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Import Policy Reform and Strategic Adaptation

Indonesia’s Path Through the New Global Trade Landscape

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About This Policy Paper

This paper is produced by the IBC Institute, the research and policy arm of the Indonesian Business Council (IBC), to provide timely insights and strategic direction amid a period of acute global trade uncertainty.

Developed during the height of escalating trade tensions—specifically the proposed 32% tariff by the United States on Indonesian exports—this paper responds to a fast-evolving situation. At the time of publication, diplomatic negotiations between Indonesia and the U.S. are still underway, while broader geopolitical and supply chain shifts continue to unfold. The urgency of this moment calls for clear thinking, grounded policy recommendations, and informed stakeholder input. The paper is intended to contribute to that conversation by offering a forward-looking, evidence-based response grounded in national priorities and business realities.

In preparing this paper, IBC drew from several national policy frameworks, including the Rencana Induk Pembangunan Industri Nasional (RIPIN) 2015–2035, the draft RPJMN 2025–2029, and President Prabowo Subianto's Asta Cita agenda. These documents provided critical context for aligning trade policy, particularly on the import side, with Indonesia's broader development objectives.

To that end, this paper also serves as a platform for the perspectives of IBC members, gathered through a recent Focus Group Discussion involving senior leaders from key sectors across Indonesia's economy. Their concerns are real: several industries face significant exposure to the proposed tariffs, and the potential for job losses is no longer hypothetical—it is imminent if the policy is enacted without mitigation.

IBC believes this issue deserves immediate, structured, and strategic policy attention. This paper offers a set of proposals and a longer-term vision not just to respond, but to reform and rise up.

EXECUTIVE SUMMARY

I Indonesia's approach to trade policy is under renewed scrutiny following a series of global developments that challenge its trade posture and economic resilience. The urgency of reform is underlined by the recent announcement of a proposed 32% U.S. tariff on Indonesian exports, affecting critical labor-intensive sectors such as electronics, furniture, apparel, and rubber products. In response, Indonesia has proposed to increase imports from the U.S. by up to $19 billion, covering LNG, crude oil, soybeans, wheat, and machinery, as a gesture to rebalance bilateral trade. This short-term diplomatic maneuver, discussed in Chapter 5 under "Response," is a pragmatic step, but not a substitute for deeper structural action.

The loss of Generalized System of Preferences (GSP) status since December 2020 has already made Indonesian goods less price-competitive in the U.S. if left unaddressed, the new tariff regime would further erode this position. Re-negotiating GSP eligibility will be a difficult challenge. The Trump administration has previously revoked GSP eligibility from countries such as India and Turkey over trade imbalances and other concerns. At the same time, shifting dynamics with key economic partners, particularly China and ASEAN, require a more coordinated and forward-looking stance to ensure national interests are safeguarded without losing access to global markets.

This policy paper offers an assessment of Indonesia's trade regime, particularly on the import side. It outlines seven core objectives that should guide import-related decision-making, drawing from the country's national development blueprints, including the Rencana Induk Pembangunan Industri Nasional (RIPIN) 2015–2035, RPJMN 2025–2029, and the President's Asta Cita agenda. These goals include ensuring affordable inputs for domestic producers, supporting industrial competitiveness without over-reliance on protectionism, simplifying non-tariff measures, promoting strategic investment flows, and maintaining a healthy trade balance.

Further granularity on how import policy intersects with sectoral needs is provided in Chapter 4. For example, the manufacturing sector requires sustained access to competitively priced intermediate inputs and capital goods - yet is often held back by tariff escalation and burdensome non-tariff measures. The agricultural sector struggles with balancing food self-sufficiency goals and inflation risks, especially in volatile years like 2023 when El Niño disrupted rice production. Meanwhile, the energy sector faces dual pressures: ensuring energy security while also preparing for a green transition that hinges on importing advanced technologies. Across these sectors, the paper argues for a differentiated approach to import governance—tailoring policies by sector, product type, and strategic function.

To move forward, in chapter 5 the paper proposes a three-pronged strategy:

- Response (Short-Term): Address the U.S. tariff escalation through diplomacy, including expanding imports of U.S. goods to reduce the bilateral trade gap and pressing for the reinstatement of the Generalized System of Preferences (GSP). Domestic measures—such as the formation of a presidential task force—are also underway to cushion the impact on vulnerable industries and employment.
- Reform (Medium-Term): Introduce structural improvements to the import system by rebalancing tariffs, modernizing customs, improving import-related transparency, and making local content regulations (TKDN) more realistic. Sector-specific reforms are emphasized, especially in manufacturing, agriculture, and energy, to ensure a more enabling ecosystem for businesses and exporters.
- Rise Up (Long-Term): Turn present trade risks into long-term advantage by deepening supply chain integration, attracting foreign investment into productive sectors, and expanding Indonesia's regional consumer base. Strategic cooperation with China, for example, should go beyond trade flows and focus on co-investment, productivity gains, and middle-class expansion.

Insights from Indonesian Business Council (IBC) members, who represent key voices across industries, have been woven into the analysis and recommendations. Their input underscores the need for a coherent import policy that does not compromise national capability or competitiveness in the name of short-term fixes. These views helped shape the practical recommendations. A recurring theme is that Indonesia's import regime must shift from reactive, fragmented protectionism to a system that is transparent, calibrated, and aligned with industrial and export ambitions.

The paper concludes that Indonesia cannot afford to approach trade policy piecemeal. A credible trade strategy, particularly on import, must be intentional, coordinated across ministries, and attuned to the structural shifts in global commerce. What is at stake is more than tariff schedules - it is Indonesia's ability to grow, compete, and lead in a fragmented but opportunity-filled global economy.

1 THE NEED TO RE-ARTICULATE OUR IMPORTING GOALS

In response to escalating global trade uncertainties, the Indonesian government convened the Sarasehan Ekonomi on April 8, 2025, serving as a strategic platform to gather insights from economists, industry leaders, and policymakers. Presided over by President Prabowo Subianto, the forum underscored the nation's commitment to fortifying economic resilience through pragmatic policy adjustments.

