IBC BUSINESS OUTLOOK 2025

JANUARY 2025

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Foreword

Looking ahead to 2025, I am reminded of a period in Indonesia's history when economic uncertainty tested the resilience of businesses and policymakers alike. In times of turbulence, those who adapt strategically and respond decisively emerge stronger, while those who hesitate risk falling behind. This lesson remains as relevant today as ever, as Indonesia faces a rapidly evolving global and domestic landscape that demands agility, foresight, and collaboration.

Indonesia is entering a defining era. The new administration is immediately faced with global shifts in trade, technology, and investment that are reshaping the way businesses operate, and our country must rise to meet these changes head-on. Meanwhile, domestic challenges indicate that the road ahead will not be an easy one—it is going to be steep and complex. The government has outlined ambitious priorities—ranging from achieving 8% GDP growth to providing free nutritious food for all students and addressing the public housing backlog, among many others. Each of these initiatives will have profound implications for businesses, investors, and the broader economy. How we adapt, collaborate, and innovate will define our trajectory in the years ahead.

At the Indonesian Business Council (IBC), we believe that businesses are more than participants in economic progress—they are the architects of Indonesia's future. Our mission is to equip business leaders with insights, dialogue, and collaborative opportunities needed to drive sustainable growth. The IBC Business Outlook 2025 serves as a strategic guide, offering foresight and practical guidance to help businesses navigate an evolving economic landscape, anticipate change, and seize emerging opportunities. By fostering informed decision-making, this report aims to help organizations adapt, grow, and remain resilient in an increasingly dynamic environment.

The road ahead will require bold thinking, resilience, and a willingness to embrace change. As you read this outlook, I encourage you to see beyond the numbers and trends—to recognize the potential for growth, transformation, and shared prosperity. Let us move forward together, not just as businesses, but as partners in shaping a stronger, more competitive Indonesia.

Sofyan Djalil

CEO, Indonesian Business Council (IBC)

Acknowledgement

The IBC Business Outlook 2025 was prepared by the Indonesian Business Council (IBC), an association of Indonesian business and industry leaders committed to enhancing the nation's competitiveness and prosperity through research, dialogue, collaboration, and the promotion of sound public policies.

The report was prepared by Khalafi Xenon Abdullah, Alifa Salsabilla, Bima Nur M. Rizky, Michael Tomasoa, Fazlur Rahman Hassan, and Nanda Asridinan Noor with contributions from Adelia Surya Pratiwi and Citra Handayani Nasruddin. The project was led and edited by Prayoga Wiradisuria - Director of Program and Policy, supervised by William Sabandar - Chief Operating Officer, and under the guidance of and Sofyan A. Djalil - Chief Executive Officer, Indonesian Business Council.

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Finally, we acknowledge the support of stakeholders, businesses, and policymakers who continue to engage with IBC's initiatives. Their feedback and participation are essential in shaping a stronger, more competitive, and resilient Indonesian economy.

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Executive Summary

Indonesia enters 2025 in the middle of a cross-fire, facing an increasingly complex economic landscape shaped by both global disruptions and domestic challenges. The nation's ability to navigate shifting geopolitical dynamics, trade realignments, and technological advancements while addressing structural inefficiencies at home will determine its economic trajectory. The IBC Business Outlook 2025 provides an analysis of these key forces, offering insights to equip businesses and policymakers with the foresight needed to adapt, innovate, and drive sustainable growth.

Key Global Trends

Geopolitical Uncertainty: U.S. protectionist policies, China's evolving economic strategy, and rising tensions in the Middle East are reshaping global trade and investment flows, demanding strategic recalibration.

Economic Realignments: Volatility in financial markets, supply chain disruptions, and capital movements necessitate greater adaptability from businesses and governments alike.

Technological Disruption: The rise of artificial intelligence, digital finance, and the green economy is altering competitive landscapes, requiring a forward-looking approach to harness opportunities and mitigate risks.

Indonesia's Challenges & Opportunities

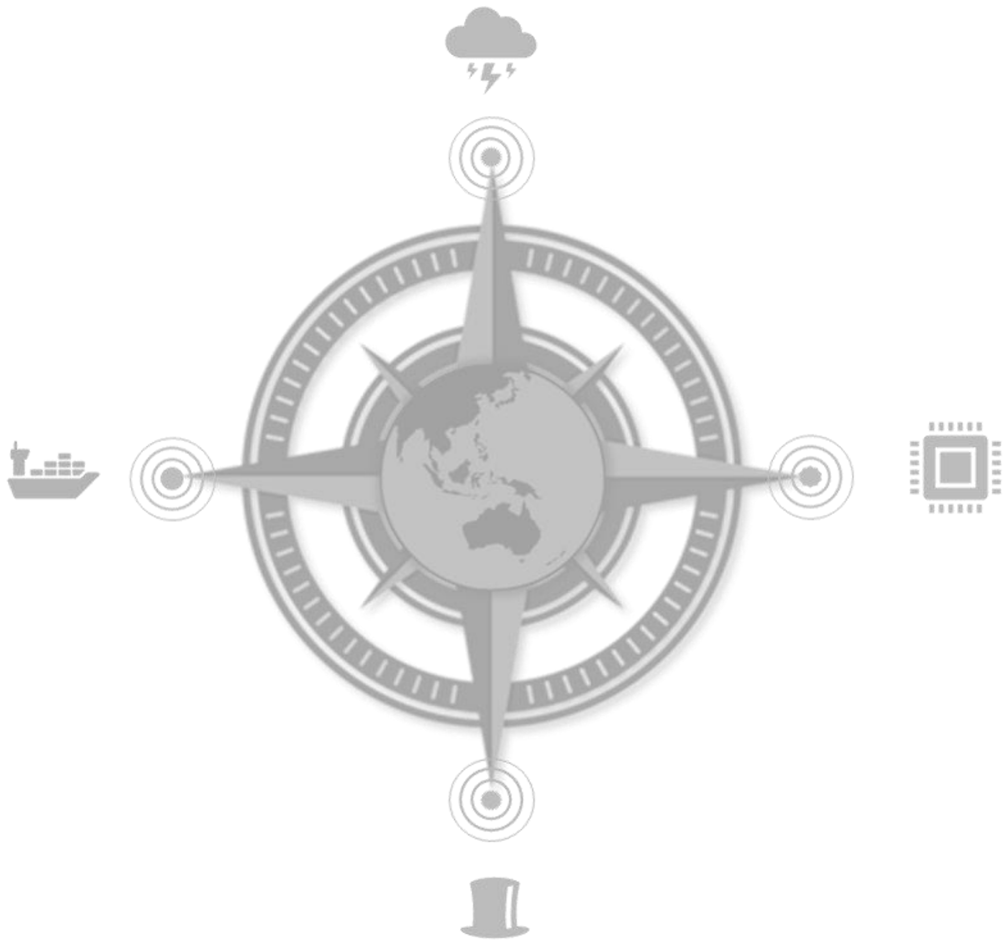
Ambitious Growth Targets: The government has set bold objectives, including 8% GDP growth, large-scale infrastructure expansion, and a push for industrial downstreaming to enhance value creation.

Structural Bottlenecks: Persistent issues such as sluggish consumer demand, bureaucratic inefficiencies, financial constraints, and declining industrial competitiveness remain significant barriers to sustained progress.

Strategic Priorities: To secure long-term economic resilience, Indonesia must focus on attracting investment, reforming governance, fostering innovation, and strengthening regional alliances.

The Road Ahead

IBC underscores the urgency of a cohesive and strategic national response to ensure Indonesia remains competitive amid evolving global uncertainties. Businesses must proactively seek strategic alliances, leverage technological advancements, and embrace new investment opportunities. The government, in turn, must foster a business-friendly regulatory environment, enhance governance, and drive policies that enable economic transformation. Success will depend on collective action, where policymakers, businesses, and institutions work in unison to sustain momentum and position Indonesia for long-term prosperity.



CHAPTER 1

OVERVIEW

Indonesia enters 2025 amid a rapidly evolving landscape shaped by a complex mix of global and domestic challenges. Geopolitical shifts, changing trade patterns, and accelerating technological advancements are transforming the way businesses operate. Domestically, bureaucratic inefficiencies, policy uncertainty, fiscal constraints, and human capital development gaps remain key obstacles to sustainable growth. To stay ahead, both policymakers and the private sector must adopt a forward-thinking approach, balancing risk management with opportunity-seeking strategies.

Business leaders and policymakers must align national strategies with global trends to ensure Indonesia remains competitive and resilient. The government needs private sector support, while businesses' aspirations must also be heard. Together, strengthening economic fundamentals, diversifying trade partnerships, and advancing digital transformation will be essential to positioning Indonesia for sustained success.

This report is structured into three key sections, each providing an analysis of critical factors shaping the year ahead. It examines the evolving global landscape, where shifting geopolitical and economic forces create both risks and opportunities; the national economic outlook, which highlights Indonesia's ambitions, challenges, and growth prospects; and the strategic course Indonesia must take, outlining the necessary policies, reforms, and collaborations required to ensure resilience and sustained growth in an increasingly complex world.

World Outlook: Navigating Global Rough Seas

This section explores the shifting global landscape that will define 2025, highlighting key geopolitical, economic, and technological trends. Geopolitical tensions, evolving trade policies, and rapid technological advancements are reshaping global markets, creating both risks and opportunities. The rise of "America First" 2.0, the continued economic decoupling between the US and China, and instability in the Middle East will impact global trade and investment flows. Meanwhile, China's strategic focus on boosting domestic demand will alter supply chain dynamics, forcing economies like Indonesia to reassess trade relationships. This section will also analyze the role of AI adoption, the potential burst of the AI bubble, and the increasing relevance of Bitcoin as a strategic reserve, all of which are expected to influence financial markets and business strategies.

National Outlook: An Uphill Journey for Indonesia's Ambitious Goals

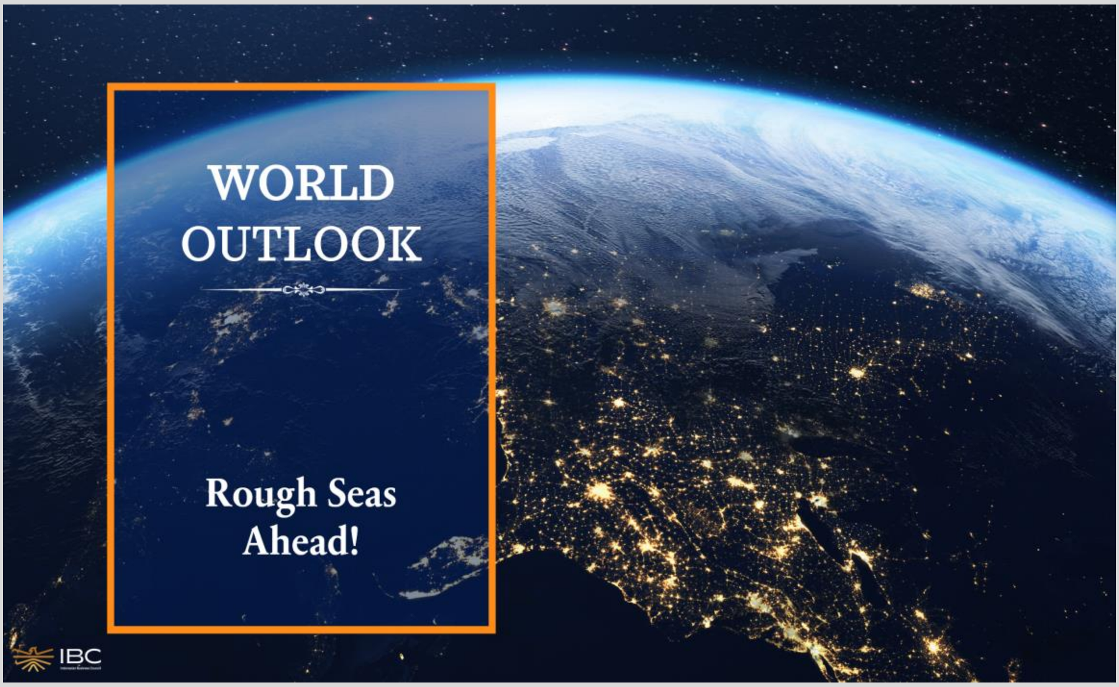
This section provides a deep dive into Indonesia's economic landscape, examining the government's ambitious targets and the domestic challenges that lie ahead. With goals such as 8% GDP growth, eliminating extreme poverty, reducing stunting, expanding renewable energy, and strengthening industrial downstreaming, Indonesia has set a high bar for economic progress. However, this section will also address the significant hurdles the country faces, including weakening consumer purchasing power, fiscal constraints, bureaucratic inefficiencies, and a struggling industrial sector. Additionally, human capital development and infrastructure limitations present ongoing challenges. Through this analysis, the report will highlight the critical policies and strategies needed to maintain economic momentum and achieve sustainable growth.

The Course Ahead: A Call for Collective Action

This section outlines the strategic actions necessary for Indonesia to navigate both global uncertainties and domestic economic challenges. The government is expected to focus on strengthening alliances and attracting investment, both of which will require strong collaboration between the public and private sectors. This section will also incorporate IBC's recommendations, emphasizing the need for bureaucratic reform to enhance the ease of doing business, reduce red tape, and improve efficiency. Additionally, IBC advises the government to prioritize innovation, particularly in the green economy sector, which can play a crucial role in shaping Indonesia's future. By presenting key policy recommendations and business opportunities, this section serves as a guide for stakeholders seeking to contribute to Indonesia's economic transformation.

CHAPTER 2

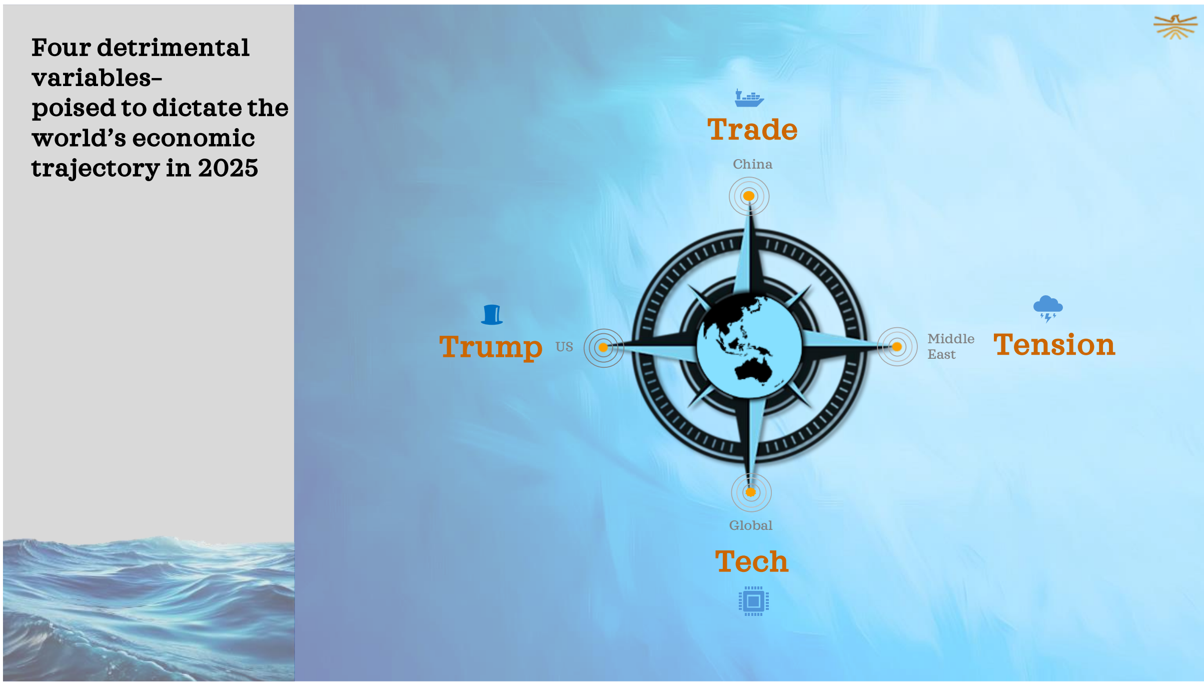
WORLD OUTLOOK



This chapter explores key external factors that will shape Indonesia's economic outlook. From the impact of U.S. protectionism and China's evolving trade strategy to regional instability and the rapid advancement in the field of technology, understanding these dynamics is crucial.

