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Optimizing the Implementation of Incoterms 2020 in Support of International Trade Efficiency

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Abstrak

Incoterms (International Commercial Terms) merupakan seperangkat aturan internasional yang disusun oleh International Chamber of Commerce (ICC) guna mengatur hak dan kewajiban para pihak dalam kontrak jual beli lintas negara. Artikel ini bertujuan untuk menganalisis peran strategis Incoterms dalam perdagangan internasional, menelaah perubahan signifikan pada Incoterms 2020, serta mengidentifikasi tantangan implementasinya di kalangan pelaku usaha, khususnya di negara berkembang seperti Indonesia. Penelitian ini menggunakan pendekatan deskriptif kualitatif dengan teknik studi pustaka yang bersumber dari jurnal ilmiah, buku, dan dokumen resmi ICC. Hasil penelitian menunjukkan bahwa Incoterms memberikan kejelasan tanggung jawab logistik, risiko, dan biaya, namun implementasinya masih menghadapi hambatan seperti rendahnya literasi hukum dan kurangnya pelatihan teknis di sektor usaha kecil dan menengah. Perubahan dalam Incoterms 2020, seperti penggantian istilah dan penyesuaian cakupan asuransi, menuntut adaptasi yang lebih baik dari para pelaku usaha. Artikel ini merekomendasikan peningkatan edukasi, pelatihan berbasis praktik, serta sinergi antara pemerintah, akademisi, dan pelaku industri dalam meningkatkan pemahaman dan penerapan Incoterms sebagai bagian integral dari strategi perdagangan global.

Kata Kunci: *Incoterms, Perdagangan Internasional, Incoterms 2020, Kontrak Jual Beli, Risiko Logistik, UMKM*

Abstract

Incoterms (International Commercial Terms) is a set of international rules prepared by the International Chamber of Commerce (ICC) to regulate the rights and obligations of parties in cross-border sales contracts. This article aims to analyze the strategic role of Incoterms in international trade, examine significant changes in Incoterms 2020, and identify challenges in its implementation among business actors, especially in developing countries such as Indonesia. This study uses a qualitative descriptive approach with a literature study technique sourced from scientific journals, books, and official ICC documents. The results of the study show that Incoterms provide clarity on logistics responsibilities, risks, and costs, but its implementation still faces obstacles such as low legal literacy and lack of technical training in the small and medium business sector. Changes in Incoterms 2020, such as changing terms and adjusting insurance coverage, require better adaptation from business actors. This article recommends increasing education, practice-based training, and synergy between the government, academics, and industry players in improving the understanding and implementation of Incoterms as an integral part of the global trade strategy.

Keywords: *Incoterms, International Trade, Incoterms 2020, Sale and Purchase Contract, Logistics Risk, MSMEs.*

INTRODUCTION

International trade has become one of the main drivers of global economic growth in the era of globalization. Along with the increasing intensity of exports and imports between countries, a standard is needed that can clarify the rights and obligations between sellers and buyers across national borders. In this context, Incoterms (International Commercial Terms) play a vital role as a set of rules published by the International Chamber of Commerce (ICC) to facilitate international trade transactions (Ruzimov, 2004).

Incoterms are designed to avoid misunderstandings that may arise in cross-border transactions due to different interpretations of laws and trade practices in each country. Through clear definitions of shipping responsibilities, risks, and costs between sellers and buyers, Incoterms create much-needed clarity in international buying and selling contracts (ICC, 2020).

Since it was first introduced in 1936, Incoterms has undergone several revisions to adapt to the dynamics of global trade. The latest version, Incoterms 2020, reflects the modern needs of businesses for efficiency, transparency, and clarity in managing cross-border shipments of goods. It also takes into account the trend towards digitization and the use of electronic documents in international trade (ResearchGate, 2021).

However, despite the importance of Incoterms, many businesses, especially MSMEs and first-time exporters, do not fully understand the meaning and application of each Incoterms term. This lack of understanding can lead to financial losses, contractual disputes and even failed trade transactions (DHL, 2023).

Understanding Incoterms is not only beneficial for exporters, but also for importers, logistics companies, insurance companies, and banks. With a good understanding, each party can manage risks more effectively, develop efficient logistics strategies, and increase competitiveness in international trade (Emerald Insight, 2023).

Incoterms are also an important tool in trade contract negotiations, as they can be used as a reference point in establishing prices and responsibilities. Their correct application can reduce logistics costs and prevent conflicts between parties involved in international supply chains (Kuehne + Nagel, 2022).