A central focus of the discussions was the optimization of import policies, particularly concerning the Domestic Component Level (TKDN) regulations. President Prabowo emphasized the necessity for TKDN rules to be more flexible and realistic, acknowledging that overly rigid requirements could compromise the competitiveness of domestic industries. He suggested that instead of enforcing stringent local content mandates, the government should consider providing incentives to encourage the use of domestic components, thereby balancing industrial growth with global market demands.

Furthermore, the President called for the elimination of import quotas, especially for essential commodities, to ensure the availability of goods that are vital to the populace's well-being. He argued that such quotas often lead to inefficiencies and hinder the smooth flow of trade. In line with this, the government announced plans to establish an Economic Deregulation Task Force tasked with reviewing and streamlining regulations related to exports, imports, and TKDN, aiming to create a more conducive environment for business operations and investment.

President's remarks during the the event, particularly his call for more flexible Domestic Component Level (TKDN) regulations and the elimination of import quotas, have sparked a wide array of reactions across Indonesia's economic and industrial sectors. While many stakeholders welcomed the shift towards a more pragmatic and incentive-based approach to industrial policy, others expressed concerns about the potential implications for domestic industries and long-standing protectionist measures. Some industry observers caution that relaxing TKDN requirements and removing import quotas could lead to market flooding by foreign goods, potentially undermining local manufacturers and small and medium enterprises (SMEs).

The diverse reactions to President Prabowo Subianto's recent directives on import policies underscore the necessity for Indonesia to clearly redefine its import objectives. Without a well-defined strategy, import policies risk becoming reactive measures that may inadvertently hinder industrial growth, compromise food and energy security, or deter foreign investment.

Drawing from Indonesia's national development frameworks, including the Long-Term National Development Plan (RPJP) 2005–2025, the Medium-Term Development Plan (RPJMN), and President Prabowo Subianto's Asta Cita, seven strategic objectives can be identified to guide the nation's import policy. These objectives aim to harmonize the country's import strategies with its broader goals of economic resilience, industrial competitiveness, and sustainable development

Goal 1: Balanced Trade Openness with Development Goals.

Indonesia must strike a balance between open trade and industrial sovereignty. This aligns with RIPIN 2015–2035 and RPJMN 2025–2029, which call for strengthening domestic industry while integrating into global markets. Global best practices suggest maintaining moderate tariffs and minimizing trade barriers to integrate into supply chains, yet also using selective measures to support infant industries[1,2]. An optimal strategy combines openness with *targeted* protection where justified.

Goal 2: Support Industrialization without Excess Protection.

Import policy can stimulate local industry when combined with targeted support. The approach supports RIPIN's strategic sectors and Asta Cita Mission 6 on building a sustainable, independent economy. Low tariffs or duty exemptions on capital goods and intermediate inputs help local manufacturers stay competitive and join global value chains[3]. By contrast, blanket high tariffs or local-content rules risk raising costs and fostering complacency among firms, yielding "easy profits" without efficiency gains[4]. Any protective measures should be time-bound and performance-linked to truly aid long-term industrialization. The approach supports RIPIN's strategic sectors and Asta Cita Mission 6 on building a sustainable, independent economy.

Goal 3: Affordable Goods for Consumers and Producers.

Keeping import duties should consider RPJMN 2025–2029 objectives to control inflation on essential consumer goods and industrial inputs at reasonable levels which is crucial for affordability while upholding social welfare. Indonesia's average applied tariff is about 8%, relatively modest, but tariffs have risen on items from electronics to food in recent years to shield local producers[5]. Policymakers must weigh short-term consumer benefits of low import prices against the longer-term goal of developing competitive local supply – a calibrated approach is needed to avoid undue price inflation or consumer welfare losses.

Goal 4: Streamlined Non-Tariff Measures (NTMs).

Simplifying NTMs aligns with RPJMN's focus on reducing bureaucratic barriers and Asta Cita's aim for improved governance and investment facilitation. Indonesia employs various non-tariff measures – import

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[1] World Bank. *Trade Protectionism and Indonesian Policy for Intermediate Industry: Analysis Based on Firm-Level Data.* World Bank Group, November 2018. https://documents1.worldbank.org/curated/en/251051540825428024/pdf/131460-WP-PUBLIC-Trade-Protectionism-and-Indonesian-Policy-for-Intermediate-Industry.pdf.

[2] Basri, Chatib. "Trade Policy in Indonesia: Between Ambivalence, Pragmatism, and Nationalism." *Bulletin of Indonesian Economic Studies* 57, no. 3 (2021): 269–290. https://doi.org/10.1080/00074918.2021.1986273.

[3] World Bank, *ibid.*

[4] World Bank, *ibid.*

[5] U.S. International Trade Administration. "Indonesia – Import Tariffs." Last modified January 9, 2024. https://www.trade.gov/country-commercial-guides/indonesia-import-tariffs

licensing, quotas, local content rules – to manage imports and protect sectors[6]. While some regulation is necessary (e.g. health standards), excessive NTMs can distort markets. Studies indicate certain Indonesian NTMs impose cost equivalents of a 30% tariff on imports[7], undermining competitiveness. Best practice is to simplify or remove onerous NTMs, use transparent standards, and align with international norms to facilitate trade.

Goal 5: Leveraged Trade for Investment and Global Integration.

A predictable, open import regime can make Indonesia more attractive for foreign direct investment (FDI) and integration into global production networks. This is in line with RIPIN's goals for enhancing industrial competitiveness and Asta Cita's vision of self-reliant economic development through FDI and regional trade engagement. Countries like Vietnam and Mexico have used open trade and free trade agreements to become manufacturing hubs, showing the benefits of liberal import policies combined with investment promotion. Indonesia can similarly lure investors by assuring access to imported inputs and larger export markets – while avoiding inward-looking protectionism that could deter high-value FDI[8].

Goal 6: Macroeconomic Stability.

