices. This situation will directly influence Indonesia's trade activity in 2024.

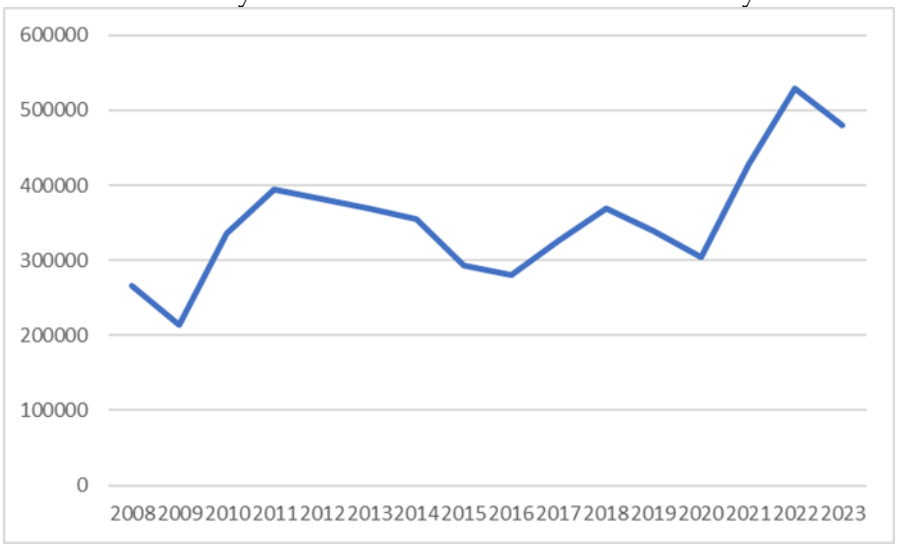

Figure 1. The Condition of International Trade Development

Based on Figure 1.1, the data above is derived from the total value of exports and imports in US dollars. It can be seen that international trade has experienced fluctuations. In 2008, the total export and import value was USD 266 million, which declined to USD 210 million the following year. It then rose in 2010 to USD 335 million and continued to increase until 2014, reaching USD 354 million. In the following year, it dropped to USD 293 million, and again declined in 2015 to USD 280 million. However, it continued to rise until 2018, reaching USD 368 million. In 2019 and 2020, it declined again to USD 338 million and USD 304 million, respectively. In 2021, it experienced a significant increase to USD 427 million, continued to rise in 2022 to USD 529 million, and dropped again to USD 480 million in 2023.

In general, international trade is influenced by external factors such as international trade policies, global conditions, and currency exchange rates. However, it is not only external factors that affect international trade—internal factors of a country also influence its ability to participate and compete in trade. These include tariff policies, import quotas, and bilateral or multilateral agreements, all of which can affect market access and the flow of goods and services across countries (Asikin et al., 2016). In addition, institutional structures play an important role in determining a country's competitiveness in the global economic market. Political stability, sound financial management, and a clear legal system are more likely to attract foreign investment and boost exports (Abreo et al., 2021).

Political stability plays a very important role in creating a conducive environment for international trade. When a country's political situation is stable, investor confidence and that of international trade partners tend to increase, thereby encouraging investment flows and trade transactions (Negeri & Intan, 2023). Legal certainty, consistent policies, and socio-political security are key factors that ensure the smooth running of international trade. Conversely, political instability, such as riots or unplanned government changes, can create uncertainty and risks that hinder the development of international trade, damaging the economy and inter-country relations. Therefore, political stability is essential for maintaining a healthy investment climate and promoting economic growth through international trade (Adelika & Hendra, 2023).

Corruption is one of the major challenges in international trade (Judge et al., 2011). Corruption tends to create significant obstacles to smooth cross-border transactions. Practices such as bribery and abuse of power can distort market fairness, worsen transparency in trade policies, and increase transaction costs (Baltezarevic, 2010).

Higher financial development should increase export values, especially in sectors with high returns to scale, and accelerate integration into international markets (Caporale et al., 2022). Financial development plays a vital role in strengthening firms' participation in international trade through the expansion of financial markets and investment. Advances in capital markets, banking, and financial services allow companies broader access to the funding needed for business expansion and greater global competitiveness. With more efficient financial facilities, companies can more easily invest in technology, innovation,

and production infrastructure, ultimately increasing export capacity and competitiveness in international markets. In addition, a stable and globally integrated financial system helps reduce cross-border transaction risks, speeds up international payments, and improves trade flexibility. Therefore, a strong financial sector is a key factor in promoting the growth of international trade and global economic integration (Qiu et al., 2022).

