

Domestic and International Dynamics in the Indonesia-EU CEPA Negotiations: A Two-Level Game Perspective

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Abstract

This study examines selected dimensions of the negotiation management process between Indonesia and the European Union in the Indonesia–European Union Comprehensive Economic Partnership Agreement (IEU-CEPA). Using a qualitative descriptive approach, the study draws on official documents, institutional reports, academic literature, and secondary data from international organizations. The findings indicate that the progress and conclusion of the IEU-CEPA negotiations were influenced not only by economic considerations but also by domestic institutional coordination, sectoral interests, and the European Union’s sustainability-related demands. The analysis further shows that Indonesia responded to external normative pressures through a process of norm adaptation while maintaining its national interests. This study highlights the importance of effective negotiation management, stronger inter-agency coordination, and adaptive diplomatic strategies in international trade negotiations.

Keywords: IEU-CEPA; economic diplomacy; negotiation management, two-level games, trade diplomacy, international political economy

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Introduction

The ability to engage in comprehensive economic cooperation increasingly determines relations between countries in the current era of globalization. International trade is not just an exchange of goods; it includes services, investment, environmental protection, and digital governance (Jones and Adam, 2023). To maintain its competitiveness amid global geopolitical changes, Indonesia, as the largest economy in Southeast Asia, must strengthen its partnership networks. In this regard, the Deep and Comprehensive Economic Partnership Agreement between Indonesia and the European Union (IEU-CEPA) is one of the main strategic priorities. This agreement can help improve domestic regulations, enhance Indonesia's bargaining position in the global market, and open up market access opportunities (Rafitrandi, 2024).

Indonesia has many trading partners, one of which is the European Union. Palm oil, rubber, textiles, and other manufactured products are exported to Europe, and Indonesia imports high-tech industrial products, pharmaceuticals, and financial services from the European Union, according to trade data (Jamilah et al., 2022; Prakoso and Nugrahani, 2025; Rifin et al., 2020). However, as Indonesia's status as an upper-middle-income country increases, the generalized system of preferences (GSP) enjoyed by Indonesia is becoming increasingly limited. Trade relations must remain competitive, as this situation necessitates a new, broader agreement.

The IEU-CEPA negotiations are fraught with problems. Negotiations have gone through many rounds since their launch in 2016. However, to date, the negotiations have not been completed. Sensitive factors such as environmental sustainability, deforestation linked to palm oil, labour issues, and protection of Indonesia's domestic market make the negotiations difficult (Kettunen and Pratiwi, 2025; Sidabutar, 2024). Conversely, the European Union emphasizes the importance of high human rights, sustainability, and governance standards. These conditions suggest that the IEU-CEPA negotiations encompass not only technical trade but also an international political arena, involving strategies, agreements, and the management of interests both within and outside the country.

According to previous research, the IEU-CEPA offers opportunities and risks for Indonesia. Most studies emphasize the agreement's potential to accelerate green and digital transformation, but also stress that there are significant problems because domestic policies do not meet the European Union's sustainability requirements (Rafitrandi, 2024). According to another study, non-tariff barriers, technical regulations, and environmental issues have a greater impact on the success of Indonesia's market access in Europe than tariffs (Aprilia et al., 2023). Furthermore, public discourse analysis shows how narratives about palm oil influence the perceptions of domestic and foreign actors, putting the government's negotiating position under pressure (Kettunen and Pratiwi, 2025). Even in an institutional context, the ratification process of each party can raise doubts, even though the agreement's substance has been approved (Triyatun, 2025).

This study demonstrates that, although numerous studies highlight the potential impact of IEU-CEPA on trade and investment, few have comprehensively examined the negotiation management process. However, according to Zartman (2008), the success of international negotiations is determined by the agreement's content and how the process is managed; these factors include inter-ministerial coordination, communication strategies, the involvement of non-state actors, and agenda setting. Furthermore, according to Putnam's (1988) two-level game framework, international negotiations occur simultaneously in two distinct arenas: internationally, with negotiating partners, and domestically, with political actors and civil society. Indonesia and the European Union must avoid conflicts of interest at both levels in the context of the IEU-CEPA.

A study of the IEU-CEPA negotiation process is crucial because it is essential to understand how both parties manage their differences in interests, domestic political pressures, and global changes to reach a mutually beneficial agreement. Palm oil, nickel, and environmental sustainability, which are of international concern, are topics of negotiation for Indonesia in addition to trade. Although the European Union emphasizes sustainable trade values through environmental standards, intellectual property protection, and regulatory transparency, the IEU-CEPA is projected to increase Indonesia's exports to the European Union by up to 60%, helping to create jobs and reduce poverty. In addition, it will reduce tariffs by more than 98% and simplify the export process (Kemenko, 2025). Despite these findings, the complex dynamics of the negotiations have not been widely studied, especially from the perspective of negotiation process management.