Import policy is intertwined with macroeconomic health – large import surges can widen the trade deficit and pressure foreign exchange reserves. Indonesia has in the past tightened import controls (e.g. raising import taxes on 1,147 goods in 2018) and promoted biofuels to curb costly oil imports[9], aiming to protect the rupiah. Going forward, a proactive import strategy should maintain a sustainable trade balance by encouraging exports (through competitive inputs) and avoiding import restrictions that cause shortages or high inflation. Prudent use of tariffs and import licensing can help address balance of payments pressures, but deeper solutions lie in boosting export capacity and productivity. A responsive import policy that supports external balance aligns with RPJMN 2025–2029's macroeconomic objectives and Asta Cita Mission 1 on strengthening resilience in food, energy, and strategic resources.

Goal 7: Sectoral Competitiveness.

Differentiated import policies for manufacturing, agriculture, and energy should reflect RIPIN's sectoral priorities and the Asta Cita doctrine, emphasizing both sovereignty and modern competitiveness. In manufacturing, moderate tariffs and facilitative customs help firms join supply chains, whereas in agriculture some import limits may protect farmers but raise consumer prices – requiring delicate trade-offs. In energy, import policies (for fuel, machinery, and technology) affect both energy security and industrial growth. Indonesia's strategy must be nuanced by sector, aligning with domestic development priorities while honoring international commitments. Stakeholder input – from industry and consumer groups to multilateral partners – should inform these tailored policies to ensure they are future-focused and equitable.

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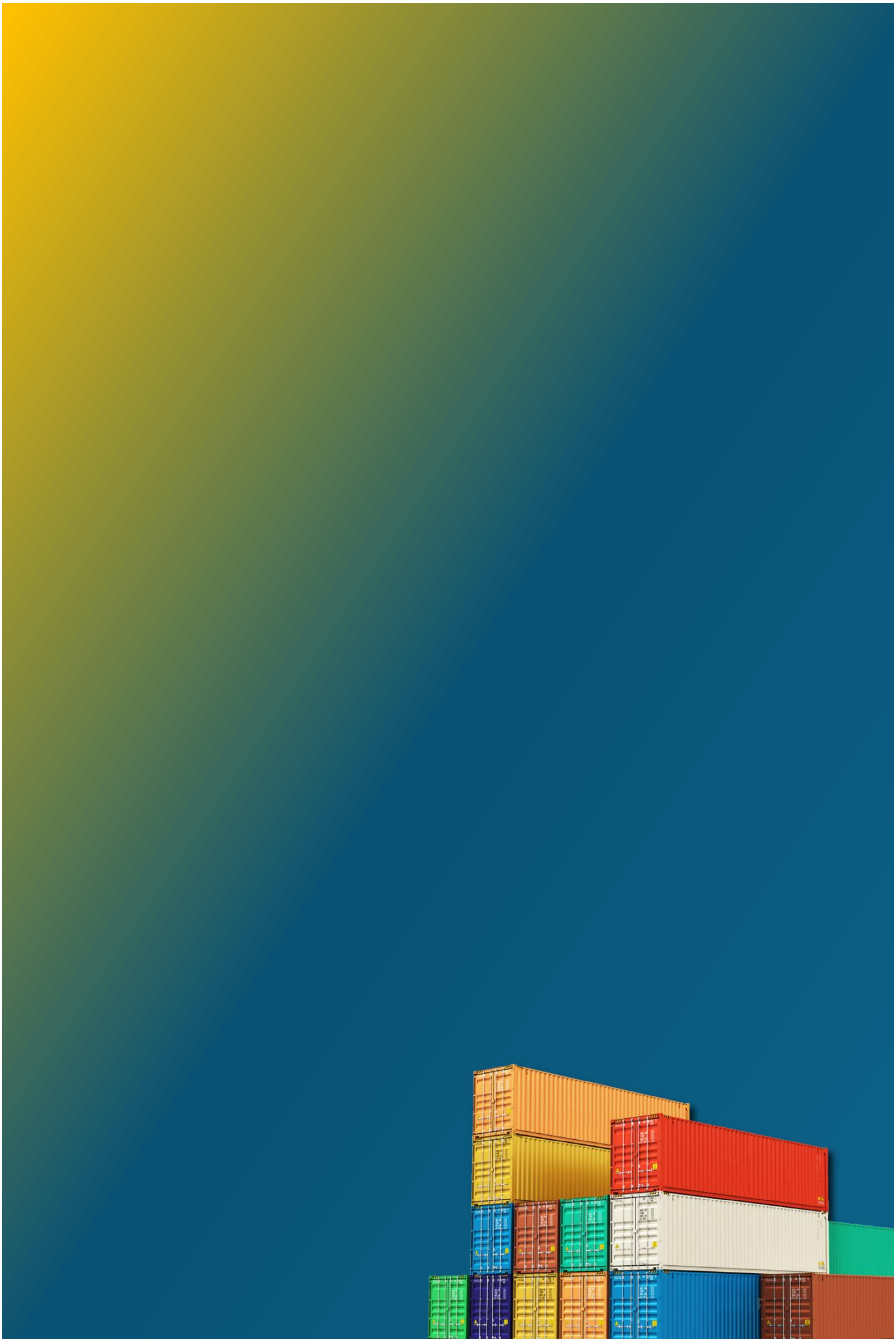
[6] U.S. Department of Commerce, International Trade Administration. "Indonesia - Trade Barriers." *Country Commercial Guide.* Last updated 2023. https://www.trade.gov/country-commercial-guides/indonesia-trade-barriers.

[7] World Bank. "Indonesia Can Use Trade Policies to Accelerate Its Green Transformation." *World Bank Blog,* March 2023. https://blogs.worldbank.org/eastasiapacific/indonesia-can-use-trade-policies-accelerate-green-transformation.

[8] World Bank. *Trade Protectionism and Indonesian Policy for Intermediate Industry: Analysis Based on Firm-Level Data.* World Bank Group, November 2018. https://documents1.worldbank.org/curated/en/251051540825428024/pdf/131460-WP-PUBLIC-Trade-Protectionism-and-Indonesian-Policy-for-Intermediate-Industry.pdf.