Indonesia's economic trajectory in 2025 will be shaped by an intricate web of external forces—each with far-reaching implications for trade, investment, and financial stability. At the heart of these disruptions are four dominant variables: the return of Trump-era economic policies, China's evolving trade and industrial strategies, escalating geopolitical tensions in the Middle East, and the accelerating impact of technological innovations. These forces are not isolated but deeply interconnected, influencing supply chains, capital flows, and economic policies in ways that could redefine Indonesia's role in the global economy.

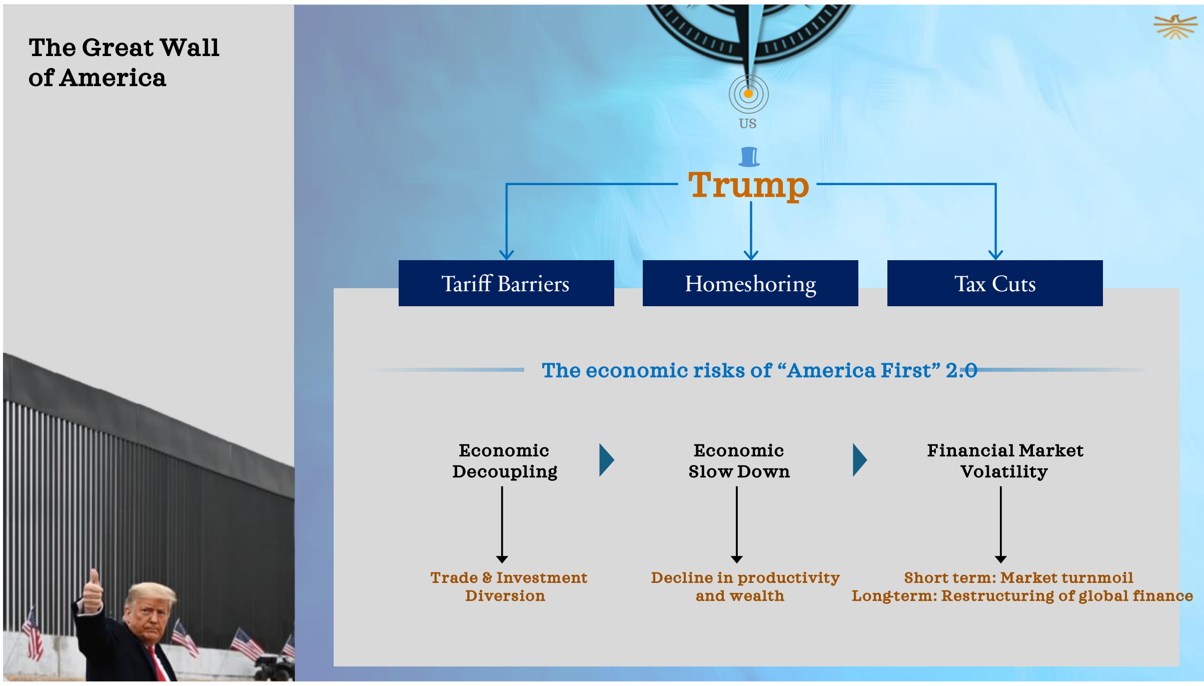
The resurgence of U.S. protectionism under Trump is expected to trigger a new wave of trade barriers, reshoring initiatives, and fiscal policies that could divert capital from emerging markets. Indonesia, as a key player in global trade, must contend with potential disruptions in its export markets, foreign direct investment inflows, and currency stability. Meanwhile, China's shifting trade strategy—marked by increased regional investments and a push for domestic consumption—presents both opportunities and threats, particularly for Indonesian industries competing with low-cost Chinese goods.



Beyond trade, the Middle East remains a persistent source of global instability, with regional conflicts threatening critical supply chain routes and financial markets. Meanwhile, the rapid evolution of artificial intelligence and blockchain technologies is reshaping global finance and production, with Indonesia needing to navigate the balance between technological adoption and regulatory oversight.

The following sections delve into these four critical variables, analyzing the developing situation and its possible ramifications for Indonesia's landscape

2.1. TRUMP



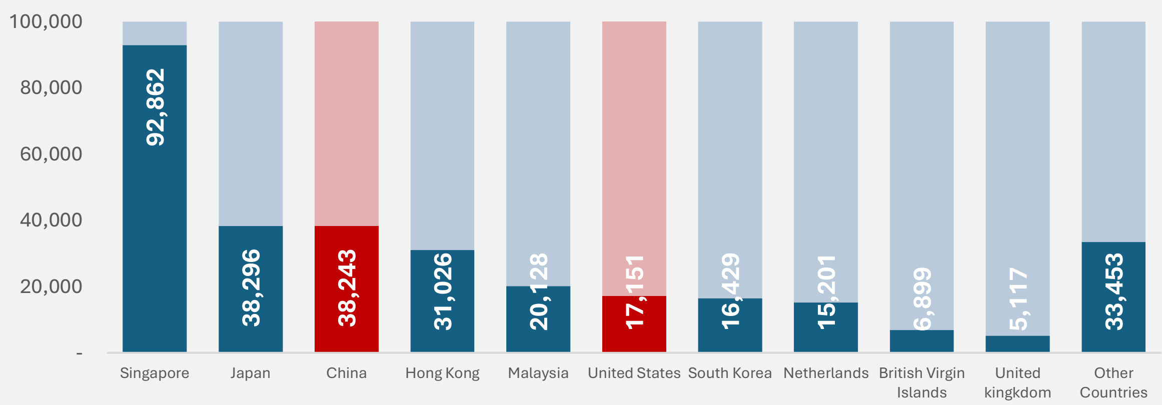
Trump's Return and Its Global Economic Repercussions

The first significant force influencing the global economic landscape is the return of Donald Trump to the U.S. presidency for a second term. As the leader of the world's largest economy, his administration is expected to continue implementing policies that are assertive and, at times, difficult to predict. Prior experiences during his first term demonstrated the potential for sudden changes in trade policies, including the imposition of tariffs, sanctions, and shifts in international agreements. Moving forward, these policies are anticipated to introduce new challenges to global markets, with potential disruptions affecting Indonesia's export performance, financial markets, and trade stability.

A key element of Trump's economic strategy is centered on a protectionist approach referred to as "*America First*." This approach is not limited to border security measures, as was shown in his first term towards the U.S. southern border, but extends to broader economic protectionism. Under this framework, the administration aims to prioritize domestic economic growth by protecting U.S. industries from foreign competition through various mechanisms, including tariffs and incentives for local production.

The United States remains a crucial economic partner for Indonesia, serving as one of the country's largest sources of foreign direct investment (FDI). Between 2014 and 2023, U.S. private investment in Indonesia generated an estimated economic impact of $130 billion, driven by direct investments totaling $67 billion.[1] These investments have significantly contributed to key sectors such as manufacturing, energy, and services, underscoring the depth of economic ties between the two nations.

Figure 2.1. **Indonesia's Top 10 Foreign investors, 2014 – 2023 (in $ Million)**[2]



The United States and China are among the 10 largest investing countries in Indonesia during the 2014-2023 period.

However, Trump's "America First" agenda, characterized by higher tariffs, reshoring of industries, and tax incentives favoring U.S.-based businesses, raises concerns about the sustainability of this investment relationship. Policies encouraging U.S. firms to relocate operations back home or prioritize domestic supply chains could reduce future investment flows to emerging markets, including Indonesia. Furthermore, trade

[1] USAID, 2024
[2] AmCham Indonesia, 2024

frictions stemming from protectionist measures may pose additional risks to Indonesia's export-driven industries, particularly in sectors reliant on access to the U.S. market.

Key Policy Elements Impacting Global Trade

Protectionist policies like—tariffs, reshoring, and tax cuts—implemented by US could reshape global trade and investment. The following table highlights these critical areas and their projected effects on Indonesia's economic trajectory.

Tariff Barriers	**The continuation of high tariffs, both on Chinese imports and probably expanded towards other regions, remains a central component of Trump's protectionist stance.** The U.S. previously imposed tariffs on $360 billion worth of Chinese imports, and experts predict that Trump's administration will maintain or expand this policy to further pressure China.[3] This economic decoupling is expected to disrupt established global supply chains, forecasted between 2.8% and 3.3%, creating trade tensions that could indirectly affect Indonesia.[4,5] For instance, Indonesia's key exports, such as palm oil and rubber, may face reduced global demand or competition as trade patterns shift.
Homeshoring	**The reshoring of manufacturing back to the U.S. is designed to strengthen domestic industries but could reduce global demand for intermediate goods, particularly from emerging markets.** Indonesia's export-oriented sectors—textiles, electronics, and automotive—are at risk of experiencing declining orders. As U.S. companies prioritize local suppliers, Indonesian manufacturers could see reduced growth opportunities, potentially slowing the country's industrial progress.
Tax Cuts	**Tax Cuts and Job Act (TCJA), reminiscent of Trump's first term, are intended to attract domestic investment but can trigger capital outflows from emerging markets.** The 2018 TCJA lowered U.S. corporate tax rates from 35% to 21%, driving $777 billion in capital inflows to U.S. businesses.[6] While this reform has a limited direct impact on Indonesia, Tax Cuts 2.0—a potential extension or expansion of the TCJA—could increase capital outflows, currency depreciation, and borrowing costs.

The interconnected global financial system allows U.S. tax policy changes to impact emerging markets like Indonesia rapidly. Corporate tax cuts in the U.S. attract capital inflows, reducing Indonesia's ability to secure foreign investments crucial for infrastructure, energy, and industrial development, potentially slowing economic growth. Capital outflows also place downward pressure on the rupiah, raising import costs and making debt repayments more expensive.

In the longer term, prolonged capital outflows and currency depreciation could exacerbate structural economic vulnerabilities. Rising external debt obligations and borrowing costs could reduce fiscal flexibility, limiting the government's ability to maintain spending on infrastructure, education, and social

[3] BBC News, 2025
[4] UN, 2024
[5] IMF, 2025
[6] FEDS, 2019

welfare programs. If left unchecked, this financial instability could erode investor confidence, further compounding the challenges Indonesia faces on its development path.

2.2. TRADE

China's Role in Global Trade and Implications for Indonesia

The second major force influencing the global economy revolves around trade dynamics, with China maintaining its role as the "factory of the world." As Indonesia's largest trading partner, China has been both a critical source of opportunity and a challenge. Chinese investments, including $20.3 billion from the Belt and Road Initiative, have fueled major infrastructure growth, positioning China among Indonesia's top 10 investors (Figure 2.1). However, many Indonesian businesses, particularly SMEs, face difficulties competing against the influx of low-cost Chinese goods.

This trend is expected to escalate as China redirects its exports away from Western markets, such as the U.S. and the European Union (EU), toward regions like Southeast Asia. Heightened geopolitical tensions, particularly the decoupling of U.S.-China trade relations, have created an over production within China, leading to larger inventories and increased exports at competitive prices. This poses challenges to local industries, especially in sectors such as textiles, electronics, and consumer goods, where Chinese products have gained significant market share.

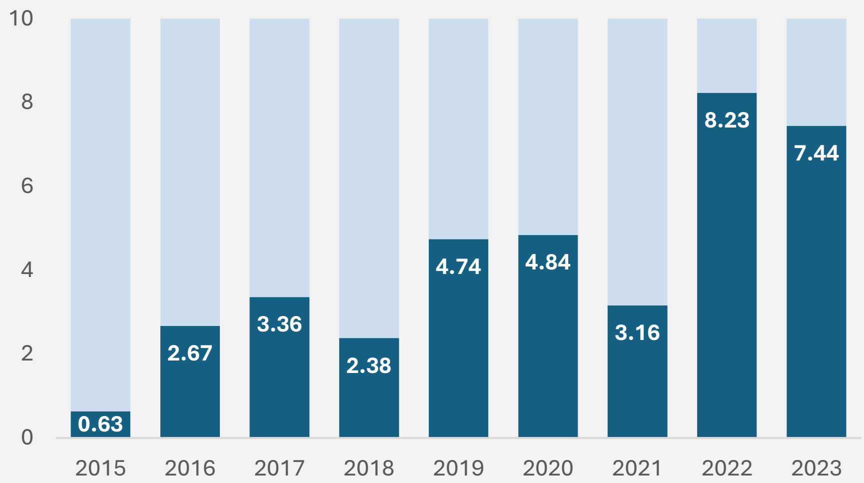
China's internal policy shifts, particularly the "Expand Domestic Demand on All Fronts" initiative, potentially transforming global trade patterns with major implications for Indonesia. Historically, when China increases domestic consumption, it stimulates global commodity demand, driving up prices and affecting markets worldwide. As China undertakes this transition, its influence on global supply chains and regional markets is likely to remain a key focus for Indonesia and other trading partners.

Key Factors Driving Trade Risks and Opportunities

China's shifting trade direction and domestic policy adjustments are reshaping regional markets and global economic flows, presenting both benefits and risks for Indonesia. The table below outlines key developments, including increased Chinese exports and investments in Southeast Asia and rising domestic consumption, along with their potential effects on Indonesia's economic performance.

Influx of Chinese goods and investments	**As China redirects its exports and investments toward non-Western markets, Southeast Asia has emerged as a primary destination.** In the past decade, ASEAN's goods trade with China more than doubled, reaching $722 billion in 2022 and comprising nearly 20% of ASEAN's total global trade.[7] This expansion reflects China's strategy of redirecting exports to regional markets, creating opportunities and risks for Indonesia. **While Chinese investments have improved Indonesia's infrastructure, the influx of cheap imports, especially in textiles and electronics, poses significant challenges.** SMEs, which form 99% of Indonesia's businesses, are particularly vulnerable due to limited technological capacity and financial resources, leading to declining market shares and potential job losses.[8]

Figure 2.2. **Realized Foreign Direct Investment from China in Indonesia (in $ Billion)**[9]



Realized Foreign Direct Investment (FDI) from China in Indonesia increased significantly from $0.63 billion in 2015 to a peak of $8.23 billion in 2022

However, this shift also presents a significant opportunity— as China pivots toward ASEAN, its investment in Indonesia could grow substantially, not just in infrastructure but also in manufacturing and industrial production. With the

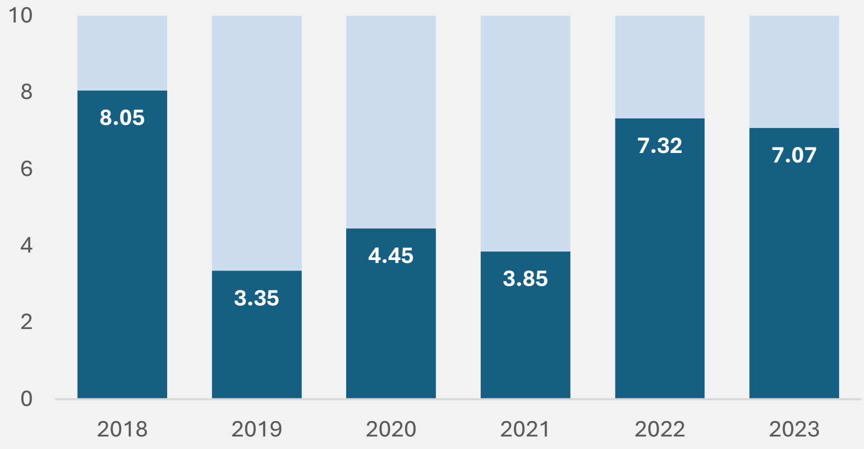
[7] ASIA Society, 2023
[8] ANTARA News, 2023
[9] BPS, 2023

right strategy, policy framework, and negotiation, Indonesia could position itself as a key production hub for Chinese industries seeking to relocate, creating jobs, boosting local supply chains, and enhancing industrial capabilities. The challenge for Indonesia will be to leverage this shift to attract high-quality investments from China that can make the trend shown in Figure 2.2 even stronger going forward.