Essentially, institutional structures and domestic political developments shape the IEU-CEPA negotiation process. Negotiations are conducted by several Indonesian ministries and government agencies, such as the Coordinating Ministry for Economic Affairs, the Ministry of Trade, and the Investment Coordinating Board (BKPM). Collaboration between these institutions is crucial for creating a consistent negotiating position that benefits the nation. The European Commission conducts negotiations, assisted by member states and the European private sector, interested in accessing the Indonesian market. The IEU-CEPA negotiations show that the negotiation management process encompasses technical aspects, diplomacy, communication, and political strategy. To reach a substantive agreement, both parties must establish trust, resolve conflicts, and create a space for compromise. According to *Culture and Negotiation*, a research by Faure and Rubin (1993), cultural elements are crucial in international negotiations, particularly in addressing differences in values, communication styles, and expectations among actors from diverse backgrounds.

Therefore, the purpose of this study is to thoroughly examine the negotiation process between Indonesia and the European Union in the IEU-CEPA and to identify the elements which influence the dynamics of the interests of both parties. Hence, the study seeks to provide theoretical and practical insights into Indonesia's economic diplomacy. It can also serve as a reference for policymakers to develop more efficient and sustainable international trade negotiation strategies.

Literature overview

International economic negotiations between Indonesia and the European Union within the framework of IEU-CEPA reflect the interrelationship between economic diplomacy, institutional governance, and normative power. Several studies confirm that the effectiveness of negotiations depends not only on economic substance but also on process management, which includes inter-agency coordination and cross-actor communication (Zartman, 2008; Triyatun, 2025). Alauddin (2024) highlights that the success of negotiations is also determined by the Indonesian government's ability to manage domestic and international pressures simultaneously. In the context of the Two-Level Games theory (Putnam 1988), international negotiations occur in two arenas—between the government and external partners, and between the government and domestic actors with economic and political interests. Research by Broome and Seabrooke (2020) indicates that the capacity of the national bureaucracy is a significant determinant of the effectiveness of economic diplomacy in developing countries. Thus, this study expands the discourse on economic diplomacy by emphasizing institutional coordination and integration as a determining factor in free trade negotiations.

Furthermore, the perspective of Normative Power Europe (Manners, 2002) is important in understanding the European Union's pressure on sustainability and environmental governance issues. Sjursen (2021) and Sugiono and Haris (2025) explain that European normative power exports values such as democracy, human rights, and sustainability into economic agreements. In the context of the IEU-CEPA, these values are embodied in the EU Deforestation Regulation 2023 and the non-negotiable chapter on Trade and Sustainable Development (European Commission, 2023/b). Research by Kettunen and Pratiwi (2025) shows that the narrative of deforestation in oil palm has influenced public perception and weakened Indonesia's bargaining position. However, Acharya (2014) and Risse (2009) argue that developing countries can engage in norm localization, adapting global values to suit the local context as seen in the implementation of ISPO certification and the narrative of "contextual sustainability" developed by the Indonesian government (Kemenko, 2025).

From an economic and political perspective, previous studies have shown that although tariff liberalization through CEPA has the potential to increase exports by up to 60%, non-tariff barriers such as environmental standards remain a significant challenge (Aprilia et al., 2023; Alauddin, 2024). UNCTAD (2023) and Eurostat (2023) note that Indonesia's nickel and palm oil exports to the European Union have increased significantly but still face regulatory pressure. This condition reinforces the analysis of Juned and Sutiono (2024) that the CEPA negotiations reflect the tug-of-war between the European Union's market liberalization agenda and Indonesia's national industrialization strategy, it is in this context that this study attempts to fill an empirical gap. There have been few studies that analyse the negotiation management process comprehensively, particularly regarding inter-ministerial coordination and cross-actor communication strategies that determine the effectiveness of Indonesia's economic diplomacy.

Based on the above literature review, the following hypotheses can be formulated. First, referring to the Two-Level Games theory (Putnam, 1988) and Triyatun (2025) findings, it is expected that the more effective the coordination between domestic institutions, the higher the effectiveness of the international negotiation process (Hypothesis 1: The effectiveness of domestic institutional coordination has a positive effect on the success of IEU-CEPA negotiations). Second, according to the Negotiation Process Management theory (Zartman, 2008; van Dijk and De Dreu, 2021), the success of negotiations is also influenced by the ability of government actors to manage sensitive issues and build trust with external partners (H2: Adaptive negotiation process management has a positive effect on the effectiveness of bilateral agreements). Third, with reference to the concept of Normative Power Europe (Manners, 2002) and the study by Sugiono and Haris (2025), the interaction between the normative power of the European Union and Indonesia's norm localization strategy will mediate the relationship between regulatory pressure and negotiation outcomes (H3: The adaptation of sustainability norms acts as a mediating variable between EU normative pressure and Indonesia's bargaining position).

This research further confirms that strengthening value-based economic diplomacy governance and inter-ministerial coordination is a crucial strategy for Indonesia to enhance its bargaining position in international trade agreements. This study aims to expand the theoretical understanding of the interaction between normative power and strategic adaptation in developing countries, while also offering practical insights for policymakers in designing more integrative, adaptive, and sustainable negotiation mechanisms.

Methodological considerations and theoretical framing

This study employs a qualitative case study approach to examine selected dimensions of the negotiation management process in the Indonesia–European Union Comprehensive Economic Partnership Agreement (IEU-CEPA). A qualitative approach is considered appropriate because international trade negotiations involve not only economic and technical issues but also political bargaining, institutional coordination, and interactions among multiple actors operating at both domestic and international levels. Rather than attempting to explain the entire negotiation process comprehensively, this study focuses on key dimensions that shaped the negotiation outcomes, including domestic coordination, sectoral interests, and the influence of sustainability-related norms.