[9] KPMG Indonesia. Tax News Flash: September 2018 – Emergency Import Tax Hikes and Fiscal Response to Rupiah Pressure. Jakarta: KPMG Indonesia, September 2018. https://assets.kpmg.com/content/dam/kpmg/id/pdf/2018/09/id-tnf-september-2018.pdf.



2 MACRO-LEVEL TRENDS AND POLICY OPTIONS

International institutions emphasize that open trade regimes tend to support stronger growth in developing countries, provided complementary policies are in place[10]. Best practices include maintaining relatively low Most-Favored Nation (MFN) tariffs, reducing quotas and bans except for justified cases, and implementing the WTO Trade Facilitation Agreement to streamline customs. Many successful emerging economies have gradually lowered import barriers as their industries matured, using tariffs more as a *calibrated tool* than a blanket shield. For example, economies that committed early to trade openness in East Asia achieved rapid industrialization by importing advanced inputs and capital goods freely, while those that relied on prolonged import substitution (e.g. some Latin American cases) often saw limited competitiveness gains[11]. Broadly, the trend is toward tariff simplification and NTM reduction, balanced with targeted safeguards for sensitive sectors.

Indonesia's Trade Policy Trajectory.

Indonesia's import policy has oscillated between liberalization and protectionism, reflecting an ambivalent stance[12]. Data from U.S. International Trade Administration[13] indicates that on one hand, Indonesia has bound over 96% of its tariff lines in the WTO and keeps a moderate applied tariff (averaging ~8.1% in 2021). Many manufactured imports enter at 0–5% duty, supporting affordable inputs for industry. The government has also pursued numerous trade agreements (ASEAN, RCEP, etc.), signaling openness. On the other hand, recent years saw tariff increases on goods that compete with local products – electronics, machinery, chemicals, consumer goods, and more. Indonesia's WTO bound tariff ceilings are relatively high (average bound ~37%, with many industrial goods bound at 35%+), giving scope to raise tariffs if desired. This policy flexibility has sometimes been used to protect domestic firms, but at the cost of higher prices and potential WTO disputes. Indeed, U.S. stakeholders have alleged Indonesia applied duties above bound rates on certain IT products, highlighting tensions between protectionist impulses and international commitments.

[10] World Bank, *ibid*.

[11] United Nations Conference on Trade and Development (UNCTAD). *Non-Tariff Measures and Regional Integration in the ASEAN Region*. UNCTAD/DITC/TNCD/2017/5. Geneva: UNCTAD, 2017. https://unctad.org/system/files/official-document/ditctncd2017d5_en.pdf.

[12] Basri, Chatib. "Trade Policy in Indonesia: Between Ambivalence, Pragmatism, and Nationalism." *Bulletin of Indonesian Economic Studies* 57, no. 3 (2021): 269–290. https://doi.org/10.1080/00074918.2021.1986273.

[13] U.S. International Trade Administration (U.S. Department of Commerce). "Indonesia – Import Tariffs." Last modified January 9, 2024. https://www.trade.gov/country-commercial-guides/indonesia-import-tariffs

Role of Import Tariffs in Fiscal and Industrial Policy.

Like many developing nations, Indonesia traditionally derived government revenue from import duties, though their share has declined as the tariff regime liberalized. With tax-to-GDP still low, officials face pressure to not forgo tariff revenue. However, over-reliance on import taxes can distort markets. The World Bank[14] warns that protecting industries via high tariffs in Indonesia has largely been ineffective, often *harming* the very producers it meant to help. Higher import costs raise input prices for downstream manufacturers and consumers alike. For instance, a study found that imposing higher tariffs in Indonesia tended to hurt domestic producers in that sector (due to costlier inputs and reduced competitive pressure) as well as industries using those inputs. This creates a lose-lose: consumers pay more, and local firms risk stagnation without competition. Maintaining open access to raw materials and intermediate goods boosts competitiveness. Indonesia's automotive parts sector shows how foreign investment and local sourcing can thrive without heavy import barriers. Moderate, predictable tariffs—combined with infrastructure, skills, and incentives—support industrial growth more effectively than protectionism. Any temporary protection should be tied to clear productivity targets.

Non-Tariff Measures and Import Licensing.

Beyond tariffs, Indonesia deploys numerous non-tariff measures (NTMs) that affect imports. These include import licensing schemes, quotas, outright import bans on certain goods, local content requirements, and complex product standards. While such measures can address legitimate goals (food security, safety standards, etc.), they often introduce administrative hurdles and opaqueness. Indonesia's import licensing for agriculture is a case in point: to protect farmers, licenses tightly control inflows of rice, sugar, horticulture products, meat, etc. U.S International Trade Administration pointed[15] that since 2012, stringent import licenses and seasonal import bans on key staples have been in place. For example, sugar imports are seasonally banned and otherwise subject to quotas based on production forecasts. Beef imports have required importers to navigate extensive questionnaires and facility audits by Indonesian officials. These rules, while aiming to bolster domestic agriculture, have raised trade tensions (the WTO ruled some Indonesian agricultural import restrictions violated trade rules) and often led to higher domestic prices. Another NTM is the monopoly given to state agency BULOG for importing feed corn, effectively restricting private imports and sometimes causing feed shortages for poultry farmers. Such NTMs can backfire – in this case, small poultry farmers faced feed scarcity and rising costs due to import limits, illustrating the unintended consequences on downstream industries. More broadly, studies estimate that Indonesia's myriad NTMs add significantly to import costs; for green technology goods, certain non-tariff barriers were found to impose an extra burden equivalent to a 30% tariff[16]. Global best practice urges simplifying NTMs: use risk-based health and safety checks, move toward international standards (to avoid redundant certification), and ensure any import licensing is transparent and WTO-consistent. Indonesia has begun reforms in this direction – e.g. adopting an online single submission system and trimming some import permit requirements – but further streamlining is needed to eliminate redundant or protectionist NTMs that do little beyond raising business costs.