In addition, in the context of Indonesia, which is aggressively promoting non-oil and gas exports and increasing the participation of MSMEs in the global market, a correct understanding of Incoterms is one of the keys to success. The government and relevant agencies need to strengthen training and socialization programs to enable national businesses to compete equally in international markets (DHL, 2023).

The fact that Incoterms is also continuously updated requires businesses to stay up-to-date. For example, the change from DAT (Delivered at Terminal) to DPU (Delivered at Place Unloaded) in Incoterms 2020 is one important adjustment that users should understand. Not understanding this change can lead to errors in contract drafting and delivery execution (International Journals, 2022).

On the other hand, some crucial issues such as the lack of clarity on the term DDP and the complexity in calculating insurance risks in some shipping schemes show that although Incoterms 2020 seems more structured, there is still room for improvement in the next version (Kluwer Law Online, 2022).

The background of this article was prepared as an effort to provide a deeper understanding of the concept, structure, and application of Incoterms in international trade practices. By presenting a systematic and easy-to-understand discussion, it is hoped that this article will be able to become a practical reference for businesses, academics, and other related parties in managing global trade efficiently and effectively (ICC, 2020; ResearchGate, 2021).

RESEARCH METHOD

This research uses a descriptive qualitative approach to explore the understanding and application of Incoterms in the context of international trade. This approach allows an in-depth analysis of the basic concepts, structure, and implementation challenges of Incoterms, especially for Indonesian businesses involved in import-export.

The data used in this research was sourced from library research, by reviewing literature from various scientific journals, official guidelines from the ICC, as well as professional and academic articles. Eight primary sources were used as core references, selected based on their relevance and credibility in discussing Incoterms in theory and practice.

Data analysis techniques were conducted using the content analysis method, where information was categorized based on key themes such as the function of Incoterms, regulatory changes, and their implications for logistics and international buying and selling contracts. To increase validity, source triangulation was conducted by comparing several international and regional literatures.

Although this research is qualitative and does not involve a direct survey, findings from previous studies on the selection of Incoterms by businesses from developing countries were also used as a reference for comparison. The results of the analysis are expected to contribute to strengthening the understanding and practice of Incoterms among international trade actors in Indonesia.

RESULT AND DISCUSSION

The results of the literature review show that Incoterms serves as an international standard tool that provides legal clarity for parties in cross-border sale and purchase contracts. One important finding is that Incoterms does not regulate the ownership of goods, but specifically establishes the point of risk transfer, cost responsibility, and delivery obligations between the seller and the buyer. This helps minimize potential disputes that often arise due to differences in contract interpretation (Ruzimov, 2004; ICC, 2020).

In its latest version, Incoterms 2020 introduces several significant adjustments, such as the change in terms from Delivered at Terminal (DAT) to Delivered at Place Unloaded (DPU), as well as a greater emphasis on insurance allocation in CIP and CIF schemes. These adjustments reflect the ICC's efforts to accommodate modern logistics dynamics and ensure clarity between transportation liability and loss risk (ResearchGate, 2021; ICC, 2020). However, studies also show that there are still inconsistencies in understanding among

businesses, especially in distinguishing responsibilities between the terms EXW, FOB, and DDP (Kluwer Law Online, 2022).

Based on findings from an Emerald Insight study (2023), many small and medium-sized enterprises (SMEs) in developing countries, including in Southeast Asia, tend to prefer Incoterms that provide more control over the shipping process, such as FOB or CIF. This preference is influenced by factors such as limited access to information, reliance on freight forwarders, and lack of formal training on international trade contracts. This condition is not much different from the situation in Indonesia, where training on Incoterms is still limited to certain sectors.

From a policy and logistics perspective, the proper use of Incoterms can improve supply chain efficiency and minimize the risk of unexpected costs. Unfortunately, the lack of socialization from relevant authorities as well as the gap between industry practices and the theory taught are hindering optimal implementation. Therefore, collaboration between the government, trade associations and educational institutions is needed to expand Incoterms literacy among national businesses (DHL, 2023; International Journals, 2022). Thus, proper understanding and utilization of Incoterms is not only a legal obligation, but also a business strategy that determines success in international trade.

1. The Strategic Role of Incoterms in International Trade

Incoterms play an important role in establishing international standards governing the rights and obligations of parties to cross-border sale and purchase contracts. By establishing the point of transfer of responsibilities, risks and costs between the seller and the buyer, Incoterms help reduce potential conflicts caused by different interpretations of national laws. As the "universal language" of global trade contracts, Incoterms facilitate more efficient and transparent transactions.