The research is primarily guided by Putnam's Two-Level Games Theory (1988), which argues that international negotiations take place simultaneously at two interconnected levels. At the international level, negotiators seek agreements with external partners, while at the domestic level they must secure support from political institutions, economic actors, and societal groups. The theory is particularly relevant for understanding how Indonesian negotiators balanced European Union demands regarding sustainability and market access with domestic pressures from strategic sectors such as palm oil and nickel.

In addition, the study incorporates insights from negotiation management literature, particularly Zartman's (2008) perspective on negotiation process management. This framework emphasizes that successful negotiations depend not only on substantive outcomes but also on effective coordination, communication, agenda setting, and conflict management throughout the negotiation process.

The analysis also draws upon the concept of Normative Power Europe (Manners, 2002) to examine how the European Union promotes sustainability, environmental governance, and regulatory standards through trade agreements, and how Indonesia responds to these normative pressures through adaptation and localization strategies.

The study relies on qualitative secondary data collected through document analysis and literature review. The sources include official government documents from Indonesia, reports issued by the European Commission, publications from international organizations such as the WTO, UNCTAD, Eurostat, and BPS, as well as academic journal articles, books, policy papers, and scholarly publications related to international trade negotiations, economic diplomacy, and sustainability governance. To complement these sources, relevant reports from national media outlets and policy publications were examined to capture public discourse and policy debates surrounding sensitive issues such as palm oil, nickel downstreaming, and sustainability standards during the negotiation process.

The collected data are analysed using qualitative content analysis. The analysis focused on identifying patterns of institutional coordination, domestic political constraints, negotiation strategies, and interactions between domestic and international actors throughout the IEU-CEPA negotiations. The concepts of domestic constraints, international bargaining, and negotiation management derived from the Two-Level Games framework and negotiation management literature were used as analytical categories to interpret the findings.

The study does not seek to statistically test hypotheses. Instead, it uses theoretical propositions derived from the literature as analytical guidance for examining how negotiation management practices, domestic political dynamics, and normative pressures influenced the development and conclusion of the IEU-CEPA negotiations.

Dynamics of interests and sensitive issues in IEU-CEPA negotiations

The issue of palm oil is one of the most sensitive points in the IEU-CEPA negotiations. The European Union views palm oil as a contributor to deforestation and environmental damage, whereas for Indonesia, palm oil is a vital commodity for the national economy. Eurostat (2023) notes that Indonesia's palm oil exports to the European Union reached €3.2 billion in 2022, accounting for approximately 11.3% of Indonesia's total exports to the region. However, the Renewable Energy Directive II (RED II) policy caused a 13% decline in palm oil exports from 2020 to 2022 (UN Comtrade, 2023). Zartman (2008) explains that this situation illustrates that international negotiations often extend beyond technical issues and become arenas of politics and ideology. Kettunen and Pratiwi (2025) additionally, the

European narrative on palm oil has influenced public perception and shifted Indonesia's bargaining position, making palm oil a trade issue and a symbol of conflict between global norms.

In addition to palm oil, nickel has emerged as a new strategic commodity in the negotiations. Indonesia promotes nickel as the backbone of industrial downstreaming and energy transition, while the European Union sees it as part of the global electric battery supply chain. UNCTAD (2023) notes that Indonesia's nickel exports to the European Union increased by 21% from 2021 to 2023. However, the EU demands stricter environmental standards and supply chain transparency. It highlights the relevance of international negotiation theory, in which the more dominant party in the global structure uses technical regulations as a bargaining tool. Sugiono and Haris (2025) emphasize that Indonesia perceives the EU as a normative power emphasizing sustainability issues rather than market access alone. The nickel issue highlights the tension between Indonesia's national industrialization agenda and the EU's regulatory demands.

Non-tariff barriers have also proven to be a more significant obstacle to market access than tariffs. A study by Alauddin (2024) shows that, even though more than 98% of tariffs are planned to be eliminated through CEPA, non-tariff barriers, such as environmental standards and certification, remain a significant challenge. It is in line with the European Commission's (2023/a) findings that new deforestation-related regulations can affect up to 20% of Indonesia's main exports, including palm oil, rubber, and timber. For exporters, these barriers are perceived as an "invisible wall" that is difficult to penetrate, thus revealing the use of technical barriers as a trade policy instrument. In line with Zartman's (2008) analysis, this condition shows that the success of negotiations is determined by the substance of the agreement and the ability to manage strategies and build compromises on highly sensitive issues.

Domestic dynamics further complicate the negotiation process. Indonesia faces political pressure from palm oil farmers and strategic industry players concerned about the impact of market liberalization on their sector. BPS (2023) reports that around 16 million Indonesian workers depend on the palm oil industry, while nickel downstreaming has absorbed more than 200,000 new workers between 2021 and 2023 (Badan Koordinasi Penanaman Modal 2023). This pressure underscores the relevance of Putnam's (1988) Two-Level Games theory, in which negotiators must simultaneously face international pressure from the European Union and domestic demands from national interest groups. Triyatun (2025) adds that the ratification process of agreements is also often influenced by domestic political factors, slowing the achievement of substantive agreements despite significant economic potential.