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[14] World Bank. *Trade Protectionism and Indonesian Policy for Intermediate Industry: Analysis Based on Firm-Level Data.* World Bank Group, November 2018. https://documents1.worldbank.org/curated/en/251051540825428024/pdf/131460-WP-PUBLIC-Trade-Protectionism-and-Indonesian-Policy-for-Intermediate-Industry.pdf.

[15] International Trade Administration (U.S. Department of Commerce). "Indonesia - Trade Barriers." *Country Commercial Guide*, updated 2023. https://www.trade.gov/country-commercial-guides/indonesia-trade-barriers

[16] World Bank. "Indonesia Can Use Trade Policies to Accelerate Its Green Transformation." *World Bank Blog,* March 2023. https://blogs.worldbank.org/eastasiapacific/indonesia-can-use-trade-policies-accelerate-green-transformation.

Trade Facilitation and Customs Reforms.

An often overlooked aspect of import policy is how imports are processed. Lengthy port clearance, cumbersome documentation, or unpredictable customs valuations act as de facto import barriers. Indonesia's logistics and customs performance has room for improvement; its score on the World Bank's Logistics Performance Index lags peers like Malaysia and Thailand[17]. Recognizing this, the government has implemented a series of customs modernization initiatives – electronic clearance, pre-arrival document submission, and participation in the ASEAN Single Window. According to WTO monitoring, Indonesia's implementation of the Trade Facilitation Agreement has already reduced import licensing times by about 4 days on average[18]. Further customs reforms (such as advance rulings on tariffs/origin[19], risk-management to reduce physical inspections, and improved border agency coordination) can ensure that necessary imports (whether consumer goods or industrial inputs) enter swiftly and at lower cost. This boosts Indonesia's attractiveness in global supply chains – modern manufacturers often rely on just-in-time imported components, so each day of customs delay matters.

Stakeholder Perspectives.

Each stakeholder group views import policy through a different lens:

The Indonesian government

Seeks to use imports to advance development goals – keeping a lid on imports of final goods that compete with "infant" local industries, yet ensuring access to critical inputs/technologies.

It also values import tariffs/permits as instruments for revenue and macro stability. Government rhetoric sometimes invokes economic nationalism, urging self-reliance, but pragmatism has also led to reformist moves (e.g. the Omnibus Law 2020 reduced some trade barriers in order to attract investment.

Domestic industries

Often lobby for protection or local content rules to secure the home market. They argue this gives them breathing room to grow.

Sectors like steel, textiles, electronics assembly, and agriculture have all pressed for import curbs at times. However, more dynamic Indonesian firms (especially those integrated in global value chains) also need imported raw materials and may oppose onerous NTMs. For instance, Indonesian exporters of furniture or electronics benefit from cheap imported inputs and faster customs clearance more than from high tariffs that raise their costs.

Consumers

Generally benefit from liberal import policies through lower prices and greater variety, especially for food staples, electronics, and household goods that Indonesia does not produce competitively.

Indonesian consumer groups have voiced concerns when import restrictions led to sharp price increases – for example, import limits on beef a decade ago drove local beef prices far above world levels, hurting consumers. There is a political dimension: middle-class consumers appreciate affordable

Multilateral institutions and trade partners

Advocate for Indonesia to adhere to WTO rules and avoid beggar-thy-neighbor policies.

The World Bank and IMF consistently recommend Indonesia streamline trade restrictions and lower tariffs to boost productivity and integration (World Bank Document). Trade partners (like the U.S., EU) have flagged specific policies – e.g. the Local Content Requirement (TKDN) – as barriers. The U.S. threatened high retaliatory tariffs (32%) on Indonesian goods, explicitly citing Indonesia's local content rules and

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[17] Patunru, Arianto A. "*Trade Policy in Indonesia: Between Ambivalence, Pragmatism, and Nationalism.*" ISEAS–Yusof Ishak Institute Perspective Paper No. 2023/33. Singapore: ISEAS, August 2023. https://static1.squarespace.com/static/6073e7bd03c5b9274751137e/t/650bb3ad99d68d1298c2b5f5/1695265710514/Arianto+Patunru.pdf

[18] Angela Ellard, "Trade Facilitation Agreement: Eight Years of Cutting Trade Costs and Boosting Growth for All Members," *WTO Blog*, 26 February 2025, https://www.wto.org/english/blogs_e/ddg_angela_ellard_e/blog_ae_26feb25_e.htm

[19] Ing, Lili Yan, and Witada Anukoonwattaka. "Indonesia: NTMs and the Trade Policy Making Process." In *The Development Dimension of Non-Tariff Measures: Policy Use and Coordination in Indonesia*, edited by Lili Yan Ing, Santiago Fernández de Córdoba, and Olivier Cadot, 63–90. Jakarta: ERIA–UNCTAD, 2016. https://www.eria.org/uploads/9_Ch_4-Indonesia.pdf.

imported goods, whereas rural populations value the protection given to farm commodities. Policymakers must balance these constituencies.	complex import licensing as "unfair trade practices". This indicates Indonesia cannot ignore international pressure and the risk of trade partner retaliation when designing import policies.

Macroeconomic Trade-Offs.

Import policy has direct implications for trade balance, foreign exchange (FX) reserves, and currency stability. Indonesia has experienced both trade surpluses and deficits depending on commodity cycles and domestic demand. During boom times, liberal imports posed little issue as strong exports (e.g. of coal, palm oil) funded the import bill. But in periods of external stress – for instance, the 2013 "Taper Tantrum" crisis – Indonesia's large import bill (especially for oil) contributed to a wide current account deficit (~3.5% of GDP), which, in turn, put severe pressure on the rupiah. Policymakers responded with emergency measures: cutting fuel subsidies to reduce oil import demand, and *liberalizing* certain food imports (beef, rice) to curb inflation and social pressures[20]. This episode underscores that import policy is used as a macroeconomic lever in both directions – sometimes restricting imports to save foreign exchange, other times relaxing them to stabilize prices. Again in 2018, facing a depreciating rupiah, the government raised import tax (PPh Pasal 22) rates on over 1,000 consumer goods (from 2.5% to 10%) to discourage imports of non-essential items - and simultaneously accelerated the B20 biodiesel mandate (greater palm oil blending in diesel) to cut crude oil import needs, and deferred some import-intensive infrastructure projects[21]. These measures aimed to ease the current account deficit and stabilize foreign exchange reserves, but abrupt import restrictions risk business disruption, inflation, and smuggling. While import tax hikes may temporarily support the rupiah, they raise costs for retailers and consumers. The real challenge lies in managing import growth in line with exports—avoiding ad-hoc protectionism that erodes investor confidence. A more sustainable path is to boost export competitiveness and attract FDI, not restrict inputs. Maintaining access to imported components enables higher-value exports and shields the economy from commodity shocks.