Protectionist policies and tariff barriers can limit the growth of international trade by increasing import costs, reducing product competitiveness in global markets, and narrowing access to goods and services from other countries (van Aaken & Kurtz, 2019). These restrictions may hinder investment flows, slow innovation, and reduce economic efficiency due to decreased competition. Moreover, excessive protectionism may provoke trade retaliation from partner countries, which could further damage trade relations and hinder global economic growth (Matondang et al., 2024).

Foreign exchange reserves are very important for a country because they have a direct impact on economic stability and the smooth operation of international trade. Foreign exchange reserves refer to the amount of foreign currency held by a central bank or government, which is used to maintain exchange rate stability, facilitate international payments, and support monetary policy. With adequate reserves, a country can stabilize its domestic currency exchange rate, which is essential for maintaining the competitiveness of domestic products in international markets (Simorangkir, 2004).

In this study, foreign exchange reserves act as a moderating variable in the relationship between political stability, corruption, financial development, and trade openness toward international trade. Foreign exchange reserves help maintain macroeconomic stability, especially in the face of global uncertainty or economic crises. This argument is supported by Asmanto & Suryandari (2009), who explain that countries with strong reserves are better able to cope with economic shocks or exchange rate fluctuations, thereby increasing the confidence of international trade partners and supporting more stable trade relations. Therefore, foreign exchange reserves are highly relevant as a moderating variable because they can strengthen or weaken the influence of internal factors on a country's international trade performance.

LITERATURE REVIEW

Theory Political Stability

In the theory of political stability proposed by Anderson and Marcouiller (2002), it is directly stated that political stability and institutional quality are key factors in determining the intensity and patterns of international trade. They argue that institutional insecurity—including corruption, weak law enforcement, and policy uncertainty—acts as a trade barrier, with effects comparable to those of trade tariffs. In this context, political stability plays a central role, as politically stable countries tend to have strong institutions, reliable legal systems, and consistent policies. All of these create a safer and more predictable trading environment, thereby encouraging greater cross-border trade transactions.

This is supported by the study conducted by Adelika & Hendra (2023), which found that political stability, backed by strong and trustworthy institutions, facilitates the smooth and sustained flow of international trade.

This empirical evidence is also reinforced by research conducted by Permata Sari & Ibrahim (2023), which shows that political stability has a positive influence on the direction and success of a country's international trade, making political factors a key consideration in trade decision-making.

H1: It is suspected that the factor of political stability has a positive influence on international trade.

transaction cost theory

The transaction cost theory developed by Oliver E. Williamson (1981) can be used to explain how corruption affects international trade. Corruption is viewed as an informal transaction cost arising from weak institutions and opportunistic practices within bureaucracies. When international firms are required to pay bribes to obtain import licenses, expedite customs procedures, or bypass non-tariff barriers, their transaction costs increase significantly. This not only reduces trade efficiency but also creates legal uncertainty and reputational risks.

Countries with high levels of corruption tend to be perceived as less reliable trade partners, thereby reducing the interest of exporters and foreign investors. According to Williamson's theory, such conditions lead foreign companies to avoid corrupt markets, or if they do enter, they are more likely to pursue vertical integration or partner with politically well-connected local firms as a form of risk control.

Corruption may also indirectly increase asset specificity, as companies become dependent on networks and "privileged access" that are difficult to replicate in other market contexts. Thus, corruption adds an additional layer of transaction costs in international trade and becomes a major obstacle to healthy and efficient global economic integration.H2: Hypothesis two and so on here.

This empirical evidence is also supported by research conducted by Atsir & Business (2018). The results of the study show that Indonesia's Corruption Perceptions Index (CPI) is positively associated with trade volume, meaning that the cleaner a country is from corruption, the higher its trade volume.

H2: It is suspected that corruption has a negative influence on international trade.

financial development theory

According to Ross Levine (1997), the financial development theory emphasizes that the financial system not only impacts domestic economic growth but also plays a crucial role in strengthening international trade. An advanced financial system that can efficiently mobilize and allocate funds, manage risks, and provide accurate information enables businesses to obtain financing for export and import activities.

Services such as trade finance, trade insurance, and credit risk assessment help reduce information barriers and cross-border transaction risks, thereby facilitating the flow of goods and services between countries. Moreover, financial

development promotes efficient capital allocation, allowing countries to specialize in sectors where they hold a comparative advantage, thus enhancing their export competitiveness.

This theory is also supported by research from Iqbal (2019), which states that well-functioning financial institutions, such as banks and capital markets, provide easier access for companies to obtain the financing needed to expand their operations into international markets.

H3: It is suspected that financial development has a positive influence on international trade.

theory of comparative advantage

The theory of comparative advantage proposed by David Ricardo (1965) argues that in a perfectly free trade system, each country will allocate its labor and capital to produce goods in which it is relatively more efficient and trade them for other goods that would be more costly to produce domestically. In Ricardo's view, tariffs disrupt this efficient allocation by forcing countries to produce goods that would be better imported from other countries at a lower opportunity cost.