Expansion of China's domestic demand

China's "Expand Domestic Demand on all Fronts" policy presents both benefits and risks for Indonesia. With household consumption in China accounting for only 39% of GDP compared to 68% in the U.S. and 52% in the EU, there is considerable room for growth.[10] This shift presents immediate benefits for Indonesia's exports, mainly for commodity and agricultural products, with China being the largest buyer of Indonesian coal (20%) in 2023 and palm oil (14%) in 2022.[11,12]

Figure 2.3. **Foreign Direct Investment Outflows from Indonesia (in $ Billion)**[13]



FDI outflows from Indonesia declined after 2018, stabilizing around $7 billion in 2022-2023

However, as China's domestic demand grows, making it a more attractive market, capital investments that might have otherwise been directed to Indonesia could instead be redirected to China itself. This shift could see both foreign investors and Indonesian businesses prioritizing opportunities within China's expanding consumer market, potentially leading to reduced investment inflows into Indonesia's industrial and infrastructure sectors.

While China's trade and investment trends are not the only forces shaping regional economic dynamics, they remain at the epicenter of change. The ongoing tariff wars, rising protectionism, and economic realignments are affecting nations across the globe, forcing them to reassess their trade and

[10] The Global Economy, 2023
[11] S&P Global, 2024
[12] Trase, 2024
[13] Statista, 2024

investment strategies. Indonesia is no exception—it must carefully calculate its position, balancing the risks and opportunities that come with China's shifting economic priorities.

As global and regional landscapes continue to evolve, business leaders, policymakers, and experts must convene to formulate a comprehensive strategy. Indonesia must not only anticipate and respond to these shifts but also proactively shape its approach to ensure that it remains competitive in securing trade advantages and investment flows. The coming years will demand agility, strategic foresight, and strong collaboration to navigate this complex economic environment effectively.

2.3. TENSIONS

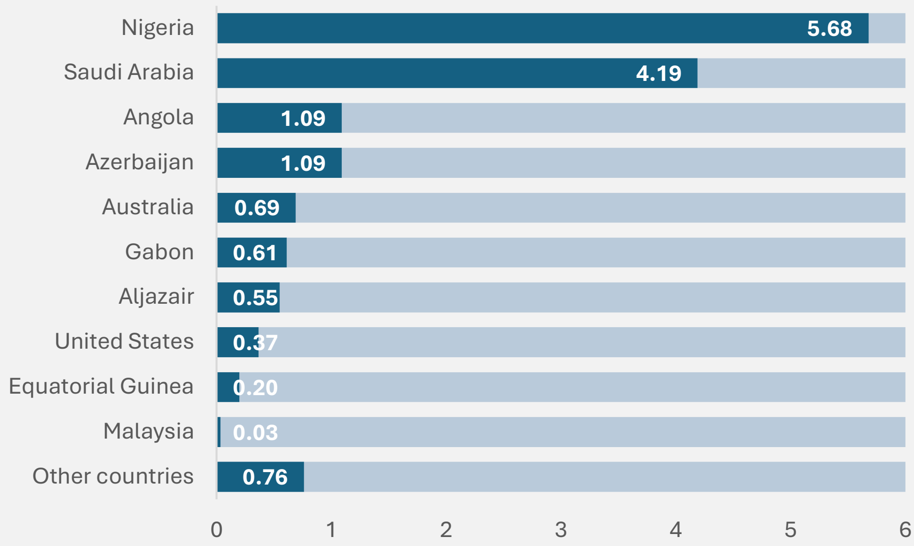
Middle Eastern Conflicts and Their Global Impact

Regional tensions represent the third critical force shaping global stability, with the Middle East remaining a focal point of concern. As of early 2025, the region continues to experience heightened conflict despite temporary relief from recent ceasefire agreements, such as the Gaza ceasefire deal. However, the fragility of this peace is evident, with multiple international bodies—including the International Crisis Group—highlighting the risk of conflict escalation, particularly in areas involving Israel, Iran, and other key actors. The newly signed Russia-Iran strategic partnership treaty has momentarily reduced the threat of direct aggression toward Iran, but deep-rooted geopolitical rivalries remain unresolved.

The Middle East's global significance lies not only in its political volatility but also in its critical role in the world's energy markets. Vital chokepoints, including the Strait of Hormuz, Bab el-Mandeb, and the Suez Canal, are key transit routes for global oil and gas supplies. The Strait of Hormuz alone accounts for nearly 30% of world-traded oil flows, with 70% of that volume destined for Asian markets, including

Indonesia.[14] Any disruption to this passage could trigger a cascade of consequences, including sharp oil price increases and disrupted global supply chains. Moreover, the spillover effects of Middle Eastern conflicts, especially through maritime routes, may exacerbate tensions in regions like the South China Sea, further complicating Indonesia's trade routes and maritime security interests.

Figure 2.4. **2022 Indonesia's Crude Oil Import Volume by Country of Origin (in Million Ton)**[15]



Indonesia imported 15.26 million tons of crude oil, with Nigeria supplying 5.68 million tons (37%) and Saudi Arabia 4.19 million tons (27.5%)

Key Areas of Disruption

Geopolitical tensions and market uncertainties pose serious risks to Indonesia's economic stability. The table below highlights key concerns, including supply chain disruptions and capital outflows, and their potential impacts on the country's financial and industrial performance.

Supply Chain Disruption	**Indonesia, relying on over 30% of its crude oil from the Middle East, is highly vulnerable to disruptions from regional tensions.**[16] Any conflict escalation could increase global oil prices, leading to higher production and transportation costs domestically. Sectors such as manufacturing and logistics would face inflationary pressures, ultimately impacting household purchasing power and slowing economic growth. **Indonesian businesses must assess their reliance on specific suppliers and explore diversification strategies to mitigate risks.** Identifying alternative sourcing options, investing in domestic supply chain resilience, and securing long-term trade agreements will be key to ensuring business continuity.

[14] IEA, 2023
[15] Katadata, 2023
[16] Idem

Another important consideration is restructuring trade partnerships. With shifting global alliances – such as the BRICS, Indonesia has the opportunity to strengthen regional supply chains and renegotiate trade terms with key partners. Companies must also evaluate the feasibility of alternate trade routes and logistics adjustments to avoid costly disruptions.

Additionally, rising transportation costs and potential tariffs may increase input prices, requiring businesses to develop strategies for absorbing or passing on costs to customers effectively. Managing these risks proactively will determine whether businesses can sustain operations amid supply chain volatility.

Market Volatility

Geopolitical conflicts often drive investors to shift capital into safe-haven assets like U.S. Treasury bonds and gold, triggering capital outflows from emerging markets, including Indonesia. In November 2024, foreign investors withdrew $1.06 billion from Indonesian equities, contributing to a $15.88 billion net outflow from key Asian markets amid concerns over U.S. trade policies and a strengthening dollar.[17] Heightened geopolitical risks, particularly in the Middle East, have further raised global risk premiums, weakened financial markets, and increased borrowing costs, putting pressure on Indonesia's currency and fiscal stability.

Figure 2.5. **Indonesian Rupiah Exchange Rate to USD[18]**

The Indonesian Rupiah has experienced significant depreciations during major financial crises—such as the 1997-98 Asian Financial Crisis, the 2008 Global Financial Crisis, and the 2020 COVID-19 pandemic.

Fluctuations in exchange rates – or currency risk - can affect import costs, profit margins, and financial planning. Companies must consider implementing currency hedging strategies and diversifying revenue streams to mitigate potential losses. Additionally, businesses may consider reevaluating their target markets by focusing on

[17] Reuters, 2024
[18] Investing 2025

regions or sectors that are less exposed to geopolitical tensions and financial instability. Being adaptable in market selection and risk assessment will be crucial in navigating economic uncertainties.

Periods of regional instability—such as the 2011 Arab Spring and the 2019 Gulf tensions—have historically demonstrated how quickly external shocks can destabilize economies. The current geopolitical landscape presents similar risks, with ongoing conflicts and trade disruptions threatening global supply chains, financial markets, and investor confidence. Indonesia must take decisive steps to mitigate these risks, ensuring that the ripple effects of global instability do not undermine national economic stability.

One critical area of focus should be the ramifications of ongoing conflicts on the East Asian region. As a key trade hub, Indonesia must assess potential vulnerabilities in its economic linkages with China, Japan, and South Korea—particularly in energy security, manufacturing supply chains, and capital flows. Strengthening regional trade alliances, securing diversified investment channels, and enhancing domestic production capabilities will be essential in building long-term resilience.

For businesses, strategic adaptability is crucial. This includes diversifying supply chains, employing financial risk mitigation strategies, and engaging in proactive worst-case scenario planning to prepare for market fluctuations. Policymakers, in turn, must foster an economic environment that promotes investment stability, regulatory clarity, and trade diversification.

2.4. TECHNOLOGY

Technological Innovation and Its Role in Global Competitiveness

Finally, Technology continues to act as a critical force reshaping industries, economies, and societal norms globally. In 2025, the rapid evolution of technologies—particularly artificial intelligence (AI) and cryptocurrencies—is expected to create profound shifts, posing both opportunities and challenges for nations like Indonesia. As AI revolutionizes productivity, efficiency, and innovation across multiple sectors, cryptocurrencies are simultaneously challenging traditional financial systems and introducing new dimensions of volatility.

AI and cryptocurrencies are transforming industries and financial systems, presenting both opportunities and challenges for emerging markets. AI holds the potential to revolutionize industries by automating labor-intensive processes, optimizing production, and driving innovation in sectors ranging from healthcare to manufacturing. However, AI's deployment demands robust digital infrastructure and sustainable energy supplies—areas where Indonesia faces stiff competition from neighboring countries like Malaysia and Singapore. Meanwhile, cryptocurrencies are redefining financial landscapes by offering alternatives to traditional banking systems, but their volatility threatens to destabilize emerging markets that lack comprehensive regulatory frameworks.

The interplay between these two technological forces underscores the complexity of balancing growth and stability. As Indonesia embraces digital transformation, its ability to leverage opportunities while managing risks will be central to its success in this increasingly digitized global environment.

Key Technological Drivers

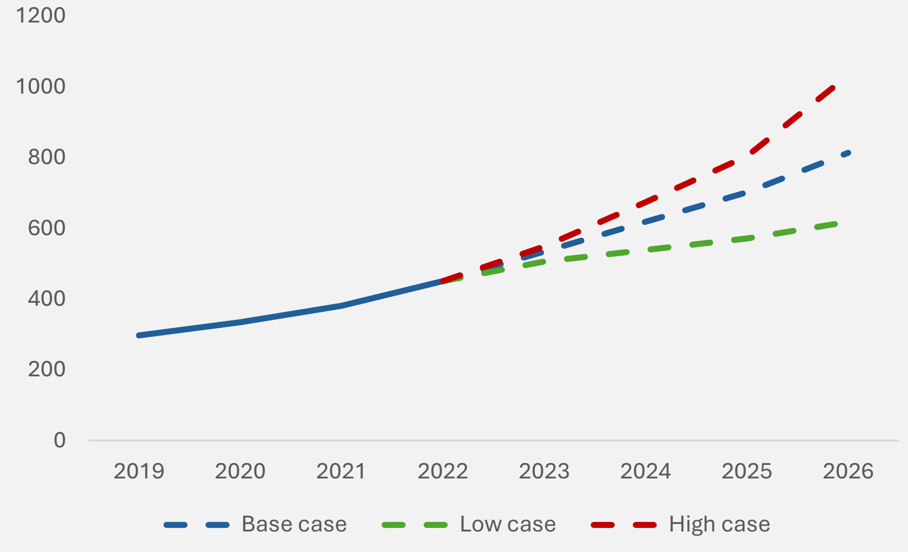
Technological innovations like AI and cryptocurrencies are reshaping industries and financial markets, offering growth potential but also introducing new risks for Indonesia. The table below highlights AI's impact on productivity and innovation, along with the challenges posed by cryptocurrency volatility to the nation's financial stability.

Artificial Intelligence	**Nations with advanced digital ecosystems will progress faster, widening the digital divide.** AI's global computational needs are expected to grow tenfold by 2026 compared to 2023, as shown in Figure 2.6. Projected to automate 45% of tasks across key sectors like healthcare, manufacturing, and retail by 2030, AI offers significant productivity gains, such as reducing machine downtime by 15%. In medical, for example, AI helps in lowering sepsis-related mortality rates by 20% at Johns Hopkins hospitals[19,20,21]**.** With Indonesia still catching up in data centers, connectivity, and low digital literacy at 3.54 in 2022, its competitiveness could be at risk.[22]

[19] McKinsey, 2016
[20] Deloitte, 2022
[21] JHU, 2022
[22] Komdigi, 2024

AI's global computational needs are expected to grow tenfold by 2026 compared to 2023, with electricity demand potentially exceeding 1,000 TWh, highlighting the need for sustainable energy expansion to support AI and crypto-driven digital growth.[23]

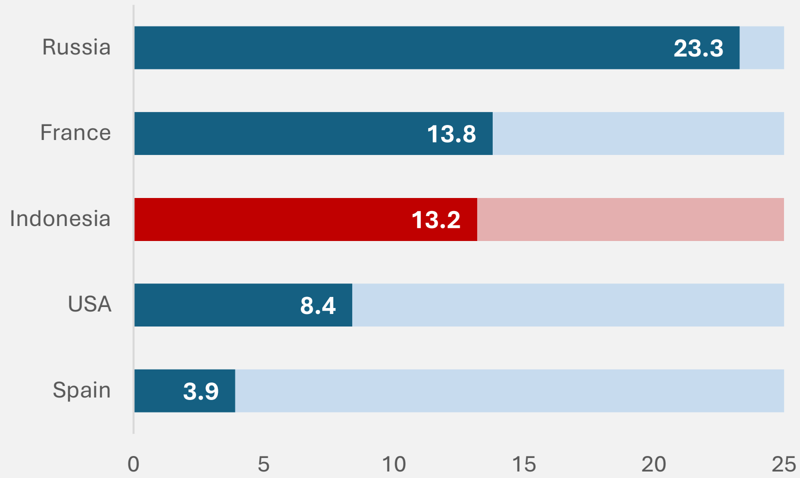
Figure 2.6. **Global electricity demand from data centres, AI, and cryptocurrencies, 2019-2026 (in TWh)**[24]



Indonesia faces growing AI security threats that demand urgent attention as the rapid advancement of AI in 2025 introduces new risks. The rise of deepfake scams and AI-generated misinformation could be exploited to manipulate elections, spread disinformation, or conduct large-scale financial fraud. Meanwhile, AI-powered cyberattacks present growing dangers to Indonesia's digital economy, with hackers using automated systems to breach financial institutions, disrupt digital transactions, and compromise government databases. The WEF Global Cybersecurity Outlook 2025 highlights that ransomware remains one of the top cyber threats, with 45% of organizations ranking it as a major concern, while AI-driven cyberattacks continue to amplify risks.[25] Additionally, supply chain vulnerabilities are increasing, with 54% of large organizations identifying third-party risk management as their biggest cybersecurity challenge.[26] In Indonesia, these challenges are further compounded by a digital safety score of 3.12 and multiple large-scale data breaches that have attracted international attention, as shown in Figure 2.7.[27] Without stronger cybersecurity measures and AI governance, these vulnerabilities could erode investor confidence, hinder digital transformation, and threaten national security.

[23] IEA, 2024
[24] Idem
[25] WEF, 2025
[26] Idem
[27] Komdigi, 2024

Figure 2.7. **2022 Number of Data Breaches (Accounts in Millions)**[28]



Indonesia ranks third globally in data breaches after Russia and France, with 13.2 million compromised internet user accounts, highlighting severe cybersecurity vulnerabilities

As AI investment surges, the risk of an AI bubble burst grows, driven by inflated valuations and unrealistic ROI expectations. Many companies chase rapid scalability, but technological, regulatory, and financial barriers may slow adoption and revenue generation. Meanwhile, AI technology continues to evolve, introducing the potential for a black swan event or an unforeseen alternative breakthrough that could disrupt current AI models and reshape the market. A market correction could expose unsustainable business models, forcing investors to prioritize tangible value, strong monetization, and long-term viability. The coming years will distinguish true innovation from speculation, shifting focus toward real-world applications and sustainable growth over hype-driven investments.

Cryptocurrency

Bitcoin's market capitalization surpassed $2 trillion by end of 2024, driven by increased institutional and sovereign adoption, with its value surpassing the $100,000 mark.[29] Over the past decade, from 2011 to 2021, Bitcoin achieved an average annual return of 230% despite its volatility, significantly outperforming gold, which returned -0.25%, and rivaling the S&P 500's 277% total return, making it an attractive yet high-risk investment option.[30] As its significance grows, IBC sees Bitcoin can play a transformative role in 2025, triggering shifts in economic models and financial assumptions at both the firm and sovereign levels. For investors seeking higher returns or value hedging against inflation and turmoil, Bitcoin may cause capital crowding-out effects, diverting investments from traditional assets including the widely known safe haven such as Gold. For sovereign nations, we anticipate more governments opening up to and regulating crypto trade, while also exploring the diversification of their strategic reserves to include Bitcoin.