In sum, at the macro level Indonesia should pursue an import policy that is open by default – enabling access to world-class inputs and consumer goods at reasonable cost – and strategic where needed – intervening with well-justified measures to develop key industries or safeguard stability. The evidence suggests that transparency, consistency, and alignment with global rules are keys to success: unpredictable or protectionist-leaning policies tend to deter investment and can create more costs than benefits[22].

[20] Monash Business School. "How Indonesia and India Navigated the 2013 Taper Tantrum." *IMPACT Policy Briefs.* Monash University, 2023. https://impact.monash.edu/policy-briefs/indonesia-india-taper-tantrum/.

[21] KPMG Indonesia. Tax News Flash: September 2018 – Emergency Import Tax Hikes and Fiscal Response to Rupiah Pressure. Jakarta: KPMG Indonesia, September 2018. https://assets.kpmg.com/content/dam/kpmg/id/pdf/2018/09/id-tnf-september-2018.pdf.

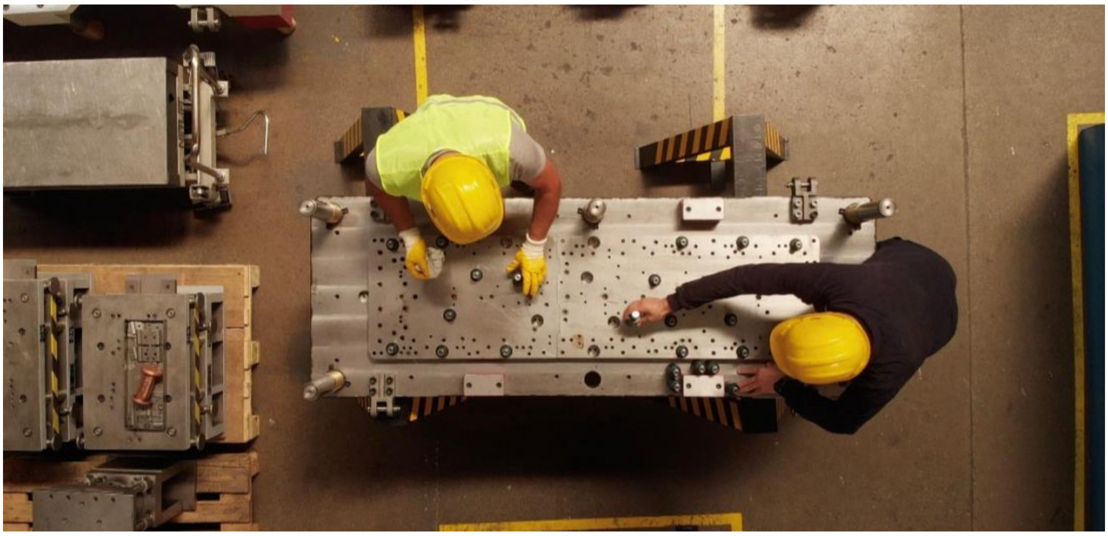
[22] World Bank. *Trade Protectionism and Indonesian Policy for Intermediate Industry: Analysis Based on Firm-Level Data.* World Bank Group, November 2018. https://documents1.worldbank.org/curated/en/251051540825428024/pdf/131460-WP-PUBLIC-Trade-Protectionism-and-Indonesian-Policy-for-Intermediate-Industry.pdf.

By learning from peer experiences and rigorously evaluating its own past measures, Indonesia can refine its import policy mix to support sustainable development.

3 SECTORAL ANALYSIS

3.1. Manufacturing Sector Considerations

Manufacturing is central to Indonesia's aspiration of becoming a higher-income, industrialized economy. Import policy directly shapes the manufacturing sector's cost structure and competitiveness.



The Need for Competitive Inputs.

Most manufacturing industries rely on imported machinery, components, or raw materials. For example, Indonesia's automotive assembly sector imports many parts (engines, electronics) that are not made locally; its electronics and appliance industries import semiconductors and precision parts. High import barriers on these inputs would raise production costs and make Indonesian-made products less competitive at home and abroad. Recognizing this, Indonesia traditionally kept import duties on capital goods and industrial inputs relatively low (often 0-5%). Policies like the Duty Exemption for Exporters (KITE) allow import of inputs tax-free for firms that produce exports. These are positive policies aligning with best practices – successful industrializers often allowed duty-free access to inputs to spur export-oriented manufacturing[23]. Indonesia should continue and expand such schemes, ensuring that bureaucratic hurdles for firms to import inputs under duty exemptions are minimal.

Tariff Escalation and Protection for Finished Goods.

Indonesia, like many countries, has practiced *tariff escalation* – lower tariffs on raw materials, higher on finished consumer goods – to encourage local value addition. For instance, tariffs on completely built cars are high (40% or more for certain vehicles), whereas tariffs on steel or plastics used to make cars are lower. This can indeed stimulate local assembly industries (making it advantageous to produce domestically rather than import the final product). It partly explains why global automakers set up plants in Indonesia: to serve the domestic car market behind a tariff wall. However, the downside is that locally made products might not be competitive for export if they are only viable under the shelter of import tariffs. Indonesia's car industry, for example, sells

[23] Idem with number 22.

millions domestically but exports relatively little (except some models to ASEAN) – a sign that it's not yet globally competitive. The policy trade-off is between short-term growth of domestic industries and long-term efficiency: while moderate tariffs can attract "*tariff-jumping*" investments (FDI that comes to Indonesia to avoid import duties), too much protection can lead to an industry that survives only in the sheltered home market. A global best practice is to gradually reduce tariffs as an industry matures and reaches economies of scale, pushing firms to improve productivity or consolidate. In East Asia, countries like South Korea did protect certain industries in early years but tied that protection to export targets and phased it out over time – ensuring firms eventually faced global competition. Indonesia's policy could emulate this by, say, granting a fixed period of higher import duties for an emerging sector (e.g. electric vehicles or medical devices) coupled with incentives to export, and then lowering the tariff after 5-7 years. Clarity on this timeline would prevent the *moral hazard* of permanent protection.