For example, if Portugal is more efficient in producing wine and England is more efficient in producing cloth, both countries would benefit more by trading with each other rather than trying to produce both goods domestically. If tariffs are imposed on imported goods, the allocation of labor and capital becomes suboptimal, reducing global output and the overall welfare of both countries.

Thus, according to Ricardo, tariffs are barriers to the principle of comparative advantage, as they create distortions in relative prices and encourage countries to engage in economically inefficient production.

This is also supported by research from M. Muhammad (2020), which states that tariffs below 10% can provide economic benefits by promoting international trade.

H4: It is suspected that international trade barriers have a negative influence on international trade.

New Institusional Economic Theory

According to the new institutional theory, political stability is considered part of the formal institutional approach related to international trade through the role of institutions and institutional structures in creating an environment that supports cross-border economic transactions. This theory emphasizes the importance of strong and reliable institutions in reducing the uncertainties present in international trade.

Politically stable countries typically have effective institutions, such as a fair legal system, consistent government policies, and transparent dispute resolution mechanisms. These solid institutions provide certainty and reduce risks for international market participants, making them more likely to invest and engage in cross-border trade. Conversely, political instability can undermine confidence in these institutions, create high uncertainty in trade policies, and pose barriers to the growth of international trade.

Foreign exchange reserves serve as a moderating variable that can either strengthen or weaken the influence of political stability on international trade. High foreign exchange reserves reflect a country's ability to maintain exchange rate stability, stabilize the economy during external shocks, and support more flexible monetary and fiscal policies.

With strong reserves, a country can more effectively mitigate the negative impacts of political instability on trade—for instance, by intervening in the foreign exchange market to keep the currency competitive for exporters. Conversely, when foreign exchange reserves are low, political uncertainty may further deteriorate economic conditions, as the country lacks sufficient instruments to stabilize the trade sector.

H5: It is suspected that foreign exchange reserves can moderate the positive influence of political stability on international trade.

New Institusional Economic Theory

The new institutional economics theory is also supported by empirical evidence from several previous studies. Research conducted by Thede (2012) in The Multifaceted Impact of Corruption on International Trade states that corruption can affect the flow of international trade through several different channels.

First, higher levels of corruption can reduce trade volumes by increasing transaction costs. Widespread corruption in a trading partner country can raise the cost of finding honest business partners and increase the burden of non-transparent bureaucratic procedures, thereby placing additional costs on trade.

Foreign exchange reserves act as a moderating variable that can either amplify or mitigate the impact of corruption on international trade. High levels of foreign exchange reserves can help reduce the negative effects of corruption by providing greater economic stability, enhancing investor confidence, and enabling the government to manage economic policies more effectively.

With strong reserves, a country has more flexibility to intervene in the market, maintain exchange rate stability, and support fiscal policies that can cushion the adverse effects of uncertainty caused by corruption. Conversely, when foreign exchange reserves are low, the negative impact of corruption on trade becomes more pronounced, as the country has limited capacity to sustain economic and currency stability.

This can worsen the risk perception among foreign investors and trade partners, thereby further suppressing the volume of international trade. Therefore, foreign exchange reserves play a key role in determining the extent to which corruption can affect a country's trade performance.

H6: It is suspected that foreign exchange reserves can moderate the negative influence of corruption on international trade.

New Institusional Economic Theory

In institutional economics theory, the relationship between financial development and international trade can be explained through the crucial role of financial institutions in facilitating cross-border transactions. This theory emphasizes that a well-developed financial system—whether through efficient

financial markets or stable financial institutions—helps reduce uncertainty and transaction costs, which are often significant barriers to international trade.

High foreign exchange reserves reflect economic stability and a country's ability to withstand global financial market volatility, thereby increasing investor confidence and facilitating capital flows. Conversely, when foreign exchange reserves are low, economic instability can hinder the effectiveness of financial development in promoting international trade due to increased exchange rate risk and economic uncertainty.

This statement is supported by research conducted by Titus et al. (2022), which found a positive and significant effect of financial development on international trade. The study also revealed a similar result for foreign exchange reserves, which, when used as a moderating variable, showed a significant impact on international trade.

Further empirical support comes from research by Abadiyah (2023), whose findings indicate that foreign exchange reserves can moderate the relationship between financial development and international trade.

H7: It is suspected that foreign exchange reserves can moderate the positive influence of financial development on international trade.

New Institusional Economic Theory

According to institutional economics theory, international trade barriers and international trade are closely interconnected through the role of formal and informal institutions in either facilitating or obstructing the flow of goods, services, and investments between countries. Formal institutions—such as government policies, trade regulations, and strong legal systems—provide a clear foundation for international trade activities.