[28] Bisnis, 2024

[29] CoinMarketCap, 2025

[30] Nasdaq, 2021

Indonesia's technological future hinges on its ability to balance opportunities and risks amid the rapid global digital transformation. In 2025, AI offers the potential to drive industrial transformation and economic growth, but success will depend on overcoming challenges related to infrastructure, energy supply, and workforce readiness. Meanwhile, in cryptocurrency, the emerging Bitcoin brings a new dynamic to the financial system and the economy in general that Indonesia must closely monitor and adapt. To secure long-term growth and resilience, Indonesia must navigate this complex and interdependent technological environment with strategic moves.

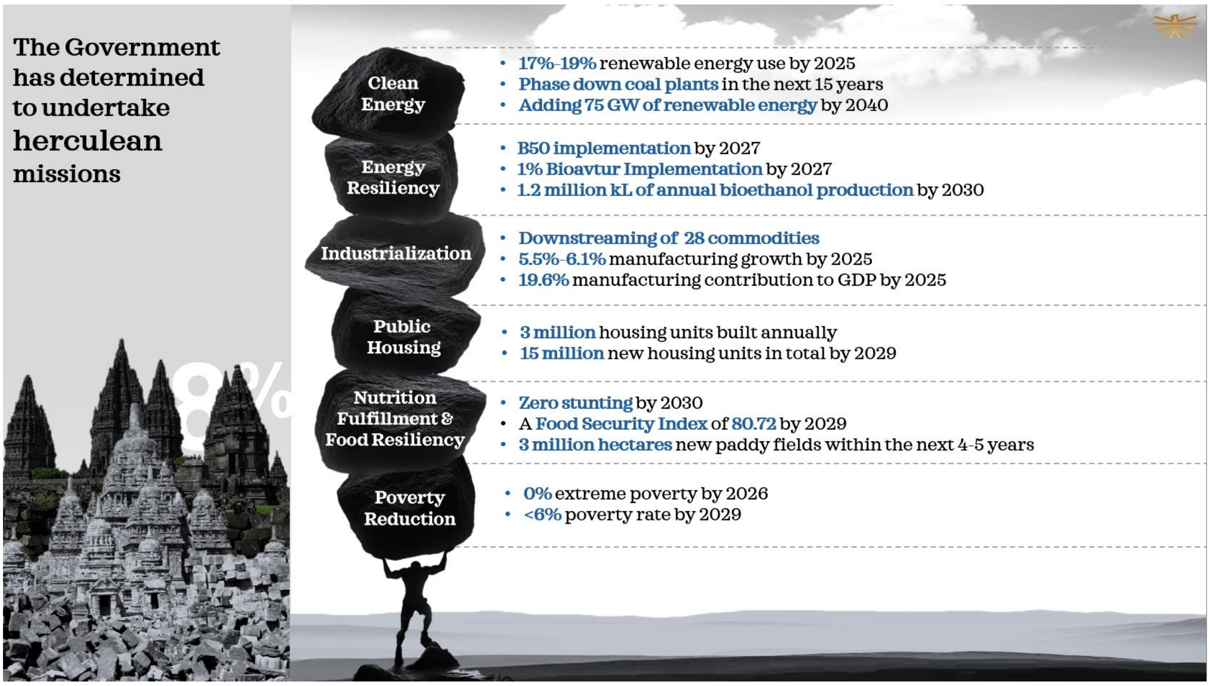
CHAPTER 3

NATIONAL OUTLOOK

Despite global uncertainties, Indonesia enters 2025 with a renewed agenda—a commitment to achieve significant progress across critical sectors, supporting Indonesia's path toward becoming a high-income, globally competitive nation. These initiatives target key pillars such as energy sustainability, industrial growth, extreme poverty elimination, and food security, with clearly defined objectives and strategies. However, the realization of these ambitions is increasingly challenged by structural weaknesses that threaten to undermine economic resilience and long-term growth.

This chapter explores the key challenges that could impact Indonesia's economic trajectory. Understanding these issues and their implications will help policymakers and stakeholders anticipate potential risks and support informed decision-making for sustainable growth.

3.1. HERCULEAN MISSION



Centuries ago, Indonesia's ancestors built magnificent *candis* (temples)—not in a matter of years, but in decades, with meticulous planning, unwavering commitment, and collective effort. Each stone was carefully placed, knowing that the final structure would stand as a testament to their vision and perseverance.

Today, Indonesia's government has set forth a similarly ambitious and transformative agenda as part of its broader vision to achieve Indonesia Emas 2045—a goal of becoming a high-income, globally competitive nation by its centennial year. Central to this vision is breaking free from the middle-income trap, a challenge that has constrained many developing economies. The targets are bold: 8% GDP growth, 17-19% renewable energy usage by 2025, the phase-down of coal plants, the construction of 15 million new housing units by 2029, and the downstreaming of 28 key commodities. Social initiatives such as eradicating extreme poverty by 2026 and achieving zero stunting by 2030 further demonstrate the scale of the challenge. Achieving these milestones will require sustained economic transformation, institutional resilience, and the ability to adapt to global and domestic challenges, making effective policy execution more critical than ever.

The difference now is that time is not a luxury. Unlike the *candis* that took generations, these Herculean goals must be achieved in just a few years. To understand the magnitude of these tasks, below is some of the heavy duty that the government has pledged to accomplish:

Clean Energy Transition

Indonesia seeks to increase the share of renewable energy in its national energy mix to 17%-19% by 2025.[31] To meet growing demand and ensure a secure energy future, the government targets the addition of 75 GW of new clean energy capacity by 2040.[32] This expansion will involve investments in solar, wind,

[31] IESR, 2024
[32] S&P Global, 2024

hydropower, and geothermal projects. Additionally, the government plans to phase down coal plants over the next 15 years, aligning with its commitment to reduce carbon emissions and transition to cleaner energy sources.[33]

Energy Resiliency and Biofuel Production

Energy self-sufficiency remains a top priority for Indonesia due to its exposure to fluctuating global fuel prices. The implementation of B50 biofuel (a blend of 50% palm oil-based biodiesel with petroleum diesel) is expected to reduce fossil fuel imports while supporting the domestic palm oil industry. By 2030, the government aims to produce 1.2 million kiloliters (kL) of bioethanol, providing an alternative renewable fuel source for the transportation and industrial sectors.[34] Additionally, Kementerian Energi dan Sumber Daya Mineral (ESDM) targets the implementation of a 1% bioavtur blend for aviation fuel by 2027, signaling a shift toward cleaner aviation energy.[35]

Industrialization and Economic Diversification

The government aims to expand its industrial base by downstreaming operations from nickel to include 28 additional strategic commodities, such as copper, bauxite, and rare earth elements. This comprehensive downstreaming strategy not only seeks to diversify the nation's industrial output but also aims to boost economic resilience by reducing exposure to global commodity price fluctuations. As part of this strategic effort, the government targets 5.5%-6.1% annual manufacturing growth by 2025 and aims to increase the manufacturing sector's contribution to GDP to 19.6% by the same year marking a significant step toward transforming Indonesia into a more competitive, industrially-driven economy.[36]

Public Housing Development

With a backlog of 12.7 million housing units, Indonesia faces a critical need to provide adequate, affordable housing for its population.[37] To address this pressing issue, the government has set an ambitious target to construct 3 million new housing units annually from 2025 onward, aiming for a total of 15 million new housing units by 2029.[38] This initiative includes developing low-cost housing programs, improving access to mortgage financing for low-income families, and incentivizing the private sector to invest in large-scale housing projects.

Nutrition and Food Security

The government is committed to achieving zero stunting by 2030, recognizing the long-term impact of childhood malnutrition on human capital development.[39] The government has set additional targets, including achieving a Food Security Index of 80.72 by 2029 and expanding 3 million hectares of new paddy fields within the next 4-5 years.[40,41] Initiatives to improve maternal and child nutrition, expand access to healthcare, and fortify staple foods with essential

[33] AP News, 2024
[34] The Jakarta Post, 2024
[35] Bloomberg, 2024
[36] Bisnis, 2024
[37] Statista, 2023
[38] BBC News, 2025
[39] BKKBN, 2024
[40] Kompas, 2024
[41] VOI, 2024

nutrients are being prioritized as key measures in reducing stunting. The expansion of paddy fields is expected to bolster rice production and reduce dependency on imports, strengthening national food security.

Poverty Reduction and Economic Inclusion

Indonesia is determined to eradicate extreme poverty and significantly reduce overall poverty through bold, targeted measures. With a goal of achieving 0% extreme poverty by 2026 and lowering the overall poverty rate to below 6% by 2029, the country's poverty reduction strategy is aligned with its commitments to the SDGs.[42] Inspired by China's success in lifting 800 million people out of poverty over 40 years, Indonesia recognizes that with effective policies, similar progress is within reach.[43] Sustained poverty reduction will drive productivity, foster innovation, and strengthen resilience against economic shocks. This effort is not only a moral obligation but also a strategic move to unlock human capital, reduce regional disparities, and position Indonesia as a globally competitive and prosperous nation.

The above Herculean goals reflect Indonesia's bold ambition to transform its economy, uplift its people, and lay the groundwork for a prosperous future. However, ambition alone does not guarantee success—execution will be the true test. Just as Indonesia's ancestors once embarked on monumental projects to build majestic *candis*, not all were completed, and not all withstood the test of time. Some were abandoned due to lack of resources, weak foundations, or shifting priorities, fading into history as mere remnants of unfulfilled visions.

Yet, those that were completed stand tall even today, serving as beacons of life, culture, and resilience for generations. They were not just physical structures but symbols of vision, perseverance, and collective effort. The mission Indonesia faces now—achieving 8% GDP growth, industrial downstreaming, clean energy expansion, and social transformation—is no less daunting. Like the *candis* of the past, these efforts require meticulous planning, consistency in execution, and strong collaboration between the government, private sector, and communities.

[42] Jakarta Globe, 2024
[43] World Bank, 2022

3.2. UPHILL JOURNEY

Indonesia's path to economic transformation will not be easy nor will it be straightforward. While the country has set ambitious goals for growth and development, it must first overcome significant structural challenges. Just as a climber must prepare for steep inclines and shifting conditions, Indonesia must navigate the **complex realities of industrial decline, weakening consumer power, fiscal constraints, human capital struggles, and bureaucratic inefficiencies** that make the climb even steeper.

Each of these challenges adds to the difficulty of Indonesia's uphill journey. A shrinking industrial base threatens long-term competitiveness, while weaker consumer purchasing power could slow economic momentum. At the same time, fiscal constraints limit the government's ability to fund key initiatives, human capital issues impact workforce readiness, and bureaucratic inefficiencies create roadblocks to progress. Without strategic interventions, these factors could stall Indonesia's climb toward its ambitious goals.

3.2.1. Declining Industrial Capacity

Indonesia's industrial sector is experiencing a decline since 2010, threatening the nation's economic stability and global competitiveness. Historically, manufacturing has been the backbone of Indonesia's economy, driving job creation and exports. However, the sector has suffered from chronic underinvestment, low productivity, and inefficient resource allocation, making it vulnerable to global competition. Without a comprehensive industrial policy, the sector's decline could have long-lasting implications on economic growth and employment.

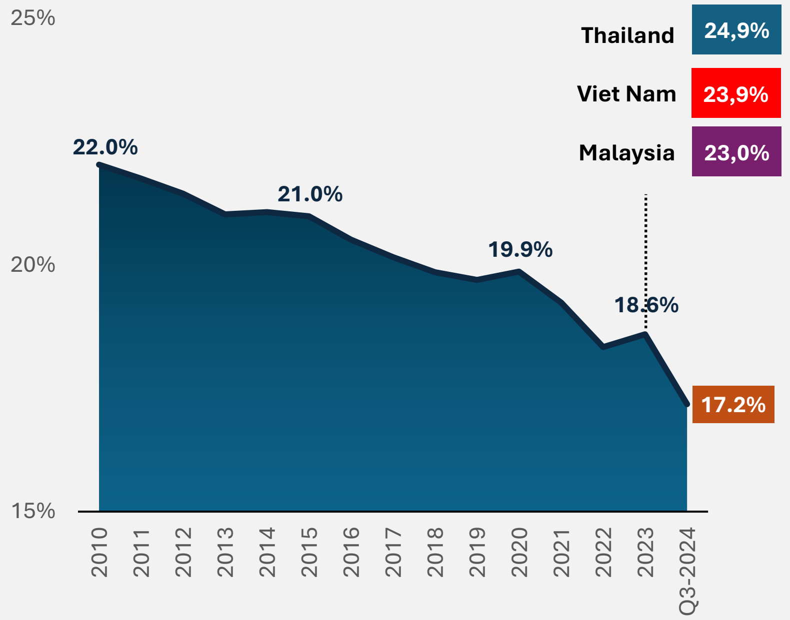
Key Indicators of Declining Industrial Capacity

Structural weaknesses in Indonesia's industrial sector, including declining manufacturing contributions, sluggish export growth, and inefficiencies in capital allocation, are hampering economic competitiveness. The following table outlines key indicators affecting industrial capacity and their potential consequences for economic growth.

Declining Manufacturing Contribution to GDP	**The declining contribution of the manufacturing sector, now at 17.2% of GDP in Q3-2024, signals a weakening pillar of Indonesia's economy.**[44] In Q3-2024, preliminary figures indicated that manufacturing contributed approximately 17.2% to the nation's GDP, making it the largest sectoral contributor. However, this represents a decline from previous years, where manufacturing's share was higher. This downward trend suggests a relative weakening of the sector's role in the economy, potentially due to increased global competition, shifts towards service-oriented industries, and challenges within domestic manufacturing processes.

[44] BPS, 2025

Figure 3.1. **Manufacturing Contribution to GDP** (%)[45]



Indonesia's manufacturing contribution to GDP has steadily declined since 2010, lagging behind regional peers like Thailand, Vietnam, and Malaysia.

Weakening Growth of Goods Exports

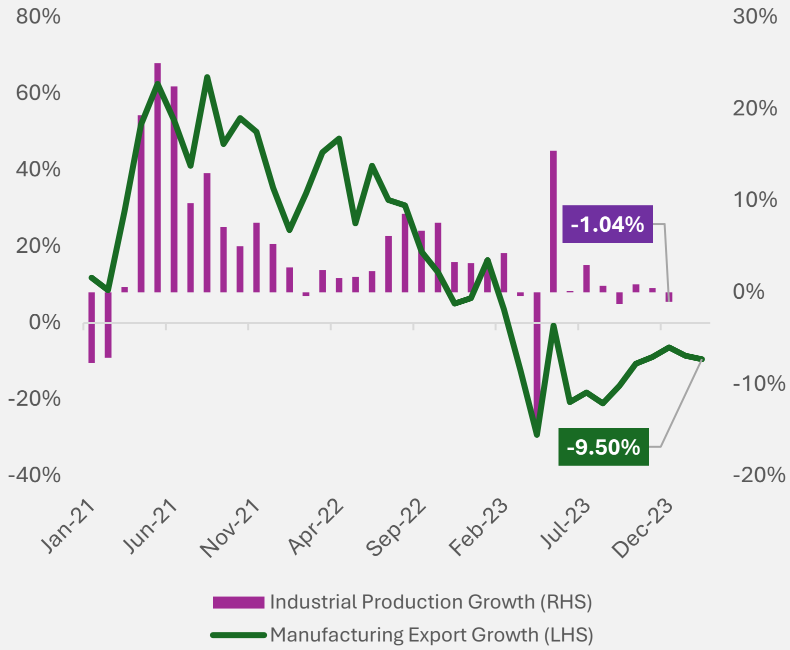
Indonesia's export performance has shown signs of weakening, with manufacturing export growth dropping by 9.5% and industrial production falling by 1.04% in December 2023[46]. Downsizing in key industries requires time and capital to recover, risking a prolonged loss of competitiveness.

Export capacity is crucial for growth, as it improves the current account balance and strengthens foreign reserves - both are key to secure stability and improve investment climate for growth. Manufacturing export also indicates industrial sophistication achievement and serves as the engine for leading edge innovation.