Proper use of Incoterms gives businesses a competitive advantage, especially in logistics planning and cost management. Clarity of shipping responsibilities and risks allows companies to organize more effective import-export strategies. This is crucial in the context of a competitive global market, where supply chain efficiency is the key to success.

However, the effectiveness of Incoterms largely depends on the understanding and consistent application by businesses. Many small and medium-sized enterprises still lack understanding of key terms such as FOB, CIF or DDP, putting them at risk of losses due to misperceptions or contractual errors. This emphasizes the importance of continuous education and training on Incoterms.

2. Significant Changes to Incoterms 2020

The latest version of Incoterms 2020 introduces several important changes designed to simplify and modernize international trade practices. One of the key changes is the replacement of the term DAT (Delivered at Terminal) with DPU (Delivered at Place Unloaded), which provides greater flexibility in designating the place of delivery. This change reflects an adaptation to modern logistics practices that often do not stop at terminals, but at more specific end locations.

In addition, there are adjustments to the insurance provisions in the terms CIP and CIF. In Incoterms 2020, CIP requires the seller to provide insurance with higher coverage (Institute Cargo Clauses A), while CIF continues to use minimum coverage (Institute Cargo Clauses C). This difference is often not well understood by novice exporters, even though it can have a major impact on risk protection during the shipping process.

3. Challenges of Incoterms Implementation by Businesses in Developing Countries

Businesses in developing countries, including Indonesia, face major challenges in accurately implementing Incoterms. One of the main obstacles is the low level of legal literacy and international trade, especially among MSMEs. Many entrepreneurs simply follow general customs or instructions from freight forwarders without understanding the details of the responsibilities attached to each Incoterms term.

The high preference for terms such as FOB and CIF indicates a tendency to use Incoterms that are considered "standard", even though they do not necessarily fit the needs of actual transactions. In fact, the wrong choice of Incoterms can result in overlapping responsibilities and the risk of unforeseen costs. The Emerald Insight study (2023) notes that most MSMEs choose Incoterms based on administrative convenience, not risk management strategies.

This condition is exacerbated by limited intervention from relevant institutions in terms of education and counseling. Socialization from the government, trade associations, or professional training institutions has not reached business actors as a whole, especially outside major cities. Therefore, it is important to develop training programs based on practice and simulation of export-import transactions that emphasize the correct selection of Incoterms.

4. Implications and Recommendations for Improved Understanding of Incoterms

A lack of understanding of Incoterms has real implications for the smoothness and efficiency of international trade. Many contract disputes, logistics surcharges, and

unsuccessfully processed insurance claims can be traced back to errors in the selection or interpretation of Incoterms. Therefore, increasing Incoterms literacy is an urgent need in strengthening the bargaining position of Indonesian exporters in the global market.

Efforts to increase understanding can be made through the integration of Incoterms material in the business and logistics education curriculum, certified training for business actors, and cooperation with international institutions such as the ICC. The government also needs to play an active role in developing national guidelines that adjust the application of Incoterms to the context of Indonesia's export-import policies.

Furthermore, digital transformation can also be utilized to expand access to Incoterms training, for example through online platforms that provide contract simulations and cost calculations based on various Incoterms schemes. In this way, businesses can learn flexibly and independently, so that the use of Incoterms becomes an integral part of a sustainable international business strategy.

CONCLUSION

Based on the results of the research and discussion, it can be concluded that Incoterms has a strategic role in supporting the smooth running of international trade. The clarity of responsibilities, costs, and risks between sellers and buyers regulated by Incoterms can minimize contractual conflicts and improve the efficiency of cross-border transactions. However, the effective use of Incoterms is highly dependent on the proper understanding and application by business actors.

The changes in Incoterms 2020, such as the change of the term DAT to DPU and the adjustment of insurance coverage on CIF and CIP, show efforts to harmonize trade regulations with modern logistics practices. Unfortunately, most businesses, especially in developing countries like Indonesia, still face obstacles in accurately understanding and implementing these new provisions. This obstacle is closely related to the low level of international trade literacy, especially in the MSME sector.

Therefore, concrete steps are needed to improve education and comprehensive technical training on Incoterms, both through formal education curricula and practice-based professional training. The government, academics and industry players must synergize in providing access to information that is easy to understand and relevant to the local context. Thus, optimal understanding and use of Incoterms can support national export competitiveness and better integration into the global trading system.

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