Low tariffs, typically below 10%, can benefit the economy by promoting international trade. This is because imported goods become more affordable for consumers, which in turn enhances competitiveness, broadens product choices, and supports global economic integration.

On the other hand, high tariffs—often exceeding 10%—are intended to protect domestic industries from cheap imported goods. High tariffs can provide protection for local producers, secure government revenue from import taxes, and reduce dependency on imported goods.

Foreign exchange reserves act as a moderating variable that can either strengthen or weaken the impact of international trade barriers on international trade. When a country possesses high foreign exchange reserves, the benefits of trade barriers can be optimized, as the country has the capacity to stabilize exchange rates, manage trade deficits, and maintain economic resilience against external shocks.

Strong foreign reserves also provide the government with greater flexibility to implement more liberal trade policies without being overly concerned about exchange rate pressures or balance of payments imbalances. Conversely, if foreign exchange reserves are low, trade openness may pose greater risks, such as uncontrolled current account deficits, exchange rate volatility, and high dependency on foreign capital.

H8: It is suspected that foreign exchange reserves can moderate the negative influence of international trade barriers on international trade.

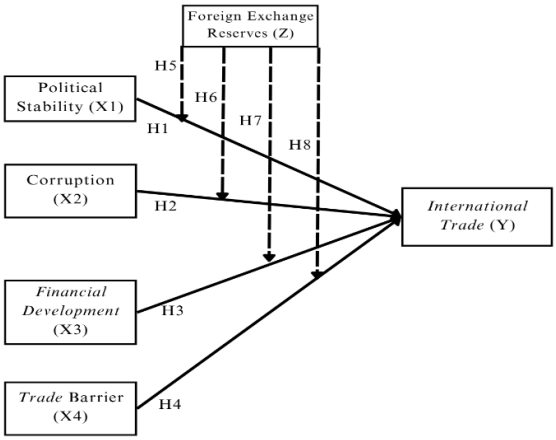

Figure 2. Conceptual Framework

METHODOLOGY

he type of research to be used is quantitative research. Quantitative research is one of the methods used to examine the relationship between variables, measured using various research instruments and based on specific theoretical frameworks. The research data, consisting of numerical values, will be analyzed using statistical procedures.

The approach employed in this study is quantitative descriptive analysis with an explanatory research design. Explanatory research is conducted to provide explanations regarding the positions and relationships among the variables being studied (Sekaran & Bougie, 2016). This forms the basis for hypothesis testing, with the aim of describing the relationships that arise between the independent variables—namely political stability, corruption, financial development, and trade openness—and the dependent variable, international trade, with foreign exchange reserves serving as a moderating variable.

RESEARCH RESULT

Classical Assumption Test

Normality Test

Table 1. The Result of Normality Test

	Unstandardized Residuals	**Note**
Asymp. Sig. (2-tailed)	0.200	Normal

Based on Table 1, the results of the normality test show that the Asymp. Sig. (2-tailed) value is 0.200. Therefore, it can be concluded that the data is normally distributed, as the significance value is greater than 0.05.

All formulas or formulas must also be numbered.

Muliticolinearitas Test

Table 2. The Result of Multicolinearitas Test

Independent Variable	Tolerance	VIF	Note
(X1)	0.310	3.229	There is no multicollinearity
(X2)	0.102	9.761	There is no multicollinearity
(X3)	0.578	1.731	There is no multicollinearity
(X4)	0.134	7.461	There is no multicollinearity
(Z)	0.211	4.734	There is no multicollinearity

Based on Table 2, the tolerance values for each variable are greater than or equal to 0.10, and the VIF values for each variable are less than 10. Therefore, it can be concluded that there is no multicollinearity, or in other words, there is no correlation among the independent variables in this regression model.

Heteroscedasticity Test

Table 3. The Result of Heteroscedasticity Test

Model	Sig.	Note
(X1)	0.900	There is no heteroscedasticity
(X2)	0.207	There is no heteroscedasticity
(X3)	0.910	There is no heteroscedasticity
(X4)	0.275	There is no heteroscedasticity
(Z)	0.605	There is no heteroscedasticity

Based on Table 3, the significance value for Political Stability is 0.900. The significance value for Corruption is 0.207, for Financial Development it is 0.910, for Trade Barriers it is 0.275, and for Foreign Exchange Reserves, the value is 0.605. All of these values are above the threshold of 0.05, indicating that each independent variable has a significance level greater than 0.05. Therefore, it can be concluded that the regression model does not exhibit heteroscedasticity, meaning the variance of the residuals is constant (homoscedasticity).