Similar to declining sales in business, losing export markets can be difficult to reverse. Loosing key customers to competition which will be difficult to win back. All of these highlight the need for immediate action through export diversification and value-added manufacturing to ensure long-term economic stability.

[45] Idem
[46] ING Think, 2024

Figure 3.2. **Growth of Goods Export** (%)[47]



Indonesia's goods export growth fell by 9.5% alongside a 1.04% drop in industrial production, reflecting weakening export competitiveness.

Significant Informal Sector Presence

The informal sector remains a significant part of Indonesia's economy, accounting for approximately 59.17% of the workforce as of February 2024.[48] This prevalence often correlates with lower productivity, limited access to finance, and reduced social protections, posing challenges to efforts aimed at enhancing overall economic productivity and formalizing the labor market. Additionally, large enterprises constitute less than 0.01% of all businesses in Indonesia, highlighting the dominance of micro, small, and medium-sized enterprises (MSMEs) and the need for policies that support business growth and formalization.[49]

Elevated Incremental Capital-Output Ratio (ICOR)

In 2023, Indonesia's ICOR stood at 6.33, reflecting a high-cost economy and inefficiencies compared to regional peers.[50] The Incremental Capital-Output Ratio (ICOR) measures the efficiency of capital investment in generating economic output, with a higher ICOR indicating lower efficiency and higher capital requirements to produce additional output. Hence, these challenges are likely driven by bureaucratic hurdles, infrastructure deficits, and suboptimal resource allocation, hindering the country's ability to attract quality investments and sustain high growth.

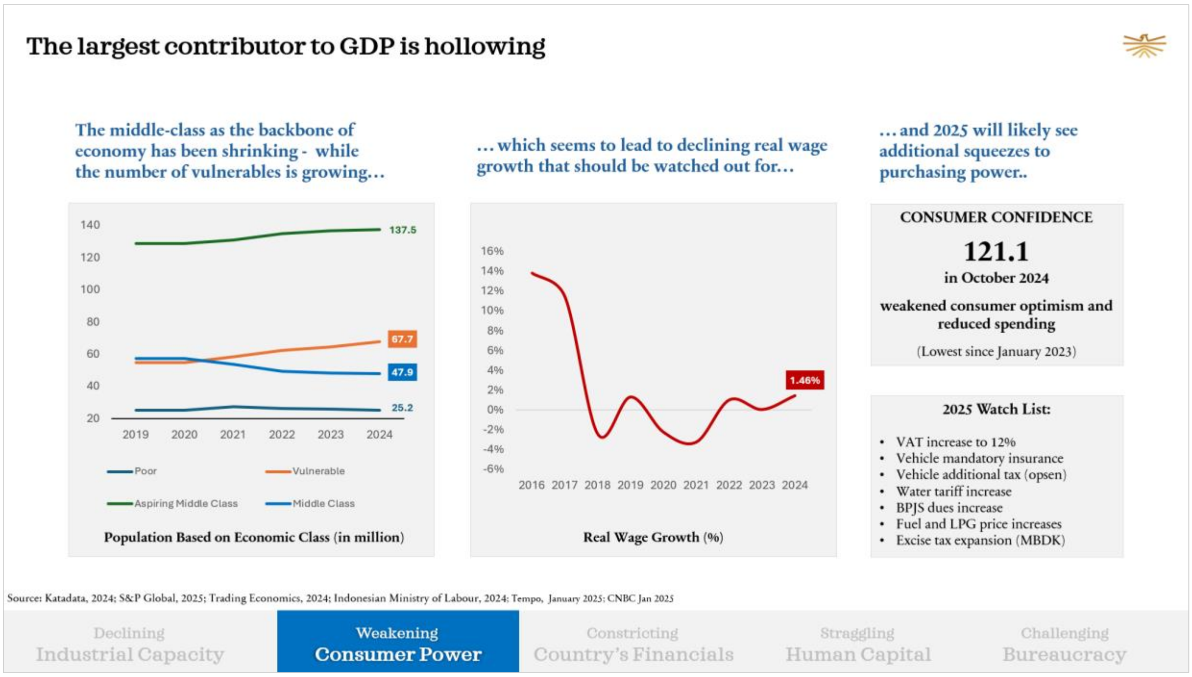
[47] Idem
[48] BPS, 2024
[49] UMKM Indonesia, 2024
[50] ERIA, 2023

Persistent challenges in manufacturing reflect Indonesia's broader structural issues. The lack of technological upgrades and limited industrial diversification have constrained growth in sectors such as electronics, automotive, and machinery. Competing economies in Southeast Asia have moved up the value chain, capturing global market shares in high-tech manufacturing, posing competitive risks for Indonesia. Without a rejuvenated manufacturing base, the country could see slower growth and weakened global influence in key export markets.

While Indonesia has made progress in transitioning from raw material exports to higher-value products, the manufacturing sector still faces significant barriers to scaling up advanced industries. For example, sectors like processed agricultural products, electronics, and machinery have not yet fully realized their potential due to limited investments in innovation, technology, and supply chain integration. The sluggish growth in these sectors could limit long-term industrial competitiveness in global markets.

Moreover, the large informal sector remains a major challenge in driving sustainable industrial growth. With 59.17% of the workforce employed informally as of 2024, the limited access to financing, skills training, and productivity-enhancing resources constrains economic output and job creation.[51] Informal employment restricts Indonesia's ability to fully benefit from its workforce, keeping wages low and stalling industrial scalability. Combined with inefficient capital allocation, as reflected in the high ICOR, these structural issues hinder the manufacturing sector's contribution to high-paying job creation and sustained economic expansion. Without improvements in labor productivity and efficient investments, the industrial sector risks being unable to meet the demands of an increasingly competitive global market.

3.2.2. Weakening Consumer Power



[51] BPS, 2024

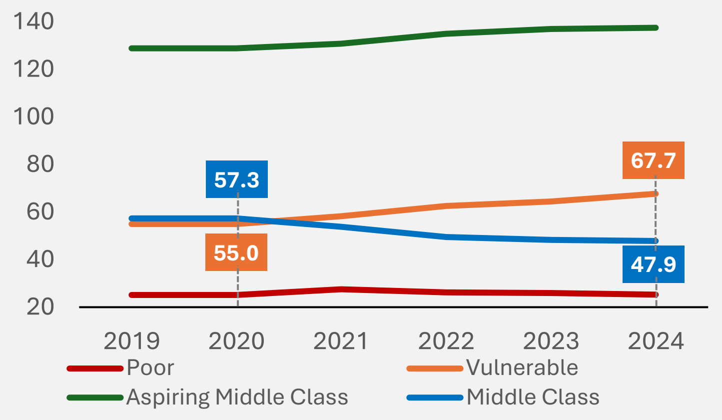
Indonesia's economy faces growing risks as household consumption, which accounts for 54.4% of its GDP (by September 2024), weakens.[52] The contraction of the middle class, driven by job losses and a sluggish recovery in key sectors like textiles and tourism, has diminished household purchasing power. Lower-income households are also under increasing pressure as essential expenses consume a larger share of their income, leaving little room for discretionary spending. This strain is expected to intensify with upcoming policy-driven cost increases, including higher VAT rates, BPJS premiums, and fuel price adjustments, further reducing disposable income. As household spending declines, businesses may experience falling revenues, reduced job creation, and weaker private investment, posing significant risks to Indonesia's economic growth.

Key Factors Driving the Erosion of Consumer Power

Shrinking middle-class demographics, stagnant wage growth, and rising cost pressures are undermining household purchasing power, threatening Indonesia's consumption-driven economy. The table below highlights key consumer-related challenges and their implications for economic stability.

Contracting Middle Class	**The contraction of Indonesia's middle class reflects a significant shift in the country's income distribution.** Defined as individuals spending between $132 to $643 monthly, the middle class shrank from 21.5% of the population in 2019 to 17.1% in 2024.[53] This contraction has been driven by pandemic-related job losses and slower recovery in sectors such as textiles, manufacturing, and tourism. With middle-income households accounting for a significant share of discretionary spending, this decline limits growth opportunities in key sectors like real estate and retail.

Figure 3.3. **Population based on Economic Class (in million)**[54]



Between 2020 and 2024, the vulnerable population increased from 55 million to 67.7 million, while the middle class contracted from 57.3 million to 47.9 million.

[52] CEIC, 2024

[53] Reuters, 2024

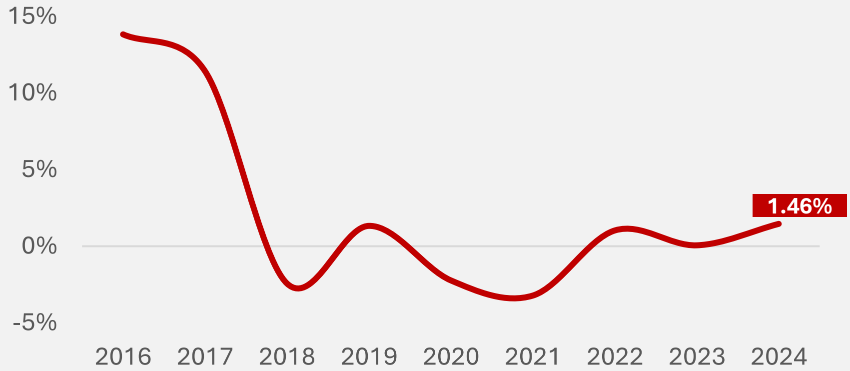
[54] BPS, 2024

This downward trend raises concerns about Indonesia's long-term economic resilience and social mobility. A shrinking middle class not only reduces aggregate demand but also weakens the foundation for sustainable economic growth, as fewer households have the financial security to invest in education, entrepreneurship, and long-term assets. If this contraction persists, Indonesia risks falling deeper into the middle-income trap, where economic progress stagnates due to sluggish productivity gains and limited upward mobility. To counter this trend, policy interventions must focus on job creation, wage growth, and social safety nets that can rebuild consumer confidence and restore the middle class as a driver of economic expansion.

Falling Real Wage Growth

Declining real wage growth is restricting household spending and deepening financial strain. The average minimum wage of 3.1 million rupiah ($195) per month has failed to keep pace with inflation, leading to reduced purchasing power for the majority of workers.[55] Labor groups have called for a 10% wage increase to offset the burden, but employers caution that significant wage hikes could discourage hiring and investment.[56] This widening gap between wages and living expenses is forcing many households to cut discretionary spending and prioritize basic needs, further weakening domestic demand.

Figure 3.4. **Real Wage Growth (%)**[57]



Real wage growth has struggled to recover, reaching only 1.46% in 2024 after a steep decline since 2016, reflecting ongoing economic pressures.

Volatile Consumer Confidence

Consumer confidence, a key indicator of economic health, has exhibited volatility. In October 2024, the Consumer Confidence Index stands at 121.1, the lowest since January 2023.[58] This dip highlights weakened optimism, as spending has declined alongside it, reflecting underlying uncertainties among consumers regarding economic conditions and job security.

[55] Kompas, 2024
[56] Reuters, 2024
[57] BPS, 2024
[58] Trading Economics, 2024

Cost Pressures from Policy Changes

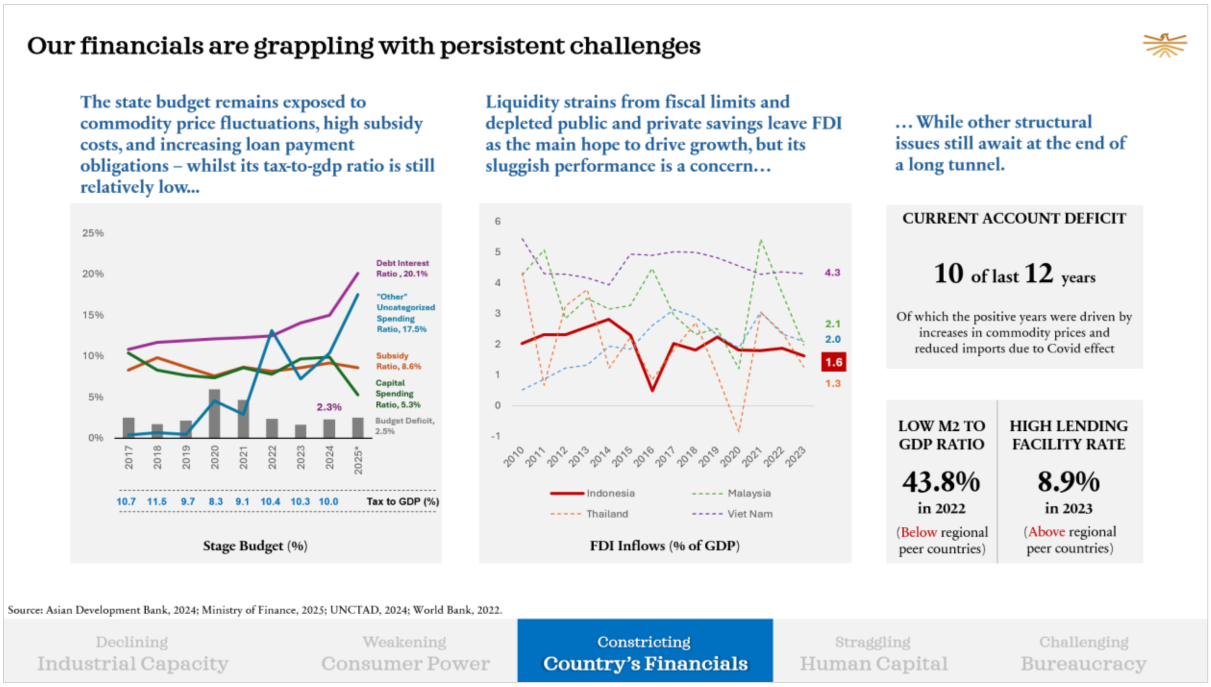
Upcoming policy-driven cost increases are expected to further strain household budgets and erode disposable income. The VAT rate will rise from 11% to 12% in January 2025, affecting non-essential goods and services.[59] Additionally, mandatory vehicle insurance, higher BPJS health premiums, regional vehicle taxes, and water tariff hikes will contribute to rising living expenses. Subsidized fuel and LPG prices are also expected to be adjusted, increasing transportation and cooking costs. These cumulative pressures will disproportionately affect middle- and lower-income households, reducing their purchasing power for discretionary items and further slowing consumption growth.

Addressing weakening consumer purchasing power is crucial to sustaining Indonesia's economic momentum. A prolonged decline in household spending could stall growth across key industries, dampen investor confidence, and limit job creation. Restoring purchasing power requires a multi-pronged approach—boosting wages through productivity-driven growth, expanding access to quality employment, and strengthening social safety nets to protect vulnerable populations. Additionally, stimulating domestic consumption through strategic fiscal policies and encouraging remittance-driven spending from overseas workers can provide much-needed economic resilience. By ensuring that households regain financial stability, Indonesia can rebuild a strong consumer base that drives long-term, sustainable growth

One avenue to accelerate economic recovery and household income growth is by expanding opportunities for Indonesian workers abroad. With rising demand for skilled labor in key global sectors such as healthcare, IT, and maritime industries, Indonesia has the potential to leverage its workforce as a strategic economic asset. Strengthening vocational training programs, improving overseas job placement mechanisms, and ensuring worker protections could allow more Indonesians to secure higher-paying employment opportunities overseas, increasing remittances that support domestic consumption and investment. If managed effectively, this approach could serve as a catalyst for economic mobility, bridging the gap until domestic job markets regain momentum.

[59] PwC, 2025

3.2.3. Constricted Financials



Financial Constraints Threatening Long-Term Growth

Indonesia's financial landscape faces growing challenges, driven by fiscal vulnerabilities, external dependencies, and structural inefficiencies. The state's reliance on fluctuating commodity revenues, rising debt service obligations, and substantial subsidy expenditures places significant strain on public finances. Compounding these issues are a persistently low tax-to-GDP ratio, weak foreign direct investment (FDI) inflows, and constrained financial sector growth, all of which collectively limit the country's economic potential. With external risks adding pressure to domestic weaknesses, Indonesia's ability to maintain long-term growth is under threat.

Although Indonesia's economy has shown resilience in recent years, key financial indicators reveal underlying vulnerabilities that could hinder its progress. Fiscal imbalances, low domestic revenue collection, and persistent current account deficits reflect the country's structural constraints. Without a well-functioning financial system and adequate capital inflows, the nation risks falling behind its regional peers in securing the investments needed for infrastructure, technological advancement, and job creation.