Local Content Requirements (TKDN).

A signature policy affecting manufacturing is Indonesia's Tingkat Komponen Dalam Negeri (TKDN) rules, which require a percentage of local content in certain products or projects. In manufacturing, this has been applied to sectors like electronics, telecom equipment, and machinery for government procurement. For example, a rule mandated that 4G smartphones sold in Indonesia must have 30% local content (which could be met via local assembly or software) – prompting many phone brands to set up assembly locally. This did create jobs and some transfer of technology in assembly. Similarly, power plant equipment and renewables have had LCRs (as discussed in the energy section). Analysts argued[24] that the intended benefit of TKDN is to stimulate local supplier industries; however, if local inputs are not readily available at the required quality or price, LCRs can slow down investment and raise costs. Many investors see stringent local content rules as a risk – they either have to invest in developing a whole supply chain, or risk penalties. Indonesia's experience shows mixed results: while some assembly industries took root due to LCR (e.g. smartphones), in other cases it delayed projects (renewable energy projects struggled when a 60% local content on solar panels was imposed, since local panel manufacturing was underdeveloped). Under pressure to meet climate targets and attract foreign capital, the government in 2024 relaxed local content rules for renewable energy projects funded by foreign lenders, effectively allowing imports of key components. This policy reversal acknowledges that overly restrictive LCRs were hampering growth and investment. The lesson for manufacturing policy is that local content mandates should be used sparingly and pragmatically: focus on sectors where Indonesia has potential to develop a competitive supplier base, and set achievable content levels. Over time, as local industry strengthens, the requirement can be raised – but it should not start so high that it stalls industry development altogether. Also, offering incentives (tax breaks, training support) for using local suppliers can be more effective than rigid requirements. In line with WTO rules, any LCR applied should be transparent and ideally WTO-consistent (some forms of LCR violate Trade-Related Investment Measures agreements). The World Bank explicitly recommends Indonesia review and relax local content rules that deter growth, suggesting that reducing such requirements would encourage sectoral expansion and FDI[25].

Integrating into Global Value Chains (GVCs).

Modern manufacturing often means being part of cross-border production networks – for instance, making one component that is shipped elsewhere for final assembly. For Indonesia to join GVCs (especially in electronics,

[24] Hogan Lovells. "Indonesia Relaxes Local Content Rules to Energise Green Energy Investment." Hogan Lovells Publications, August 21, 2024. https://www.hoganlovells.com/en/publications/indonesia-relaxes-local-content-rules-to-energise-green-energy-investment.

[25] World Bank. "Indonesia Can Use Trade Policies to Accelerate Its Green Transformation." *World Bank Blog*, March 2023. https://blogs.worldbank.org/eastasiapacific/indonesia-can-use-trade-policies-accelerate-green-transformation.

automotive, textiles), unfettered access to imports is crucial. A study noted that Indonesian firms engaged in GVC trade (importing inputs to export products) tend to be the most competitive and technologically advanced, had higher survival rates in export markets and exported more sophisticated products[26]. This implies import policy should encourage firms to source the best inputs globally. Comparatively, Vietnam's rise as an electronics exporter (e.g. assembling smartphones) was facilitated by its open import regime for parts and its extensive Free Trade Agreements that assured low tariffs on both inputs and outputs. Indonesia can similarly leverage trade deals to ensure near-zero tariffs on intermediate goods. Additionally, simplifying rules of origin procedures under these FTAs will allow Indonesian manufacturers to import components from around the world and still qualify for FTA export preferences. The government's ambivalence, signing trade deals while sometimes increasing protection, sends mixed signals[27]. Providing a consistent pro-trade stance would give multinationals the confidence to base more of their supply chain in Indonesia.

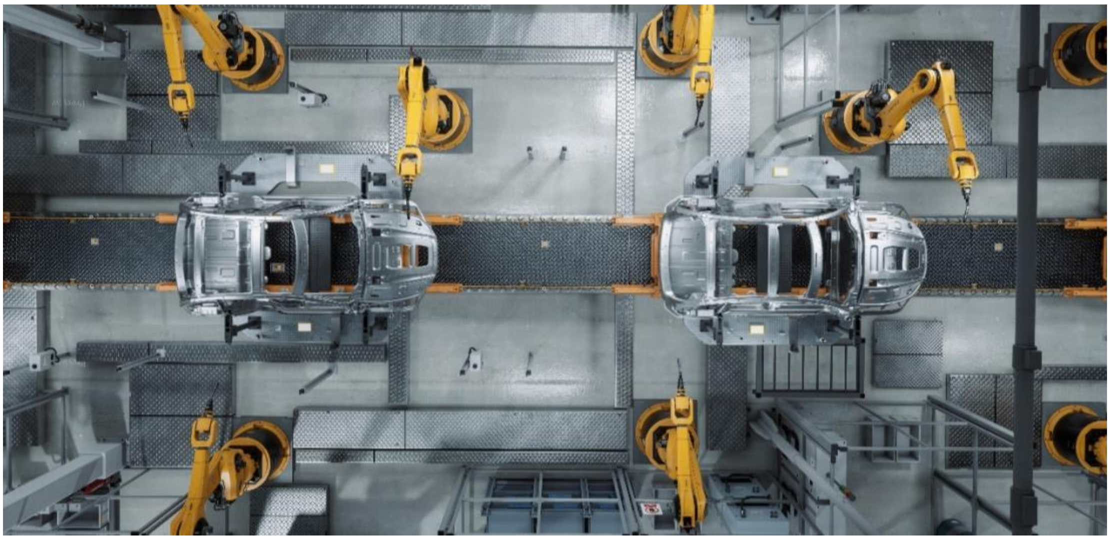
Competitiveness and "Easy Profit" Syndrome.