Autocorrelation Test

Table 4. The Result of Autocorrelation Test

Model	Durbin-Watson
I	1.456

Based on the results of the autocorrelation test using the Durbin-Watson method, the Durbin-Watson value of 1.456 indicates that there is no serious autocorrelation in this regression model. This value is still close to 2, suggesting that the model meets the assumption of residual independence.

Multiple Linear Regression Analysis

Table 5. The Result of Multiple Linier Regression Test

	Unstandarized Coefficients	
	B	Std. Error
Constant	1764747.215	577022.491
X1	-64918.321	67284.030
X2	-30910.454	7655.231
X3	140504.129	297994.789
X4	-162665.686	63590.737
Z	4.543	0.842

The regression equation from the multiple linear regression analysis can be formulated as follows:

$PI = \alpha + \beta_1 SP + \beta_2 C + \beta_3 FD + \beta_4 TB + \varepsilon$

$PI = a + (-64{,}918.321)SP + (-30{,}910.454)C + (140{,}504.129)FD + (-162{,}665.686)TB + \varepsilon$

The constant coefficient is 17,647,471.215, indicating that if all independent variables—namely political stability, corruption, financial development, trade barriers, and foreign exchange reserves—are at zero, the international trade value would still increase by 17,647.471 billion USD.

The regression coefficient for political stability (X_1) is –64,918.321. Mathematically, for every 1-point increase in the political stability index (e.g., from –1.00 to –0.50), the value of international trade decreases by approximately 64.918 billion USD.

The regression coefficient for corruption (X_2) is –30,910.454. This means that for every 1-point increase in the corruption perception index (where a higher score indicates lower corruption), international trade decreases by 30.910 billion USD. However, because the index is structured such that higher scores represent lower corruption, this implies that lower levels of corruption are associated with higher international trade volumes.

The regression coefficient for financial development (X_3) is +140,504.129, suggesting that a 1-point increase in the financial development index (on a scale from 0 to 1) leads to an increase in international trade by 140.504 billion USD.

The regression coefficient for international trade barriers (X_4) is –162,665.686. This indicates that a 1-point decrease in the trade freedom index (which implies a reduction in trade barriers) unexpectedly leads to a decrease in international trade by 162.665 billion USD. This may suggest that trade

liberalization, in this case, did not automatically translate into higher trade volume, possibly due to structural or institutional constraints.

The regression coefficient for foreign exchange reserves (Z) is +4.543, meaning that every 1 million USD increase in foreign exchange reserves leads to an increase in international trade value by approximately 4.543 million USD.

Moderated Regression Analysis (MRA)

Table 6. The Result of *Moderated Regression Analysis* Test

	Unstandarized Coefficients	
Model	**B**	**Std. Error**
Constant	2083026.892	477464.227
X1Z	-1.983	1.726
X2Z	-0.175	0.123
X3Z	64.828	18.921
X4Z	-3.888	1.589

The regression equation from the moderation analysis can be formulated as follows:

$Y = \alpha + \beta_5(X_1 \times Z) + \beta_6(X_2 \times Z) + \beta_7(X_3 \times Z) + \beta_8(X_4 \times Z) + \varepsilon$

$Y = \alpha + (-1.983)(X_1Z) + (-0.175)(X_2Z) + (64.828)(X_3Z) + (-3.888)(X_4Z) + \varepsilon$

The constant coefficient is 2,083,026.892, indicating that if all variables including political stability, corruption, financial development, trade barriers, and foreign exchange reserves—are at zero, the international trade value is expected to increase by 2,083.026 billion USD.

The coefficient for political stability (X_1) shows that a 1-point increase in the political stability index (e.g., from –1.0 to 0.0), while holding other variables constant, leads to an increase in international trade value by 177.033 million USD. This suggests that greater political stability tends to enhance international trade.

The coefficient for corruption (X_2) is negative, indicating that a 1-point increase in the corruption perception index (i.e., lower corruption) is associated with a decrease in international trade value by approximately 4,046.953 million USD.

The coefficient for financial development (X_3) is significantly negative at –7,591.483 million USD, implying that a 1-point increase in the financial development index correlates with a decrease in international trade by almost 7.6 billion USD, which may suggest the presence of inefficiencies or structural issues in the financial system.

The coefficient for trade barriers (X_4) is +298,794.068, indicating that a 1-point increase in the trade freedom index (i.e., fewer trade barriers) may increase international trade by nearly 299 billion USD.

The coefficient for foreign exchange reserves (Z) is +4.543, suggesting that every 1 billion USD increase in reserves leads to a 4.543 million USD increase in international trade value, assuming other variables remain constant.