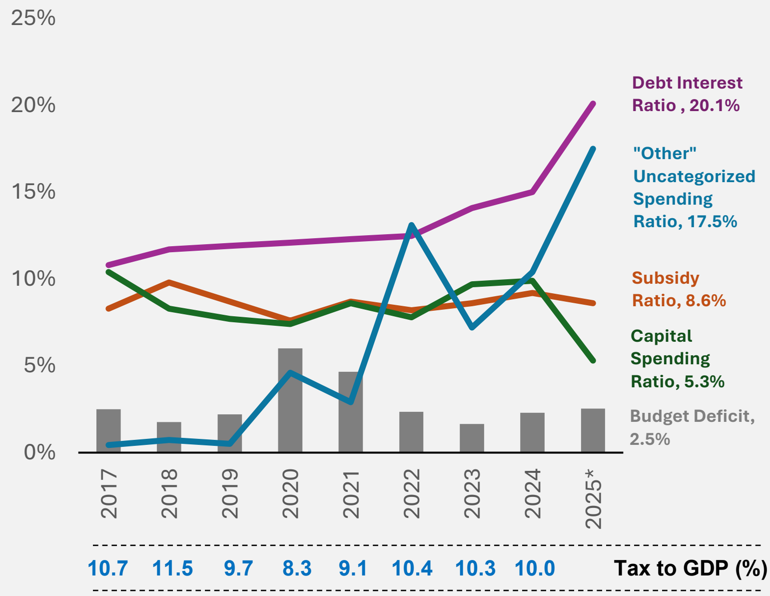
Key Indicators of Financial Constraints

Fiscal vulnerabilities, weak revenue generation, and limited investment inflows are straining Indonesia's financial system, increasing risks to long-term growth. The following table presents key financial constraints and their potential impact on the country's economic trajectory.

Fiscal Vulnerabilities and Low Tax-to-GDP Ratio

Indonesia's financial stability faces significant pressure from fiscal vulnerabilities, driven by its exposure to volatile commodity prices and substantial subsidy burdens. The country's reliance on exports for fiscal revenue means that fluctuations in global commodity markets—such as declining prices for coal and palm oil—can have a pronounced impact on government finances. This is further compounded by the continued allocation of a large portion of the state budget to energy subsidies, which, despite efforts to reduce them, remain a considerable burden, reaching $23.9 billion.[60] At the same time, Indonesia's debt service obligations are steadily rising, with the public debt-to-GDP ratio reaching 38.9% in September 2024.[61] Although still within the 60% ceiling set by fiscal rules, the growing debt level underscores the need for careful management to prevent fiscal instability.

Figure 3.5. **State Budget (%)**[62]



Indonesia's rising debt interest ratio (20.1%) and stagnant low tax-to-GDP (10%) signal fiscal strain, limiting capital spending and increasing the budget deficit risk.

Further complicating the financial landscape is Indonesia's persistently low tax-to-GDP ratio, which hampers the government's ability to generate adequate domestic revenue. The World Bank estimates that this ratio will remain below 10% until 2027, compared to over 15% in Thailand and Malaysia.[63] Between 2016 and 2021, the country lost an average of 6.4% of GDP annually in potential tax revenue due to shortfalls in VAT and corporate income tax collections.[64] This

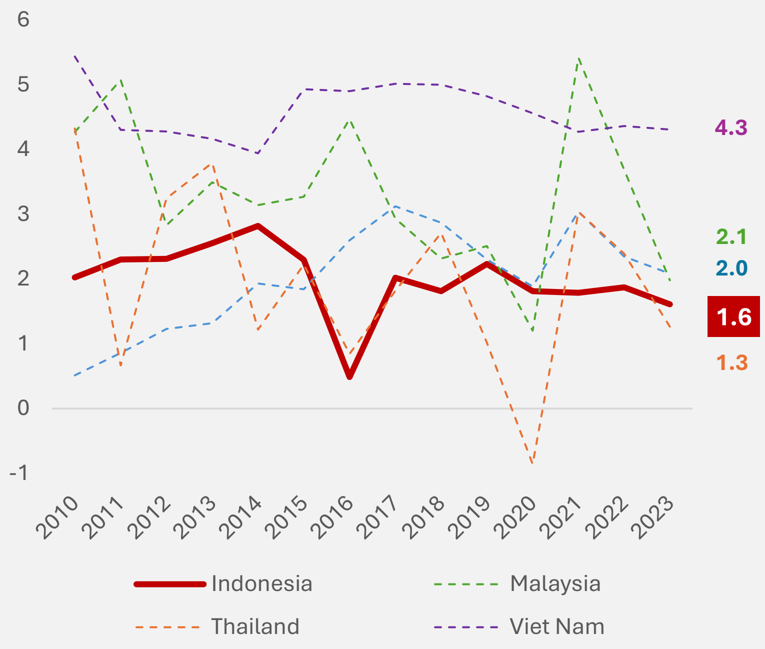
[60] Jakarta Globe, 2025
[61] CEIC, 2024
[62] Ministry of Finance, 2025
[63] World Bank, 2024
[64] World Bank, 2024

revenue gap limits the government's capacity to finance essential public services and long-term infrastructure investments. With low tax collection and fiscal vulnerabilities intertwined, the country faces challenges in maintaining economic growth and resilience in the face of domestic and global risks.

Low Foreign Direct Investment (FDI) Inflows

Indonesia's FDI inflows remain modest compared to regional competitors, constraining the inflow of capital, technology, and expertise. Net FDI inflows averaged just 1.8% of GDP between 2018 and 2023, lagging behind Malaysia (3.2%) and Vietnam (6.2%).[65] Regulatory hurdles, inadequate infrastructure, and policy uncertainty have deterred investors, limiting the country's ability to boost productivity and modernize industries. Without significant FDI inflows, Indonesia's efforts to foster industrial growth and technology transfer remain constrained.

Figure 3.6. **Foreign Direct Investment Inflows (% of GDP)**[66]



Indonesia's FDI inflows (1.6% of GDP) in 2023 lag behind Vietnam (4.3%) and Malaysia (2.1%), indicating the need for improved investment policies.

Persistent Current Account Deficit

A persistent current account deficit underscores Indonesia's reliance on foreign capital to finance domestic consumption and investment. Indonesia experienced a current account deficit in 10 of the last 12 years, with the deficit standing at 1.9% of GDP in 2024.[67] This persistent deficit reflects structural

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[65] ADB, 2024

[66] Idem

[67] Trading Economics, 2024

challenges, such as heavy reliance on capital goods imports and insufficient domestic savings, making Indonesia vulnerable to external funding risks, global financial shocks, currency depreciation, and higher borrowing costs.

Low M2-to-GDP Ratio

Indonesia's low M2-to-GDP ratio of 43.8% in 2022 highlights limited financial deepening, restricting the financial sector's role in supporting economic activities. As of December 2024, the M2 money supply stood at IDR 9,210,800 billion, but the ratio remains lower than regional countries.[68] While this represents growth in absolute terms, the M2-to-GDP ratio remains low compared to, indicating limited financial deepening. A lower ratio suggests that the financial sector may not be fully supporting economic activities, potentially restricting access to credit for businesses and consumers.

High Lending Facility Rate

Bank Indonesia's lending facility rate, maintained at 8.9% in 2023, is relatively high compared to regional peers and affects borrowing costs.[69] Higher borrowing costs limit access to credit for businesses and households, reducing investment and consumption. Although necessary to control inflation, high lending rates create barriers for small and medium enterprises (SMEs) and consumers, ultimately dampening economic activity.

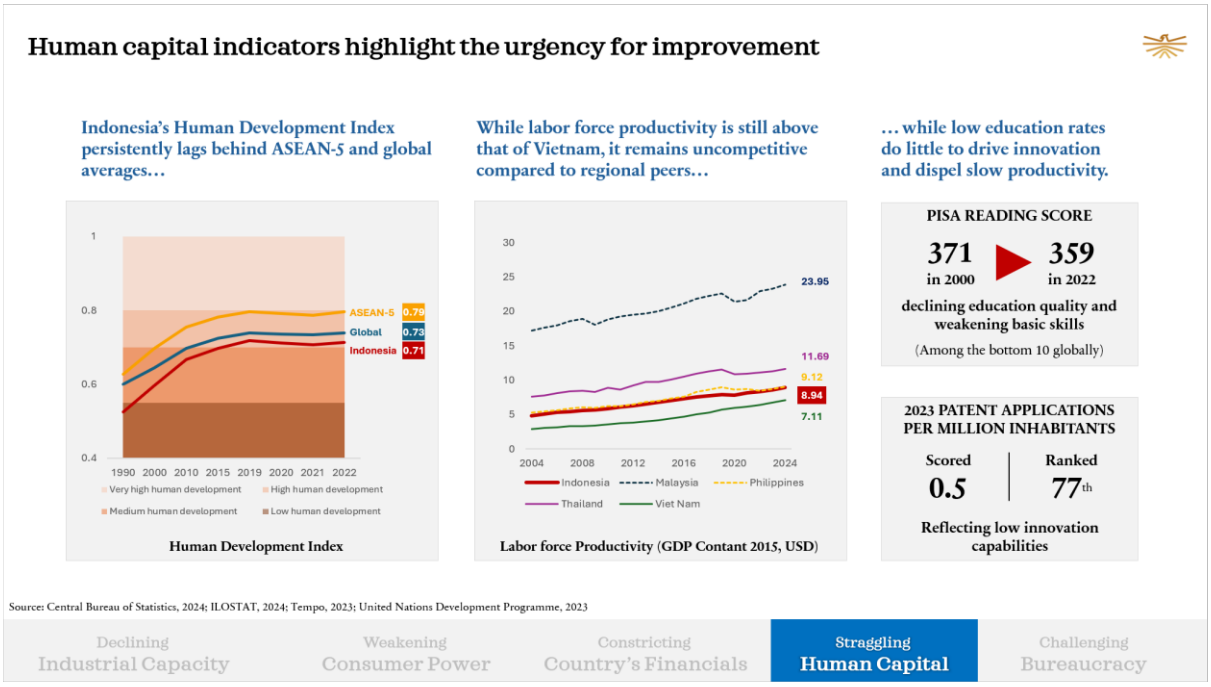
Indonesia's constrained financial system poses significant risks to its long-term growth and development goals. The country's fiscal stability, once supported by commodity revenues, is increasingly vulnerable to global price fluctuations and mounting debt obligations. Subsidy expenditures and rising loan payments consume a significant portion of public funds, reducing the government's ability to invest in infrastructure, education, and other critical development areas.

The low tax-to-GDP ratio exacerbates the state's limited fiscal capacity, restricting domestic revenue generation and forcing reliance on external borrowing. This reliance leaves little room for fiscal flexibility during periods of economic downturn or external shocks. As regional competitors strengthen their tax systems and expand domestic revenue bases, Indonesia risks lagging behind in securing funds for long-term investments.

Moreover, underwhelming FDI inflows highlight structural challenges in the investment climate. Regulatory inefficiencies, infrastructure gaps, and policy uncertainty continue to deter potential investors, limiting the country's ability to benefit from capital inflows and technology transfers. The persistent current account deficit and limited credit access further hinder the growth potential of domestic industries and SMEs. Together, these constraints create financial imbalances that could slow Indonesia's progress and weaken its competitiveness.

[68] Bank Indonesia, 2025
[69] World Bank, 2024

3.2.4. Straggling Human Capital



Persistent Human Capital Challenges Impact Indonesia's Competitiveness

Indonesia's ability to unlock its human capital potential is constrained by long-standing challenges in education, labor productivity, and innovation. Despite efforts to improve key development indicators, the country continues to trail behind regional peers such as Malaysia, Thailand, and Singapore in critical areas that determine economic competitiveness and socio-economic progress. Its low Human Development Index (HDI), sluggish labor productivity growth, poor educational outcomes, and limited innovation output reflect systemic barriers that hinder sustainable growth.

A young and growing population should ideally serve as a demographic advantage, but the underdevelopment of Indonesia's human capital has turned this potential into a liability. Inadequate investment in education, research, and workforce training has prevented the country from fully leveraging its population for high-value economic activities. With key sectors like technology, manufacturing, and services demanding more skilled labor, these human capital deficits create a bottleneck that impedes the country's ability to transition toward a knowledge-driven economy.

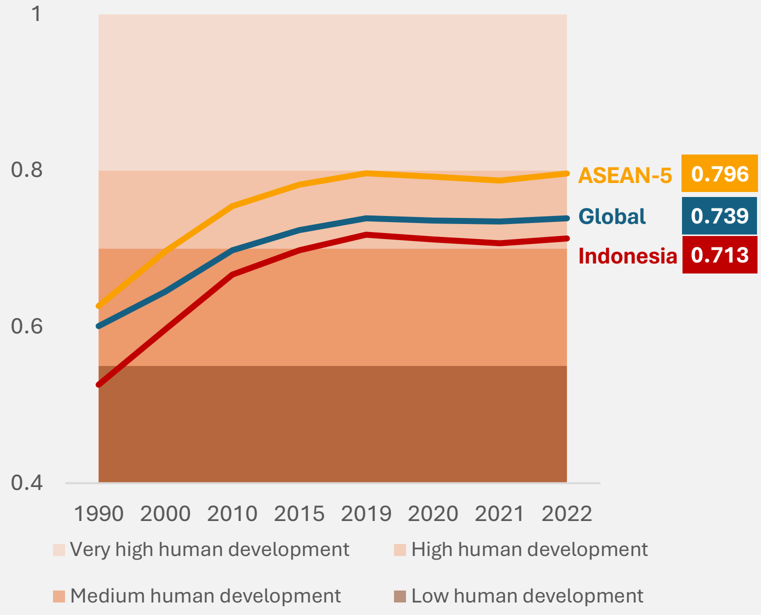
Key Indicators of Human Capital Deficiencies

Persistent challenges in education, labor productivity, and innovation are limiting Indonesia's ability to compete in the global economy. The table below highlights key human capital deficiencies and their broader economic implications.

Low Human Development Index

Indonesia's HDI reflects persistent gaps in health, education, and income levels, placing the country behind many of its regional peers. As of 2022, Indonesia's HDI was 0.713, ranking 112nd globally.[70] In contrast, neighboring countries like Malaysia (0.807) and Thailand (0.803) have shown stronger performance. Although improvements have been made over the years, Indonesia's progress has been slow, limiting the quality of life and access to economic opportunities for its population.

Figure 3.7. **Human Development Index**[71]



Indonesia's Human Development Index (HDI) reached 0.71 in 2022, trailing behind the ASEAN-5 average of 0.79 and the global average of 0.73.

Low Labor Force Productivity

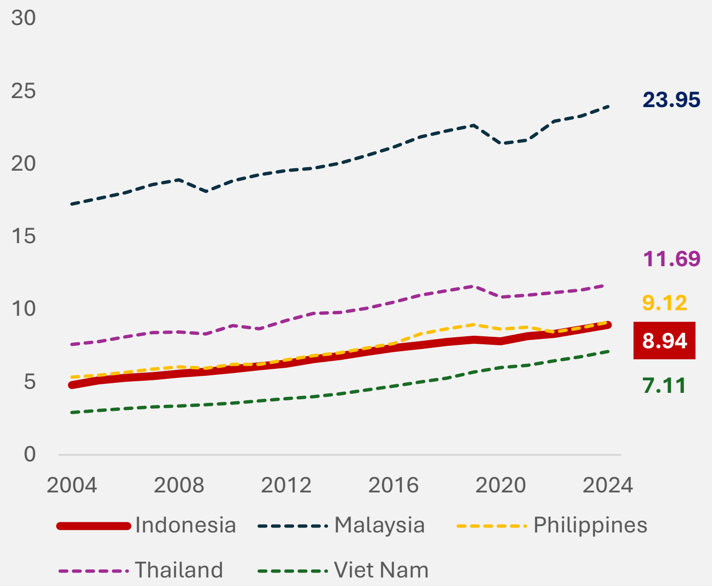
Indonesia's labor productivity growth has been relatively stagnant, with the country ranking 54th globally in 2023 according to the Global Innovation Index.[72] Indonesia's labor productivity trails behind regional competitors such as Malaysia (23.95) and Thailand (11.69), both of which have invested significantly in workforce development and technological integration. Factors contributing to Indonesia's low productivity include outdated labor practices, limited access to vocational training, and weak adoption of modern technologies in key industries.