Overall, the IEU-CEPA negotiations reflect a tug-of-war between liberalization and protection. Eurostat (2023) notes that total trade between Indonesia and the European Union reached €24.7 billion in 2022, indicating significant potential for both parties. However, as of 2025, the agreement has not been finalized after 16 rounds of negotiations that began in 2016. It is in line with the analysis of Juned and Sutiono (2024), which states that the dynamics of CEPA reflect the geopolitical constellation of the Indo-Pacific, where

Indonesia is forced to negotiate its “free and active” foreign policy identity amid the hegemony of global norms brought by the European Union. Thus, the dynamics of interests and sensitive issues in the IEU-CEPA illustrate the complex trade issues and international political processes involving the interests of various parties.

From an analytical perspective, the dynamics surrounding palm oil, nickel, and sustainability standards demonstrate that the IEU-CEPA negotiations cannot be understood solely as a process of trade liberalization. Instead, they represent a complex contestation between competing development models and regulatory preferences. Indonesia prioritizes industrialization, resource-based development, and export expansion, whereas the European Union seeks to embed sustainability norms and environmental governance within international trade arrangements. This asymmetry of priorities creates a structural bargaining challenge in which economic interests are continuously intertwined with normative considerations. The findings suggest that sensitive issues such as palm oil and nickel function not merely as trade commodities but as symbols of broader political and developmental debates. Consequently, the prolonged negotiation process reflects not only disagreements over market access but also deeper differences regarding the appropriate balance between economic growth, environmental sustainability, and national sovereignty. In this regard, the IEU-CEPA illustrates how contemporary trade negotiations increasingly operate as arenas where economic interests, political legitimacy, and normative values are simultaneously negotiated.

Negotiation management strategy and multi-level actor engagement

One important finding from this study is that the Indonesia–European Union Comprehensive Economic Partnership Agreement (IEU-CEPA) negotiation process cannot be understood solely from a technical perspective but as a complex cross-actor management practice. In Indonesia, negotiation coordination involves various key institutions, including the Ministry of Trade, the Coordinating Ministry for Economic Affairs, and the Investment Coordinating Board (BKPM), each with distinct sectoral interests. These differences in orientation pose a challenge for negotiators, as the national position must be unified to avoid contradictions in international forums. Zartman (2008) emphasizes that the success of international negotiations is determined by the content of the agreement, institutional coordination, and effective communication. It is evident from Triyatun’s (2025) research that fragmentation between ministries in Indonesia often slows down the pace of negotiations, even though the substance of the agreement has progressed.

In contrast to Indonesia, which faces coordination fragmentation, the European Union displays a more integrated negotiation management pattern. The European Commission acts as the primary negotiator, with support from member states and the private sector, resulting in a consolidated position. Data from the European Commission (2023/a) shows that more than 300 European business organizations were involved in public consultations on CEPA, highlighting the interests of major industries, including chemicals, pharmaceuticals,

automotive, and financial services. This multi-stakeholder engagement approach provides political legitimacy for the EU delegation, while strengthening its bargaining position at the negotiating table. Furthermore, Europe's negotiation strategy is not limited to formal channels, but also utilizes public diplomacy and lobbying pressure from the private sector to influence the dynamics of the negotiations. Sugiono and Haris (2025) note that the EU's image as a normative power is used to justify the application of high regulatory standards in negotiations, so the EU's management strategy shows a relatively strong integration between economic and normative political interests.

Putnam's (1988) Two-Level Games theory suggests that the IEU-CEPA negotiations reflect a simultaneous process between the international and domestic arenas. Indonesia must balance international demands with pressure from domestic groups, such as palm oil farmer associations, nickel business associations, and labour unions. BPS (2023) data shows that the palm oil sector employs 16 million workers, while the nickel sector recorded a surge in foreign direct investment (FDI) of USD 9.8 billion in 2022 (Badan Koordinasi Penanaman Modal 2023; Chaniago et al., 2023). This significant domestic pressure means that Indonesia's bargaining position is determined internationally and by the need to maintain political legitimacy at home. Alauddin (2024) adds that the Indonesian government often uses a "double messaging" strategy, emphasizing its commitment to sustainability in international forums, but still providing domestic concessions to maintain the support of national interest groups. It reveals that Indonesia's negotiation strategy is hindered by domestic dilemmas that limit its flexibility in making international concessions.

A layered communication strategy also characterizes Indonesia's negotiation management. On the one hand, Indonesia builds coalitions with other developing countries to combat environmentally based trade discrimination, as seen in the palm oil dispute at the WTO, where Indonesia teamed up with Malaysia to challenge the European Union's policy. On the other hand, Indonesia seeks to present itself as a cooperative partner on global issues, such as the energy transition and digital trade, to gain international legitimacy. Judijanto (2025) refers to this strategy as a form of dual diplomacy that aims to pressure the EU into imposing its normative agenda and recognizing the development needs of developing countries. This compromise approach is in line with Zartman's perspective on "management of process," in which the long-term success of negotiations is determined more by the ability to manage sensitive issues through communication and compromise than by instant results at the negotiating table (Zartman, 2008; Zheng et al., 2023; van Dijk and De Dreu, 2021).