The interaction term between political stability and foreign exchange reserves (X_1Z) is –1.983. This indicates that an increase in political stability, when

moderated by foreign exchange reserves, actually reduces international trade by 1.983 million USD.

The interaction between corruption and foreign exchange reserves (X_2Z) is –0.175, meaning that a higher corruption perception index, when moderated by reserves, leads to a decrease in international trade by 0.175 million USD.

The interaction between financial development and foreign exchange reserves (X_3Z) is +64.828, indicating that greater financial development, when supported by foreign exchange reserves, increases international trade by 64.828 million USD.

The interaction between trade barriers and foreign exchange reserves (X_4Z) is –3.888, showing that reducing trade barriers, when moderated by reserves, is associated with a decrease in international trade by 3.888 million USD.

Hypothesis Testing Result

Table 7. The Result of Hypothesis Test

Variable	t	Sig.
Constant	3.058	0.012
X1	-0.965	0.357
X2	-4.038	0.002
X3	0.471	0.647
X4	-2.558	0.028
X_1Z	-1.149	0.288
X_2Z	-1.423	0.198
X_{3Z}	3.426	0.011
X_{4Z}	-2.446	0.044

Political Stability (X1)

There is no significant effect of political stability on international trade, based on the t-test result showing a t-value of –0.965, which is smaller than the critical t-table value of 2.201. The significance value of 0.357 is greater than 0.05. Therefore, the null hypothesis (H_0) is accepted and the alternative hypothesis (H_1) is rejected.

Corruption (X2)

The partial test results indicate that corruption has a significant effect on international trade. The t-value is –4.038, which is greater than the t-table value of 2.201, and the significance value is 0.002, which is less than 0.05. Thus, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_2) is accepted.

Financial Development (X3)

No significant effect was found between financial development and international trade. The t-test shows a t-value of –0.471, which is smaller than the t-table value of 2.201, with a significance value of 0.647 (greater than 0.05).

Consequently, the null hypothesis (H_0) is accepted and the alternative hypothesis (H_3) is rejected.

International Trade Barriers (X4)

The partial test results reveal that international trade barriers significantly affect international trade. The t-value of –2.558 exceeds the t-table value of 2.201, and the significance value is 0.028, which is below the 0.05 threshold. Therefore, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_4) is accepted.

Foreign Exchange Reserves (Z) as a Moderator of the Effect of Political Stability (X_1) on International Trade (Y)

Based on the t-test results, the moderating variable—foreign exchange reserves (Z)—does not moderate the effect of the independent variable—political stability (X_1)—on the dependent variable—international trade (Y). This is indicated by the significance value of 0.288, which is greater than 0.05. Therefore, H_0 is accepted and H_5 is rejected, meaning that the fifth hypothesis—"foreign exchange reserves are suspected to moderate the effect of political stability on international trade"—is rejected.

Foreign Exchange Reserves (Z) as a Moderator of the Effect of Corruption (X_2) on International Trade (Y)

The t-test results show that the moderating variable—foreign exchange reserves (Z)—does not moderate the effect of corruption (X_2) on international trade (Y). The significance value is 0.198, which exceeds 0.05. Thus, H_0 is accepted and H_6 is rejected, meaning the sixth hypothesis—"foreign exchange reserves are suspected to moderate the effect of corruption on international trade"—is rejected.

Foreign Exchange Reserves (Z) as a Moderator of the Effect of Financial Development (X_3) on International Trade (Y)

The t-test results indicate that foreign exchange reserves (Z) do moderate the effect of financial development (X_3) on international trade (Y). This is supported by a significance value of 0.011, which is less than 0.05. Therefore, H_0 is rejected and H_7 is accepted, meaning the seventh hypothesis—"foreign exchange reserves are suspected to moderate the effect of financial development on international trade"—is accepted.

Foreign Exchange Reserves (Z) as a Moderator of the Effect of Trade Barriers (X_4) on International Trade (Y)

The t-test results show that foreign exchange reserves (Z) moderate the effect of trade barriers (X_4) on international trade (Y). This is evident from the significance value of 0.044, which is less than 0.05. As such, H_0 is rejected and H_8 is accepted, meaning that the eighth hypothesis—"foreign exchange reserves are suspected to moderate the effect of trade barriers on international trade"—is accepted.

DISCUSSION

The result of the first hypothesis test (H1)

in this study indicates that political stability does not have a significant impact on Indonesia's international trade during the period 2008–2023. This finding is not in line with the theory proposed by Anderson and Marcouiller (2002), which emphasizes that political stability plays a central role, as politically stable countries tend to have strong institutions, reliable legal systems, and consistent policies. These factors create a safer and more predictable trade environment, thereby encouraging more cross-border trade transactions. However, in the context of Indonesia, the contribution of political stability to the increase or decrease in international trade cannot be directly explained, suggesting that its impact may be indirect or overshadowed by other more dominant economic or institutional factors.