Investing in workforce upskilling, digital transformation, and industry-specific vocational training can help bridge the gap with regional peers. Strengthening collaboration between government, businesses, and educational institutions will be key in aligning skills development with industry demands. Additionally, incentivizing technology adoption in manufacturing, services, and agriculture can drive efficiency gains and boost overall economic output. Without

[70] UNDP, 2024
[71] Idem
[72] WIPO, 2024

decisive action, Indonesia risks falling further behind in an increasingly knowledge-driven global economy

Figure 3.8. **Labor force Productivity (GDP Contant 2015, USD)**[73]



Indonesia's labor productivity reached 8.94 in 2024, lagging behind Malaysia (23.95), Thailand (11.69), and the Philippines (9.12).

Declining and Low Pisa Score

Indonesia's consistently poor performance in the Programme for International Student Assessment (PISA) highlights systemic issues within the education system. In the 2022 assessment, Indonesian students scored below the OECD average in reading, mathematics, and science, with only 18% achieving at least Level 2 proficiency in mathematics compared to the OECD average of 69%.[74] These low scores reflect deficiencies in foundational skills such as literacy, numeracy, and problem-solving, which are essential for developing a skilled workforce capable of driving innovation and growth.

Low Patent Application per Million Inhabitants

Indonesia's low rate of patent applications indicates limited innovation capacity and weak research output. With only 0.5 PCT applications per million inhabitants in 2023, Indonesia trails regional peers like Malaysia (3.7) and Singapore (299), underscoring Indonesia's challenges in fostering innovation.[75] This low innovation output reflects inadequate investment in research and development (R&D), as Indonesia spends only 0.23% of its GDP on R&D, far below the 0.9% spent by Malaysia and 2.2% by Singapore.[76]

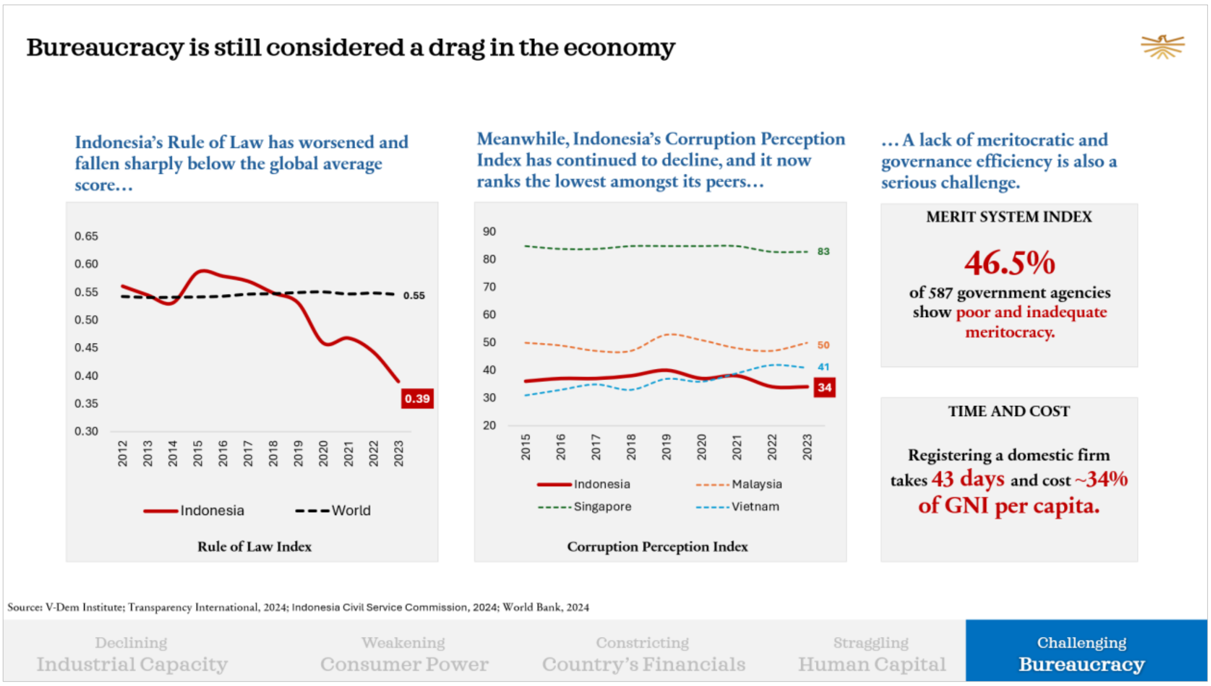
[73] ILO, 2024
[74] OECD, 2023
[75] WIPO, 2024
[76] Lowy Institute, 2023

The persistent gaps in human capital development reveal underlying structural barriers that restrict Indonesia's ability to achieve sustained growth and innovation. The low Human Development Index underscores the need for broader socio-economic improvements, as limited access to education, healthcare, and economic opportunities prevents a significant portion of the population from contributing fully to the economy. Without significant progress, the country will remain at a competitive disadvantage in the ASEAN region.

Low labor productivity further weakens Indonesia's capacity to compete globally, particularly in industries that rely on skilled labor and technological adaptation. Limited vocational training and outdated labor practices contribute to inefficiencies that slow industrial growth and reduce the country's attractiveness as a manufacturing hub. With regional competitors like Vietnam rapidly improving their productivity, Indonesia risks falling behind in global value chains if these issues persist.

The education system's struggles, as highlighted by declining PISA scores, present long-term challenges for workforce development. Without addressing foundational skills deficiencies, Indonesia's ability to cultivate a skilled and innovative workforce will remain constrained. Similarly, the low rate of patent applications reflects insufficient innovation and technological advancements, limiting the country's potential to develop high-value products and reduce dependency on imported technologies. Together, these interconnected issues threaten to slow Indonesia's transition toward a knowledge-based economy and reduce its capacity to achieve sustainable long-term growth.

3.2.5. Bureaucratic Inefficiencies



Systemic Bureaucratic Inefficiencies Undermine Indonesia's Development

Indonesia faces persistent challenges within its bureaucratic framework, creating bottlenecks that hinder socio-economic development and investor confidence. Declining performance in key governance indicators, including the Rule of Law Index, Corruption Perception Index, and Ease of Doing Business metrics, highlights systemic inefficiencies that undermine public trust and business growth. These inefficiencies manifest in weak governance structures, delays in service delivery, and high administrative costs, all of which contribute to stagnating growth and socio-economic disparities.

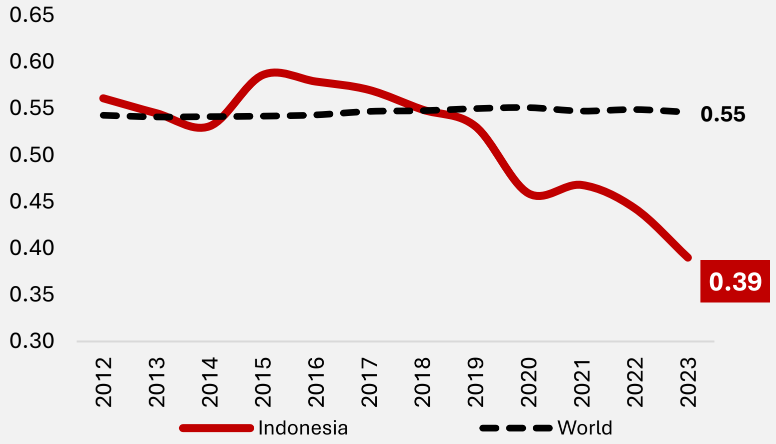
Although Indonesia has implemented various reforms aimed at improving governance and reducing red tape, progress remains slow due to entrenched corruption, and inconsistent application of policies. Anti-corruption initiatives and digital governance improvements have seen some success, but their implementation has been uneven across government agencies. This slow and fragmented approach limits Indonesia's ability to compete with regional peers like Malaysia, Thailand, and Vietnam, which have made substantial strides in improving their business environments and governance frameworks.

Key Indicators of Bureaucratic Inefficiencies

Governance inefficiencies, corruption, and regulatory barriers continue to obstruct Indonesia's economic progress and business climate. The following table outlines key bureaucratic challenges and their effects on economic development and investor confidence.

Declining Rule of Law Index	**Indonesia's declining performance in the Rule of Law Index signals challenges in maintaining legal stability and protecting fundamental rights.** Indonesia ranked 68th out of 142 countries, reflecting weaknesses in enforcing laws, limiting government power, and ensuring access to justice.[77] This decline has led to unclear legal protections, increasing risks for businesses, foreign investors and individuals seeking reliable legal outcomes for long-term investments.

Figure 3.9. **Rule of Law Index[78]**



Indonesia's Rule of Law Index fell 0.39 in 2023, significantly below the global average of 0.55.

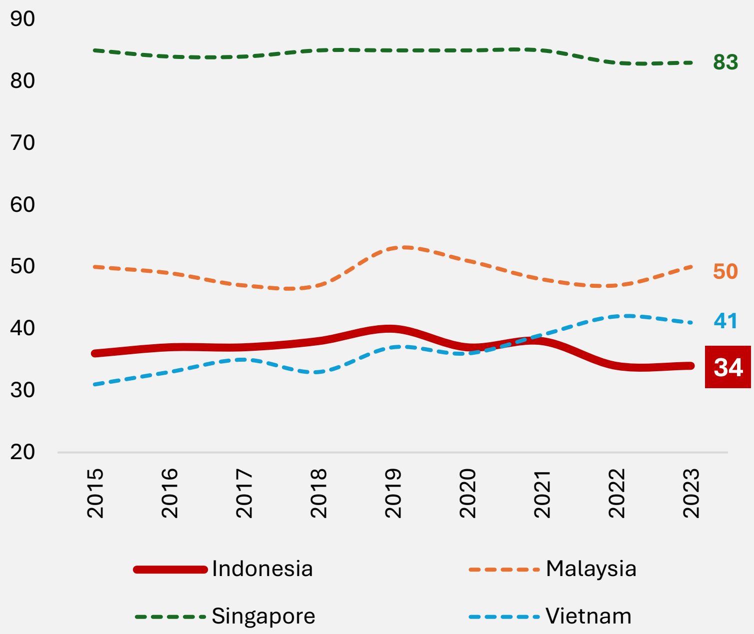
[77] WJP, 2025

[78] V-Dem Institute, 2024

Low Corruption Perception Index

Corruption remains pervasive, with Indonesia scoring 34 out of 100 and ranking 115th out of 180 countries in the 2023 Corruption Perceptions Index.[79] Corrupt practices in infrastructure, procurement, and licensing continue to create inefficiencies, driving up project costs and reducing the effectiveness of public spending. Corruption erodes public trust, as funds that could be allocated toward public services are often diverted or mismanaged. This systemic issue also hampers fair competition, limiting opportunities for businesses, particularly SMEs.

Figure 3.10. **Corruption Perception Index**[80]



Indonesia's Corruption Perception Index dropped from 41 in 2015 to 34 in 2023, falling behind Vietnam (41) and Malaysia (50)

Low Merit System Index

Indonesia faces challenges in implementing a merit-based system for civil service appointments and promotions, with 46.5% of 587 government agencies demonstrate poor and inadequate meritocracy.[81] The absence of a strong merit system has resulted in widespread non-merit-based appointments, affecting the overall professionalism and efficiency of the public sector. Bureaucratic appointments influenced by political connections rather than qualifications contribute to slow decision-making, poor service delivery, and resistance to reforms.

[79] Transparency International, 2023
[80] Idem
[81] KASN, 2024

Long Time and High Cost to Register Domestic Firms

Indonesia's lengthy and costly business registration process remains a barrier to entrepreneurship and private sector growth. It takes 43 days and several procedures to register a domestic firm, with costs amounting to 34% of GNI per capita.[82] These bureaucratic hurdles disproportionately affect small and medium enterprises (SMEs), discouraging business formalization and innovation.

Indonesia's bureaucratic inefficiencies present significant challenges to its long-term development, hindering both domestic and foreign investment. The country's declining performance in the Rule of Law Index reflects an environment of legal uncertainty that deters investors, as weak law enforcement and regulatory unpredictability increase risks for businesses. This has resulted in Indonesia struggling to attract foreign direct investment (FDI), especially when compared to regional competitors with stronger legal protections and more transparent governance. Without improvements in legal certainty and investor protection, Indonesia risks falling further behind in global value chains and missing out on critical capital inflows that drive industrial growth and job creation.

Corruption remains a critical obstacle, draining public resources and fostering socio-economic inequality by limiting access to public services and fair business opportunities. Persistent corruption within key sectors, such as infrastructure and public procurement, increases project costs and reduces the effectiveness of development initiatives, further discouraging investors. Additionally, the lack of a merit-based civil service exacerbates inefficiencies, as political appointments hinder effective policy implementation and service delivery. Compounding these issues, the long and costly process of business registration stifles entrepreneurship, limiting private sector expansion. If Indonesia fails to address these systemic governance failures, it will continue to struggle in attracting FDI, losing ground to more investment-friendly economies in the region.

[82] World Bank,2024

CHAPTER 4

THE COURSE AHEAD

Indonesia's economic trajectory in 2025 hinges on its ability to navigate uncertainties and capitalize on emerging opportunities. The government, private sector, and key stakeholders must adopt a unified approach to ensure sustainable and inclusive growth.

4.1. What the Government Will and Need to Do

As Indonesia enters 2025, IBC predicts that the new government will heavily focus on seeking alliances and drawing investment to strengthen economic resilience. These efforts will be crucial in securing capital, creating jobs, and ensuring that Indonesia remains competitive in an increasingly uncertain global landscape. Strategic partnerships—both domestic and international—will help the nation navigate shifting trade dynamics and leverage new economic opportunities.

PILOTING THE COLOSSAL EFFORT

2025 will likely see the new government seek for alliances and extensively draw investment

However, to ensure a successful and sustainable economic take-off, IBC recommends that the government must also put emphasize on governance reform and innovation. Strengthening governance will build trust, enhance policy execution, and prevent inefficiencies, while fostering innovation will unlock new opportunities, drive productivity, and secure Indonesia's regional leadership in key industries.

Seek alliances

IBC predicts that the government will actively seek broad support to achieve its ambitious economic goals. With limited resources and expertise, forming strong alliances will be essential for effective policy execution and national development.

Strategic alignment with key stakeholders will be a priority. The government will coordinate efforts with ministries, state institutions, regional governments, and the military to ensure a cohesive approach to economic transformation and investment facilitation, while also fostering cooperation with the legislative and judicial branches to ensure smooth policy implementation.

Government will consider engaging the private sector will be key to achieving national economic objectives. The government will encourage and asks businesses to align their strategies with broader economic goals, driving investment, innovation, and job creation.

Draw investment

IBC predicts that the government will intensify efforts to attract investment to meet ambitious economic targets. Achieving 8% GDP growth and fulfilling political commitments will require significant capital, far beyond the government's current fiscal capacity. As a result, foreign direct investment (FDI) will be the ultimate resort to bridge financial gaps and sustain economic expansion.

The government is expected to elevate its investment strategies through multiple avenues:

- ***First***, the creation of a state-owned enterprises (SOE) super holding or sovereign wealth fund, which will centralize state assets and enhance their attractiveness to global investors.
- ***Second***, bilateral and multilateral investment cooperation will take a new chapter. Strengthening partnerships with foreign governments, international financial institutions, and regional economic blocs will enable Indonesia to secure long-term capital flows. Trade agreements and investment treaties will also be leveraged to provide greater market access and financial incentives for investors.
- ***Third***, investment incentives will be a focal point to attract capital. The government is expected to introduce new tax benefits, regulatory relaxations, and sector-specific incentives to create a more appealing investment climate.

Reform governance

IBC believes that for the mission to succeed, the government must earn public trust and demonstrate credibility. Its institutions must take the lead in proving their reliability and integrity. This is a make-or-break moment for all stakeholders. Regulatory uncertainty, corruption, wasteful spending, and bureaucratic inefficiencies will erode credibility, ultimately weakening the much-needed trust and support.

Reforming governance is necessary to enhance transparency and improve public sector performance. Reducing bureaucratic red tape, improving policy execution, and enhancing coordination across government agencies will contribute to a more effective administration. Establishing clear, predictable regulations and reducing political and regulatory uncertainty will also create a more favorable business climate.