On the EU side, the involvement of non-state actors is also an important factor in strengthening its bargaining position. European civil society organizations (CSOs) actively pressure negotiators to fight for human rights, labour, and environmental issues. Research by Kettunen and Pratiwi (2025) shows that public discourse on deforestation caused by palm oil puts significant political pressure on the EU delegation in CEPA negotiations. This pressure creates political legitimacy for the European Union to prioritize sustainability issues as its main agenda. However, this condition also creates a paradox in that the stronger

the domestic pressure in Europe, the more difficult it is to compromise with Indonesia. This situation aligns with Putnam's (1988) concept of the interconnection between the domestic and international arenas, whereby any international concession must consider the possibility of resistance in the domestic ratification process. The pressure from non-state actors strengthens the EU's position, but at the same time narrows the room for compromise with Indonesia.

Furthermore, the IEU-CEPA negotiation process can be mapped into several stages, revealing the dynamics of multi-level actor management. In the agenda-setting stage, the EU succeeded in prioritizing sustainability, while Indonesia was less aggressive in narrowing the scope of negotiations (Sugiono and Haris, 2025). In the position-building stage, Indonesia faced the fragmentation dilemma between ministries, while the EU succeeded in uniting domestic support through the coordination of the European Commission. The bargaining stage revealed Indonesia's tendency to be reactive, because even though it offered tariff liberalization of more than 98% (Jones and Adam, 2023; WTO, 2020), the concessions obtained were limited due to EU sustainability standards that were considered "non-negotiable." A deadlock has existed since 2019 regarding environmental and nickel issues, with Indonesia preferring a defensive strategy rather than building global alliances. The prospects for ratification on both sides also face domestic challenges, including resistance from interest groups in Indonesia and the potential for political vetoes in Europe.

These dynamics demonstrate that the management of the IEU-CEPA negotiations involves engaging multiple-level actors and employing simultaneous political, economic, and diplomatic strategies. Indonesia focuses on maintaining its domestic policy space, particularly in the areas of palm oil protection and nickel downstreaming. At the same time, the EU emphasizes market access and normative exports related to the environment, human rights, and governance. From Zartman's (2008) perspective, the failure to reach a compromise reflects the weakness of both parties in transforming sensitive issues into areas of compromise. Putnam (1988) asserts that the double dilemma at the domestic level further narrows the space for concessions, as any agreement risks triggering internal resistance. The main criticism of this study is that both Indonesia and the EU place too much emphasis on political symbolism in negotiations, thereby marginalizing the substantive economic aspects that should be at the core of the CEPA.

The findings further indicate that the effectiveness of negotiation management depends not only on the bargaining capacity of negotiators but also on the ability of governments to coordinate diverse stakeholders across multiple governance levels. While Indonesia and the European Union both faced domestic constraints, the EU appeared to benefit from a more institutionalized coordination mechanism that enabled it to present a relatively consistent negotiating position. By contrast, Indonesia's negotiation strategy was frequently influenced by sectoral interests and inter-agency fragmentation, which reduced flexibility during critical bargaining stages. This difference highlights an important aspect of negotiation management theory: successful negotiations require not only substantive proposals but also internal coherence and institutional preparedness. Therefore, the

challenges experienced during the IEU-CEPA process demonstrate that strengthening domestic coordination mechanisms may be as important as improving technical negotiating skills. The case also confirms that international negotiations are increasingly shaped by interactions among governments, business actors, civil society organizations, and transnational advocacy groups, making negotiation management a multidimensional governance process rather than a purely diplomatic exercise.

Economic and political implications of the IEU-CEPA negotiation process

The Indonesia–European Union Comprehensive Economic Partnership Agreement (IEU-CEPA) negotiations have substantial economic implications, including opportunities and challenges. The signing of the IEU-CEPA in July 2025, following nearly ten years of negotiations, marks a significant diplomatic achievement, opening a new chapter in Indonesia–European Union economic relations. President Prabowo called this agreement a “historic breakthrough” because it eliminates 98% of Indonesia’s tariff lines in the European market (Tempo, 2025). The Ministry of Trade’s (2023) projections estimate that this agreement can potentially increase Indonesia’s exports to the European Union by up to 60% and eliminate more than 98% of trade tariffs. Eurostat (2023) data shows that total Indonesia-EU trade in 2022 reached €24.7 billion, with an Indonesian surplus of €4.3 billion. In fact, Eurostat (2025) recorded a 9% increase in bilateral trade in the first half of 2025 compared to the same period the previous year.

However, these benefits must be interpreted with caution. Caecilia Mediana (2025) emphasizes that issues surrounding palm oil, deforestation, and labour rights standards are the leading causes of the lengthy negotiations. Even though tariffs have been removed, the EU still imposes strict non-tariff regulations, particularly the EU Deforestation Regulation 2023, which is projected to have a direct impact on Indonesia’s primary export commodities, such as palm oil, rubber, and coffee, with a value of more than €5 billion per year (European Commission 2023b). UN Comtrade (2024) even noted that palm oil exports to the EU only increased by 2.1% after the signing, while products held up due to certification increased by 14%. This situation supports the criticism of Sugiono and Haris (2025), who see the dominance of the European Union as a normative power, in which Indonesia tends to play the role of a rule taker rather than a rule maker. This dynamic confirms Zartman’s (2008) analysis that the success of international negotiations is not only determined by the agreement’s content, but also by the effectiveness of process management in overcoming the accompanying political and regulatory obstacles.