The result of the second hypothesis test (H2)

in this study indicates that corruption has a significant impact on Indonesia's international trade during the period 2008–2023. This finding is in line with the transaction cost theory proposed by Williamson (1981). When international firms are required to pay bribes to obtain import licenses, expedite customs procedures, or bypass non-tariff barriers, their transaction costs increase substantially. This not only reduces trade efficiency but also creates legal uncertainty and reputational risk. Countries with high levels of corruption are often perceived as unreliable trading partners, which in turn reduces the interest of exporters and foreign investors in engaging with such markets.

The result of the third hypothesis test (H3)

in this study indicates that financial development does not have a significant impact on Indonesia's international trade during the period 2008–2023. This finding is not in accordance with the financial development theory proposed by Levine (1997), which emphasizes that the financial system not only affects domestic economic growth but also plays a critical role in enhancing international trade. An advanced financial system that is capable of efficiently mobilizing and allocating funds, managing risks, and providing accurate information enables businesses to access financing for supporting export and import activities. The insignificant result in this context may suggest that the financial sector in Indonesia has not yet fully functioned as a driver of international trade, possibly due to structural inefficiencies or limited access to trade finance instruments.

The result of the fourth hypothesis test (H4)

in this study indicates that international trade barriers have a significant impact on Indonesia's international trade during the period 2008–2023. This finding is consistent with the theory of comparative advantage proposed by Ricardo (1965), which argues that in a perfectly free trade system, each country will allocate its labor and capital to produce goods in which it has a relative efficiency, and exchange them for other goods that would be more costly to produce domestically. According to Ricardo, tariffs distort this efficient

allocation by forcing countries to produce goods that could be more efficiently imported from other countries at lower opportunity costs.

The result of the fifth hypothesis test (H5)

in this study indicates that foreign exchange reserves do not moderate the effect of political stability on international trade in Indonesia during the period 2008–2023. This finding is not in line with the buffer stock theory developed by Frenkel and Jovanovic (1981), which posits that foreign exchange reserves serve as a buffer mechanism prepared to manage uncertainty and economic shocks that could disrupt macroeconomic stability. In times of political instability—when market participants and trade partners typically lose confidence—adequate foreign exchange reserves allow the government or central bank to intervene in maintaining exchange rate stability, ensuring international payment capacity, and preserving the perception of a stable economic environment. Therefore, the presence of sufficient reserves should facilitate the continuity of trade flows even during episodes of domestic political turmoil, thereby mitigating the negative relationship between political stability and international trade.

The result of the sixth hypothesis test (H6)

In this study indicates that foreign exchange reserves do not moderate the effect of corruption on international trade in Indonesia during the period 2008–2023. This finding is not consistent with the buffer stock theory proposed by Frenkel and Jovanovic (1981), which suggests that foreign exchange reserves act as a buffer mechanism designed to address uncertainties and economic shocks that may threaten macroeconomic stability—including those arising from institutional weaknesses such as high levels of corruption. Countries with large foreign exchange reserves have the capacity to maintain exchange rate stability, cover trade balance deficits, and ensure smooth international payments, even under internal pressure stemming from poor governance. In other words, foreign exchange reserves serve as a cushion to absorb the adverse effects of corruption, preventing them from fully undermining the performance of the external sector. This aligns with the core principle of buffer stock theory, which views foreign exchange reserves as a stabilization instrument in the face of risks and uncertainties, including those rooted in domestic institutional factors.

The result of the seventh hypothesis test (H7)

in this study indicates that foreign exchange reserves are able to moderate the effect of financial development on Indonesia's international trade during the period 2008–2023. This finding is in line with the buffer stock theory proposed by Frenkel and Jovanovic (1981), which posits that foreign exchange reserves serve as a buffer mechanism that enables a country to maintain economic stability in the face of external uncertainty and domestic structural pressures. Adequate reserves can enhance the positive impact of financial development on international trade by stabilizing exchange rates, instilling confidence among economic actors, and ensuring smooth external transactions during periods of crisis. Within the framework of buffer stock theory, foreign exchange reserves are

considered a stabilization tool that strengthens the resilience of the financial sector and increases its effectiveness in supporting international trade. Thus, foreign exchange reserves not only function to absorb economic shocks but also reinforce the capacity of the national financial system to promote global economic integration through trade.