Governance reform is also essential to prevent financial losses, promote efficiency and ensure high returns on public spending. Implementing budget efficiency measures, strengthening oversight mechanisms, and eliminating wasteful expenditures will allow the government to allocate resources more effectively. By ensuring that public funds generate the highest possible return on investment (ROI), Indonesia can accelerate infrastructure development, social programs, and economic expansion without excessive fiscal strain.

Pursue innovation

While seeking alliances, drawing investment, and reforming governance are crucial steps, they alone will not be sufficient to achieve Indonesia's highly ambitious economic goals. IBC strongly recommends that the government also prioritize pursuing innovation as a key driver of long-term growth and competitiveness.

Innovation is essential to unlocking new opportunities and tapping into Indonesia's hidden economic potential. By fostering a culture of innovation, the government can stimulate new industries, improve productivity, and create high-value economic activities that go beyond traditional sectors. Digital transformation, technological advancement, and industrial modernization must be at the core of Indonesia's strategy.

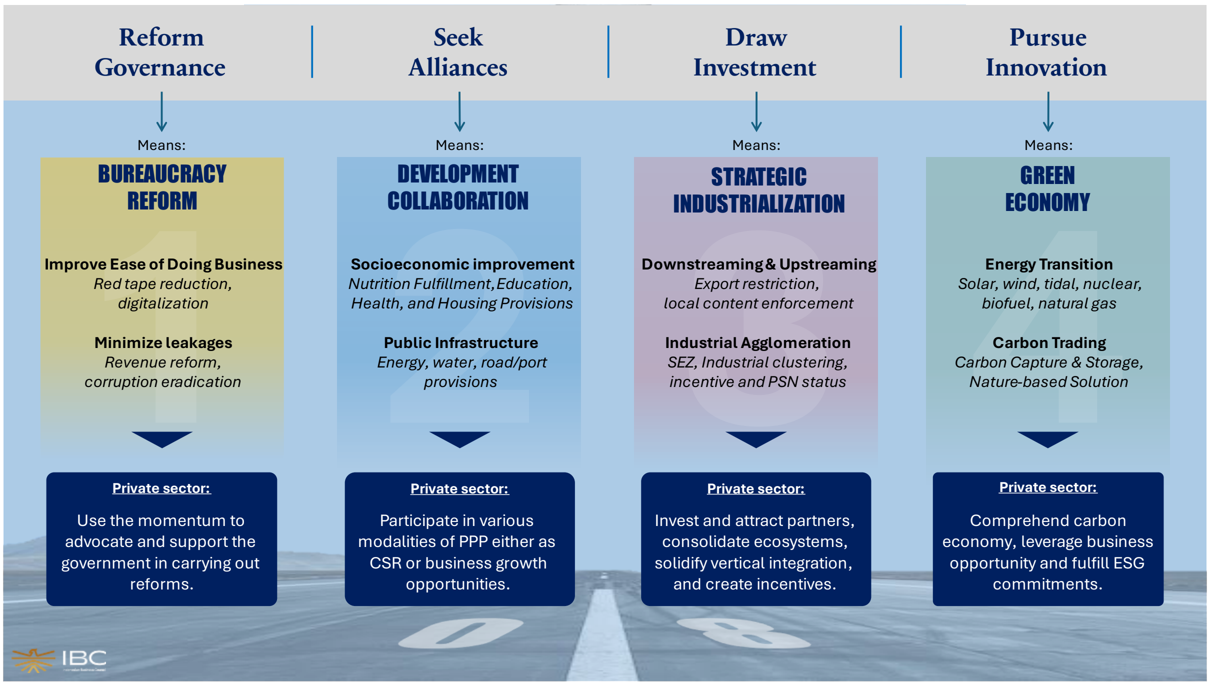
Innovation is also a necessity for securing Indonesia's position in regional competition. As neighboring countries aggressively invest in cutting-edge technologies, Indonesia must do the same to maintain relevance in the global economy. Strengthening research and development, encouraging entrepreneurship, and integrating emerging technologies will be vital in ensuring Indonesia remains a formidable economic player.

Together, these four critical engines—seeking alliances, drawing investment, reforming governance, and pursuing innovation—will propel Indonesia towards long-term growth and economic transformation. Without a balanced approach, Indonesia risks turbulence in its ascent. It is time for a bold and coordinated effort to ensure that the country is not just prepared for take-off, but positioned for sustained success.

4.2. The Business Imperative for 2025

Businesses must recognize that government priorities will directly shape their operating environment. Policies on governance reform, strategic alliances, investment attraction, and innovation will present both opportunities and challenges. Understanding these shifts and aligning business strategies accordingly will be essential for long-term success.

The private sector will not only be affected by these policies but is also expected to play a proactive role. Whether through advocating for reforms, engaging in partnerships, investing in key sectors, or driving sustainability initiatives, businesses must be prepared to respond strategically. The decisions made today will determine their competitive standing in the years ahead.



These evolving government strategies demand a strategic response from businesses. With reforms in motion, companies must position themselves to benefit from an improved regulatory environment, capitalize on investment incentives, seek collaborative opportunities, and integrate innovation into their models.

Reforming governance means *bureaucracy reform*

Bureaucracy reform will be at the center stage of reforming governance, a critical step toward creating a more business-friendly environment. The government's agenda is expected to include measures to improve ease of doing business by reducing red tape, streamlining administrative processes, and accelerating digital transformation in public services. These reforms aim to improve competitiveness by eliminating inefficiencies that have long hindered investment and economic growth.

Beyond improving efficiency, bureaucracy reform is also about minimizing leakages and financial losses. This will require a major undertaking in cost-cutting measures and revenue reform, ensuring that public funds are used effectively. The government is expected to intensify its fight against corruption, improving accountability and preventing financial mismanagement.

For the private sector, this presents a unique momentum to actively participate in shaping a better business climate. Companies can use this momentum to voice longstanding concerns about regulatory bottlenecks and excessive bureaucratic costs. By pinpointing specific inefficiencies and advocating for greater transparency, businesses can contribute to more effective reforms. Furthermore, the private sector can support the government in implementing these changes by offering expertise, technology, and best practices in governance efficiency.

Seeking alliances means *development collaboration*

The government will seek for partnership in national development. This means a collaboration to leveraging both public and private sector strengths to accelerate socioeconomic improvements and infrastructure expansion, ensuring long-term sustainable growth.

The private sector will be called upon in two major ways. *First*, businesses will be encouraged to participate in delivering social improvements, particularly in critical areas such as healthcare, nutrition fulfilment, education, and housing. These sectors require significant investment and expertise, and the government will look to businesses to contribute through both direct involvement and supportive initiatives.

***Second*, the government will urge the private sector to play a more central role in public infrastructure development.** Key areas such as energy, transportation (road and port networks), and water resources will require substantial private investment, technical know-how, and operational efficiency to meet the country's growing demands.

For businesses, this presents a major opportunity to engage in Public-Private Partnerships. Companies can participate through various

modalities—some as part of corporate social responsibility (CSR) programs, while others as commercially viable business growth opportunities. By aligning their strategies with national development priorities, businesses can not only contribute to Indonesia's progress but also unlock new markets, secure long-term revenue streams, and enhance their corporate reputation.

Drawing investment means *strategic industrialization*

To effectively attract and sustain foreign investment, the government will be required to establish a well-defined industrialization strategy that enhances Indonesia's production capabilities and economic resilience. Such approach is needed to attract and cater investments flow as investors will value good planning and attention from the government towards corresponding industries.

First, a key priority will be expanding downstream and upstream industrial activities. The government is expected to reinforce downstream industries by implementing export restrictions that encourage domestic processing of raw materials, thus maximizing value-added production. Simultaneously, upstream development will be supported through local content requirements, ensuring that domestic industries can supply the necessary materials and components to reduce reliance on imports and enhance supply chain integration.

Second, to further boost industrial competitiveness, the government will need to enhance industrial agglomeration by optimizing Special Economic Zones (SEZs), industrial clusters, and Strategic National Priority (PSN) projects. These initiatives provide crucial incentives, modern infrastructure, and an enabling regulatory environment to attract large-scale investments. A well-planned industrial landscape will create synergies between businesses, foster innovation, and streamline production processes.

For the private sector, these efforts represent significant opportunities for investment and business expansion. Companies can benefit by investing in high-growth industries, forging strategic partnerships, consolidating supply chain ecosystems, and strengthening vertical integration. Those that align their business strategies with the government's industrial policies will be well-positioned to capitalize on incentives and market advantages, securing a stronger foothold in Indonesia's evolving industrial landscape.

Pursuing innovation means *green economy*[83,84]

One of the most transformative opportunities for Indonesia's development lies in the green economy. With 75-80% of the world's carbon sinks, including 20% of global mangroves, 37% of peatlands, and 25 Gt of stored rainforest carbon, Indonesia has an unparalleled opportunity to monetize its natural capital through carbon trading and climate finance. If fully developed, the carbon market alone could generate up to $150 billion in annual revenue,

[83] IBC, 2024

[84] Abatable, 2024

positioning Indonesia as a key player in global sustainability efforts while advancing its net-zero commitments.

Energy transition is Indonesia's pathway to industrial decarbonization and economic competitiveness. With abundant solar, wind, biofuels, and geothermal resources, Indonesia can achieve energy independence while attracting large-scale foreign investment in renewable energy infrastructure, hydrogen production, and carbon capture technologies. Additionally, emerging carbon pricing mechanisms, including Emissions Trading Systems (ETS) and carbon taxes, offer a dual benefit: supporting decarbonization while ensuring economic competitiveness.

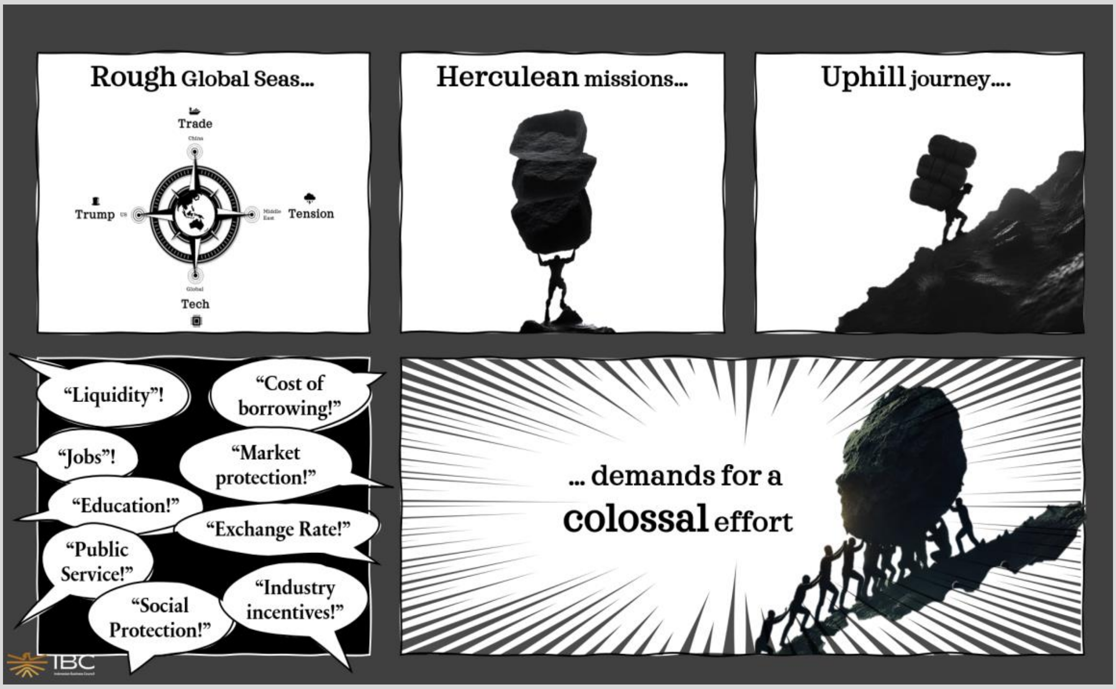
Another high-growth opportunity lies in carbon trading, yet regulatory and market inefficiencies must be addressed to unlock its full potential. The launch of IDXCarbon in September 2023 has positioned Indonesia ahead of regional peers, with transactions surpassing 459,970 tonnes of CO_2 in its first month. However, regulatory fragmentation, weak governance, and gaps in monitoring, reporting, and verification (MRV) systems remain barriers to market scalability. To ensure long-term investor confidence, Indonesia must harmonize regulations, enhance the National Carbon Registry (SRN-PPI), strengthen public-private partnerships.

For the private sector, the transition to a green economy represents both a challenge and an opportunity. Businesses that proactively integrate ESG-aligned strategies, adopt carbon offsetting mechanisms, and invest in green supply chains will not only meet global compliance standards but also unlock new revenue streams. The ability to navigate evolving ESG regulations and leverage carbon markets will define which companies thrive or fall behind in the new green economy.

The key to thriving in 2025 will be agility and alignment—businesses that recognize emerging trends, engage with policymakers, and contribute to national priorities will not only ensure compliance but also gain a significant competitive edge. In the following sections, we will explore each of these elements in greater detail, outlining how businesses can effectively adapt and seize new opportunities.

CHAPTER 5

CONCLUSION



Indonesia moves into 2025 at a moment where the nation must navigate rising global uncertainties while striving to conquer domestic hurdles. External forces—ranging from U.S. protectionism and shifting trade and investment patterns to geopolitical tensions in the Middle East and rapid technological advancements—will shape Indonesia's business and economic trajectory. Simultaneously, persistent domestic challenges, including structural bottlenecks, financial constraints, and bureaucratic challenges, continue to pose hurdles to long-term resilience and growth. All of this unfolds amid the government's ambitious national development commitments, adding further intricacy to the path ahead

Despite these challenges, Indonesia possesses significant opportunities to strengthen its economic position. The government's commitment to industrialization, investment attraction, energy transition, and public welfare initiatives reflects a strategic vision for sustainable and inclusive growth. However, the success of this vision hinges on the country's ability to implement key reforms, enhance governance, and foster a more competitive business environment.

Navigating External Uncertainties with Strategic Agility

Indonesia must remain adaptable to evolving global dynamics, ensuring that trade policies, investment strategies, and fiscal management align with shifting geopolitical and economic realities. Strengthening trade diversification, deepening regional cooperation, and leveraging Indonesia's strategic position in global supply chains will be crucial for mitigating external risks.

Addressing Domestic Structural Constraints

While economic transformation remains a priority, Indonesia must first tackle internal structural weaknesses. Enhancing industrial capacity, boosting financial sector depth, improving human capital development, and streamlining bureaucratic processes are fundamental to unlocking long-term economic potential. Without these foundational improvements, sustaining high growth and investment momentum will be difficult.

Leveraging Innovation for Sustainable Growth

As global competition intensifies, Indonesia must prioritize technological advancements and innovation-driven policies. Investing in digital transformation, artificial intelligence, and green economy initiatives will not only strengthen industrial competitiveness but also position Indonesia as a leader in emerging sectors such as renewable energy and carbon markets.

Fostering Public-Private Collaboration for National Development

Achieving Indonesia's ambitious economic targets will require a whole-of-nation approach. The private sector must align its strategies with national priorities, actively participating in investment, infrastructure development, and workforce upskilling. Meanwhile, the government must create a regulatory environment that fosters business confidence, encourages entrepreneurship, and promotes long-term investment.

Indonesia's future hinges on bold decision-making, cohesive policymaking, and strong commitment from all stakeholders. Policymakers must drive structural reforms, businesses must embrace risk mitigation, innovation, and investment strategies, and institutions must foster resilience to maintain global competitiveness. In a rapidly evolving world, the choices made today will determine whether Indonesia strengthens its position or falls behind.

Collaboration and synchronicity must also be pursued to ensure that Indonesia's economic ambitions move in a unified direction toward tangible progress. Effective coordination between government agencies, businesses, and financial institutions is essential to overcoming policy misalignment and bureaucratic inefficiencies. Strengthening public-private partnerships can accelerate infrastructure development, enhance industrial competitiveness, and drive technological advancements. At the same time, regional cooperation within ASEAN, BRICS, and beyond will be crucial in navigating shifting trade dynamics and securing Indonesia's position in global value chains. A unified approach, where all stakeholders move in sync, will be key to sustaining momentum and achieving long-term economic resilience.

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