From Indonesia’s domestic perspective, the implications of CEPA are closely related to socio-economic and political stability. The palm oil sector, which employs around 16 million workers (BPS, 2023), has become the centre of debate, as EU environmental regulations have the potential to undermine the sustainability of this sector. At the same time, the nickel downstream sector has shown rapid growth, with FDI worth USD 9.8 billion in 2022 (Badan Koordinasi Penanaman Modal 2023). This double pressure poses a strategic dilemma for

the Indonesian government: accept European sustainability standards for market access or protect domestic interests at the risk of losing trade opportunities. Within the framework of Putnam's Two-Level Games (Putnam, 1988), this situation illustrates a ratification dilemma: the incompatibility between negotiated international policies and domestic preferences. Triyatun (2025) emphasizes that this domestic political complexity has the potential to slow down ratification even though the agreement's substance has been reached.

The political implications are also evident in the dimension of Indonesia's diplomatic relations with the European Union and other developing countries. Juned and Sutiono (2024) noted that the European Union views the CEPA as integral to its Indo-Pacific strategy, while Indonesia adheres to the "free and active" foreign policy principle. In this context, the CEPA negotiations have become a significant arena for Indonesia to shape its geopolitical identity. The 2020 WTO dispute over palm oil-based biofuels, in which some of Indonesia's claims were accepted (WTO, 2020), shows that the implications of the CEPA are not limited to bilateral aspects but also extend to the multilateral sphere (CNBC Indonesia, 2025). It strengthens Indonesia's position as a key player in global trade governance, demonstrating that CEPA agreements cannot be understood solely in the context of trade relations, but also as economic and political diplomatic instruments.

On the European Union side, the political implications of CEPA are closely related to the need for internal legitimacy. European public pressure on environmental and sustainability issues has forced negotiators to make sustainability standards a key requirement in the agreement (Kettunen and Pratiwi, 2025). This strategy strengthens the EU's image as a normative power, but simultaneously narrows the room for compromise with Indonesia. From Indonesia's perspective, Sugiono and Haris (2025) suggest that sustainability standards are often perceived as covert protectionism. This tension suggests that even though CEPA can facilitate market access, domestic political dynamics on both sides may potentially create the risk of a prolonged deadlock. Thus, this agreement is not merely an instrument of trade liberalization, but also a reflection of the tug-of-war between the EU's internal political legitimacy and Indonesia's strategic interests.

Therefore, the implications of the CEPA are paradoxical, revealing the complexity of the interaction between economics and politics. On the positive side, Indonesia gains broader market access, with the potential for a 60% increase in exports (Tempo, 2025; CNBC Indonesia, 2025; Presidential Communications Office, 2025), and a surge in foreign investment from the EU, particularly in the renewable energy and mineral sectors (Badan Koordinasi Penanaman Modal, 2023). However, the negative side includes non-tariff barriers, the potential for foreign domination in strategic sectors, and domestic political tensions that could slow implementation. For the EU, CEPA strengthens its geopolitical position in the Indo-Pacific and solidifies its role as a normative power. However, it also limits the room for compromise with developing country partners. Using Zartman's (2008) framework, the CEPA is indeed formally successful; however, the imbalance of concessions remains apparent. Meanwhile, according to Evans et al. (1993), this agreement reflects

the classic dilemma of two-level games: every international concession has domestic consequences that can weaken political legitimacy.

Institutional coordination and bureaucratic challenges in Indonesia's negotiation framework

The IEU-CEPA negotiation process highlights the complexity of institutional coordination at the national level. According to a report by the Coordinating Ministry for Economic Affairs (Kemenko, 2025), the formulation of Indonesia's national position involved various ministries with different mandates, including the Ministry of Trade, the Ministry of Industry, the Ministry of Environment and Forestry, and the Investment Coordinating Board (BKPM). Although an inter-ministerial forum has been established through the CEPA National Negotiation Team, the report highlights that differences often hinder the policy harmonization process due to sectoral interests. It indicates a fragmentation of positions that affects the coherence of national policy. These findings reinforce Broome and Seabrooke's (2020) view that the level of domestic inter-agency integration largely determines the effectiveness of a developing country's economic diplomacy before entering the international arena.

These coordination issues are clearly evident in the dynamics of palm oil and nickel export policies, two sensitive issues in the negotiations. A 2023 report by the Ministry of Trade of the Republic of Indonesia notes that the ministry balances market liberalization strategies with the protection of strategic national industries. Meanwhile, the Ministry of Environment and Forestry emphasizes the importance of fulfilling sustainability commitments through the Indonesian Sustainable Palm Oil (ISPO) mechanism. These differences in orientation often lead to internal debates before final negotiation decisions are made. Haslam, Schäfer, and Acharya (2021) refer to this phenomenon as a form of coordination deadlock, where the absence of cross-sectoral resolution mechanisms delays decision-making and slows down a country's economic diplomacy.