The result of the eighth hypothesis test (H8)

in this study indicates that foreign exchange reserves are able to moderate the effect of trade barriers on Indonesia's international trade during the period 2008–2023. This finding is consistent with the buffer stock theory proposed by Frenkel and Jovanovic (1981), which views foreign exchange reserves as an economic buffer prepared to manage uncertainty and external pressures that could disrupt macroeconomic stability. Trade barriers—such as tariffs, quotas, technical regulations, or other non-tariff measures—generally have a negative impact on the volume and efficiency of international trade, as they increase transaction costs and reduce the competitiveness of exports and imports. In this context, adequate foreign exchange reserves can help cushion the adverse effects of trade barriers by maintaining exchange rate stability, supporting payment systems, and reinforcing market confidence, thereby sustaining trade performance even in the presence of restrictive trade policies.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that among the observed variables, corruption and international trade barriers significantly affect Indonesia's international trade from 2008 to 2023. Meanwhile, political stability and financial development do not show significant direct effects. However, when examining the moderating role of foreign exchange reserves, the results indicate that reserves significantly moderate the effects of financial development and trade barriers on international trade, but not the effects of political stability or corruption. These findings highlight the importance of institutional quality and trade policies in shaping trade performance, as well as the strategic role of foreign reserves in enhancing resilience and external sector performance.

Recommendations:

1. The Indonesian government should strengthen anti-corruption efforts, as corruption remains a major impediment to international trade performance.
2. Trade policy should focus on reducing non-tariff and tariff barriers while ensuring efficiency in cross-border processes.
3. Efforts to enhance the domestic financial system should be accompanied by adequate foreign exchange reserve management to amplify its positive impact on trade.
4. Policymakers should not overly rely on political stability alone to drive trade performance, but should complement it with structural reforms and economic governance improvements.

ADVANCED RESEARCH

his study employs foreign exchange reserves as the sole moderating variable. Future researchers are encouraged to incorporate additional moderating variables such as the real effective exchange rate, political risk, or

investment climate to gain deeper insights into the various factors influencing international trade. Expanding the model with these variables may offer a more comprehensive understanding of the dynamics that shape trade performance, particularly in emerging economies like Indonesia.

ACKNOWLEDGMENT

The authors would like to express their sincere gratitude to all parties who contributed to the completion of this research. Special thanks are extended to the academic supervisors and reviewers for their valuable insights and constructive feedback. The authors also acknowledge the support of Universitas Pembangunan Nasional "Veteran" Jawa Timur for providing the academic environment and resources necessary for this study. Lastly, appreciation is given to family and peers for their continuous encouragement and moral support throughout the research process.

REFERENCES

Abadiyah, Fajriyatul; Haris, A. (2023). Pengaruh Financial Development Terhadap International Trade Dengan Foreign Exchange Reserves Sebagai Moderasi : Studi Negara D-. 2(1), 23–36.

Abreo, C., Bustillo, R., & Rodriguez, C. (2021). The role of institutional quality in the international trade of a Latin American country: evidence from Colombian export performance. Journal of Economic Structures, 10(1). https://doi.org/10.1186/s40008-021-00253-5

Adelika, A., & Hendra, H. (2023). Peran Lingkungan Politik Pada Bisnis Internasional : Pendekatan Kualitatif Studi Pustaka. Jurnal Minfo Polgan, 12(2), 2401–2405. https://doi.org/10.33395/jmp.v12i2.13282

Aida Munawaroh, Khuntum Khaira Ummah, Nurpatmi Wulandari, Maharani, & Budi Ardianto. (2024). Dinamika Hukum Perdagangan Internasional: Studi Kasus Pada Organisasi Perdagangan Dunia (Wto). Holistik Analisis Nexus, 1(6), 128–137. https://doi.org/10.62504/nexus618

Anderson, J. E., & Marcouiller, D. (2002). Insecurity and the pattern of trade: An empirical investigation. Review of Economics and Statistics, 84(2), 342–352. https://doi.org/10.1162/003465302317411587

Anggraini, U., Muchtar, M., & Sihombing, P. R. (2023). Pengaruh Perjanjian Perdagangan Internasional Terhadap Kinerja Perdagangan Indonesia. Buletin Ilmiah Litbang Perdagangan, 17(1). https://doi.org/10.55981/bilp.2023.8

Asikin, Z., Daryanto, A., & Anggraeni, L. (2016). Pengaruh Infrastruktur dan Kelembagaan Terhadap Kinerja Ekspor Agregat dan Sektoral Indonesia. Jurnal Manajemen Dan Agribisnis, 13(2), 145–156. https://doi.org/10.17358/jma.13.2.145

Asmanto, P., & Suryandari, S. (2009). Cadangan Devisa, Financial Deepening Dan Stabilisasi Nilai Tukar Riil Rupiah Akibat Gejolak Nilai Tukar Perdagangan. Buletin Ekonomi Moneter Dan Perbankan, 11(2). https://doi.org/10.21098/bemp.v11i2.238