This situation is exacerbated by a coordination pattern that still relies on decisions made by high-ranking officials and lengthy bureaucratic processes. Tempo (2025) reported that during the finalization stage of the CEPA, President Prabowo himself stepped in to lead the resolution of remaining issues after inter-ministerial coordination reached an impasse. This pattern indicates strong centralization in the decision-making process, where the resolution of negotiations depends on high-level political instructions. It is in line with Halperin and Dubash's (2020) analysis of leader-centric bureaucracy, which is a bureaucracy that is highly dependent on the authority of key figures in determining cross-sectoral policy directions. The successful conclusion of the IEU-CEPA may reflect political consolidation at the elite level rather than the effectiveness of institutional coordination at the technical level.

On the other hand, the capacity of the negotiation secretariat is also an important factor that affects the efficiency of the coordination process. Based on a report by the Investment Coordinating Board (2023), the secretariat supporting the IEU-CEPA negotiation team still faces human resources and cross-sectoral data limitations. As a result, the

integration of negotiation substance, such as environmental and investment issues, is often delayed due to limitations in inter-agency technical analysis. Developing countries with low bureaucratic capacity often lose continuity in long-term trade agreement negotiations due to the absence of strong technical institutions. In the Indonesian context, weak technical institutional support indicates the need to establish a permanent secretariat that can bridge the differences in interests between ministries.

In addition, the 2023 Indonesian Trade Outlook document shows that pressure from domestic industries, particularly the palm oil and nickel sectors, has contributed to the dynamics of inter-ministerial coordination. The Indonesian Palm Oil Farmers Association (Apkasindo) has openly rejected the additional certification policy proposed by the European Union because it is considered burdensome for small farmers (Caecilia Mediana, 2025). On the other hand, BKPM and the Ministry of Industry are promoting a nickel downstreaming strategy as a means to achieve long-term export growth. The tension between protectionist and liberalization interests illustrates the classic dilemma in Two-Level Games (Putnam, 1988; Bjola and Manor, 2018), where negotiators must balance domestic pressures with international demands. This situation shows that weak domestic coordination has direct implications for the credibility of Indonesia's position in the IEU-CEPA negotiations.

Sudden changes in the national position before the negotiation round reveal the dilemma between flexibility and consistency. For example, after the European Union passed the EU Deforestation Regulation (EUDR) in 2023, the Indonesian government immediately changed its negotiation strategy by emphasizing supply chain transparency through a national traceability system approach (Kemenko, 2025). This adaptive measure is crucial for maintaining export competitiveness, but it also raises concerns about inconsistency on the part of the European Union. Reus-Smit and Snidal (2020) describe this condition as a structured flexibility dilemma, in which developing countries must remain agile in the face of global pressures without losing their normative credibility at the international level.

Despite bureaucratic challenges, the Indonesian government initiated coordinated reform steps in 2024 by strengthening the International Trade Negotiation Forum under the coordination of the Coordinating Ministry for Economic Affairs. This forum monitors cross-sectoral issues, including green trade, sustainability, and digital investment. According to an official report by the Coordinating Ministry (Kemenko, 2025), this forum aims to establish a unified perspective among ministries, enabling Indonesia to present a more comprehensive and strategic position to its European Union partners. This step aligns with the recommendations of Broome and Seabrooke (2020) on the importance of institutionalized negotiation management in strengthening the bargaining position of developing countries. With this mechanism, Indonesia's economic diplomacy can shift from a reactive approach to a more structured and evidence-based one.

Overall, the dynamics of bureaucratic coordination in the IEU-CEPA negotiations demonstrate that the success of international negotiations hinges on the economic substance and coordinative governance at the domestic level. Institutional fragmentation, dependence on leadership figures, and pressure from domestic industry actors have

created systemic challenges that hinder the consistency of the national position. However, with the establishment of a cross-sector forum and efforts to strengthen the negotiation secretariat, Indonesia is beginning to shift towards a more integrated economic diplomacy governance system. The success of this reform will determine Indonesia's ability to maintain a balance between national interests and global demands in the future.

EU normative power and the transformation of Indonesia's negotiation discourse

The IEU-CEPA negotiations also demonstrate how the European Union utilizes its normative power to reframe the direction of international trade discourse. Based on the EU Trade and Sustainability Impact Assessment (European Commission, 2023/a), the European Union consistently places environmental issues, human rights, and sustainable governance as key prerequisites in every trade negotiation with Indonesia. Sustainability and environmental protection clauses are included in a special chapter on Trade and Sustainable Development (TSD) that is considered "non-negotiable." This approach reflects the character of Normative Power Europe as described by Manners (2002) – the European Union's tendency to export its political and social values through trade policy.

The normative influence of the European Union is clearly evident in the dynamics surrounding the issues of palm oil and nickel. According to the EU Deforestation Regulation 2023 report, Indonesia is identified as one of the suppliers of raw materials that pose a high risk to global deforestation. The Indonesian government responded to this narrative through public diplomacy, emphasizing the existence of Indonesian Sustainable Palm Oil (ISPO) certification and the national commitment to a green economy (Ministry of Foreign Affairs of Indonesia, 2024). In his statement, President Prabowo emphasized that Indonesia "does not reject sustainability, but rejects discrimination" (Tempo, 2025). This statement illustrates the government's efforts to redefine the concept of sustainability in light of the country's economic realities. This strategy reflects a form of norm localization (Acharya 2014), in which global values are adapted without losing their local character.

Furthermore, the 2023 Indonesia Trade Outlook emphasizes that this adaptive approach is part of Indonesia's diplomatic strategy in responding to normative pressure. Through inter-ministerial coordination, the government is strengthening the narrative of "contextual sustainability," which is the idea that green economic practices in developing countries must consider both domestic capacity and the welfare of local communities. This view aligns with Sjursen's (2021) argument that the normative power of the European Union often elicits resistance from partner countries because it is perceived as disproportionate to their economic capacities. In the context of the IEU-CEPA, this resistance is manifested through a more open dialogue on shared responsibility and the principle of environmental justice.

The Indonesian government has also begun to expand the discourse on sustainability by introducing the concepts of green transition and just energy partnership in international

forums. A joint statement between the Coordinating Ministry for Economic Affairs and the European Union at the High-Level Dialogue on Sustainable Trade (2024) shows that both parties strive to balance environmental values and economic growth. In this forum, Indonesia emphasized that mineral downstreaming and renewable energy development are integral to its national commitment to a green economy. This approach aligns with the concept of norm diffusion with resistance (Risse, 2009), in which new norms are not entirely accepted but are renegotiated according to national needs.

Establishing the National Task Force on Sustainable Trade in domestic policy in 2024 marks Indonesia's concrete efforts to institutionalize sustainability issues. According to an official report by the Coordinating Ministry for Economic Affairs (Kemenko, 2025), this task force is responsible for harmonizing export policies with international regulations, particularly those related to sustainability and supply chain decarbonization. This step demonstrates a transformation from defensive diplomacy to proactive normative diplomacy. In line with Scoones, Newell, and Leach (2021), this institutional transformation is important to ensure that developing countries adapt to global norms and contribute to their formation.

Meanwhile, changes in public discourse on palm oil and nickel indicate a shift in Indonesia's diplomatic strategy. Analysis of CNBC Indonesia (2025) reports shows a narrative shift from "value conflict" to "green partnership." This new narrative reinforces Indonesia's image as a strategic partner that supports the sustainable development agenda. Vabulas and Snidal (2020) refer to this strategy as strategic reframing, which is an effort to change the meaning of global norms to align with domestic interests without explicitly rejecting them. With this strategy, Indonesia has maintained its international legitimacy while protecting its national economic interests.

Ultimately, this study's results demonstrate that the European Union's normative power presents not only a challenge but also an opportunity for Indonesia to enhance its position in economic diplomacy. Indonesia has successfully integrated sustainability issues into its national trade policy through adaptation, localization, and institutional reform strategies, maintaining its strategic autonomy. Theoretically, this study broadens the understanding of Europe's Normative Power by showing that partner countries are not always passive recipients, but active actors in reshaping global norms. These findings emphasize the importance of value-based diplomacy and strong cross-sectoral governance as the foundation for the successful implementation of the IEU-CEPA and similar international trade agreements in the future.

Conclusion

This study demonstrates that the Indonesia–European Union negotiation process, within the framework of the Indonesia–European Union Comprehensive Economic Partnership Agreement (IEU-CEPA), is not merely a technical economic issue, but also a reflection of domestic political dynamics, bureaucratic structures, and the battle of normative values at the international level. The results of the study show that the success of negotiations is not

only determined by the substance of the agreement, but also by the effectiveness of process management, which includes inter-agency coordination, cross-actor communication, and the government's ability to manage domestic and international pressures simultaneously. In the context of Putnam's Two-Level Games theory, the IEU-CEPA negotiations show how the Indonesian government faces a double dilemma: meeting the demands for global market liberalization proposed by the European Union while maintaining political legitimacy at home, especially in strategic sectors such as palm oil and nickel.

In addition, Zartman's theory of negotiation management reinforces the finding that weak bureaucratic coordination and dependence on individual leadership lead to an inefficient and prone-to-stagnation negotiation process. Thus, this study contributes to enriching the literature on economic diplomacy by highlighting the importance of coordinative governance and strategic communication in strengthening the bargaining position of developing countries in the global trade arena.

Theoretically, this study broadens the understanding of the interaction between Normative Power Europe and the process of localizing norms in partner countries such as Indonesia. The findings show that the European Union not only exports values of sustainability and governance but also encourages the transformation of Indonesia's diplomatic discourse towards a more adaptive value-based diplomacy model. Indonesia is not merely a recipient of norms but an active actor capable of reframing the meaning of sustainability to suit the national socio-economic reality. In practical terms, this study confirms that the successful implementation of the IEU-CEPA requires strengthening bureaucratic capacity, establishing a permanent negotiation secretariat, and cross-sector integration between trade, environment, and investment.

From a policy perspective, the government needs to strengthen inter-ministerial coordination forums to ensure that international trade policies are more consistent, evidence-based, and responsive to global dynamics. Further research is recommended to explore the relationship between economic negotiations and domestic political transformation in the context of Indonesia's new trade agreements, such as IPEF or RCEP, in order to deepen the understanding of how economic diplomacy can be used as an instrument to strengthen Indonesia's strategic independence in the global arena.

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