A genuine concern is that if companies are overly sheltered by import barriers, they might enjoy easy profits in the domestic market without upgrading their technology or productivity. Indonesia has seen cases of this: for years, a quota tightly limited imports of *salt* to protect local salt farmers and a few domestic producers. The domestic industry faced little competition, yet struggled to meet industrial demand for high-quality salt, forcing food processors to lobby for import quota increases. Such scenarios highlight that protection without a performance push leads to complacency. By contrast, industries exposed to competition – even if moderately – tend to invest more in efficiency. An example is the auto-parts industry: despite initial protection, it faced competition from imported parts and the presence of foreign firms. The result was a dynamic sector with many foreign-owned plants that brought innovation, and over time these firms began sourcing more inputs locally as local suppliers improved[28]. This suggests foreign participation and competition actually helped build domestic linkages, counter to the fear that openness undermines local industry. Thus, the best import policy for manufacturing is one that guards against import surges or unfair dumping, but otherwise keeps barriers low and focuses on boosting firms' capacity. Trade defense instruments (anti-dumping duties, safeguards) can be used in specific cases of unfair imports, rather than broad-based high tariffs.

[26] World Bank. "Indonesia Can Use Trade Policies to Accelerate Its Green Transformation." *World Bank Blog,* March 2023. https://blogs.worldbank.org/eastasiapacific/indonesia-can-use-trade-policies-accelerate-green-transformation.

[27] Patunru, Arianto A. "*Trade Policy in Indonesia: Between Ambivalence, Pragmatism, and Nationalism.*" ISEAS–Yusof Ishak Institute Perspective Paper No. 2023/33. Singapore: ISEAS, August 2023.

[28] World Bank. *Trade Protectionism and Indonesian Policy for Intermediate Industry: Analysis Based on Firm-Level Data.* World Bank Group, November 2018. https://documents1.worldbank.org/curated/en/251051540825428024/pdf/131460-WP-PUBLIC-Trade-Protectionism-and-Indonesian-Policy-for-Intermediate-Industry.pdf.



Box 1. Comparative Insights on Manufacturing Sector

- ***Vietnam*** has average MFN tariffs roughly similar to Indonesia, but aggressively cuts tariffs through FTAs. It leveraged its openness to attract companies like Samsung, turning the country into a major electronics exporter. Vietnam's approach favored export-led manufacturing; it provides tax holidays and training to investors rather than high import tariffs. This helped integrate local firms gradually into global supply chains.

- ***India*** provides a contrast: it has lately raised tariffs on electronics and other sectors to push the "Make in India" agenda, alongside production-linked subsidy schemes. This has spurred some local phone assembly (India is now a big phone manufacturer for its domestic market), but India's exports in those sectors remain limited. The Indian case shows that high tariffs can localize production, but without competitive discipline, the products may not yet be world-class or export-competitive.

- ***Mexico*** under NAFTA (now USMCA) eliminated most tariffs on trade with the US and Canada. This openness transformed Mexico into an automotive and appliances manufacturing hub integrated with North America. While Mexico's domestic industries had to compete head-on with imports, many thrived by specializing in parts and leveraging investment from global firms. This suggests that full openness can work if other conditions (proximity to market, investment climate) are favorable.

- ***Brazil*** historically had high import substitution barriers in industries like automobiles, which created large domestic firms but often high prices and slow innovation. In recent years, Brazil has started cutting tariffs to shake up its industries to become more efficient.

Indonesia sits somewhat in the middle of these examples. It has a large domestic market like India or Brazil, which tempts policymakers to think local firms can rely on internal demand alone. But to truly develop competitive manufacturing that can sustain growth, Indonesia will need to adopt policies closer to the Vietnam/Mexico model: engaging deeply with international trade and investment, using imports as a means to upgrade technology, and pushing firms to export. A prudent import policy could involve reducing tariffs on key inputs (e.g. electronics components, specialty chemicals) to near zero, keeping consumer goods tariffs moderate and within WTO bindings, and refraining from sudden protectionist shifts. Crucially, it also involves investing in capabilities (skill training, innovation) so that local manufacturers can climb the value chain. The OECD and other observers have noted that Indonesia's past heavy protection in sectors like downstream metals or food processing often yielded limited success, whereas efforts to reduce costs (energy, logistics) and improve the business climate would yield more competitiveness gains[29].

Uncertainty and Transparency.

Businesses can cope with a moderate tariff if it's stable and predictable, but unpredictability (e.g. sudden import ban on an input) is very detrimental. Thus, any changes in import policy should be signaled in advance, involve stakeholder consultation (to understand industry needs), and ideally follow a schedule (so firms can adjust). The government's recent inclination to use omnibus reforms and streamline regulations is encouraging; continuing this approach in trade policy – by possibly consolidating various import regulations into a more coherent, development-oriented framework – would benefit the manufacturing sector greatly.

3.2. Agricultural Sector Considerations

Agriculture holds social and strategic importance in Indonesia, employing large numbers and relating directly to food security. Import policy for agriculture often aims to balance two objectives: protecting farmers' livelihoods vs. keeping food prices affordable for consumers. This balance is delicate and has been the subject of intense policy debate in Indonesia.

Protection for Farmers and Self-Sufficiency Goals.

Indonesian policy has long emphasized self-sufficiency in staples like rice, corn, and sugar. High tariffs and quantitative restrictions have been tools to shield farmers from cheaper foreign produce. For example, rice (the staple of Indonesian diets) is protected by an import tariff (currently 30% for most rice) and, more significantly, by import quotas managed through BULOG. In many years, the government has effectively banned rice imports during the main harvest season to prevent downward pressure on local paddy prices. Politically, this resonates – rice farmers represent one of the largest voting blocs, and "rice self-sufficiency" is equated with national food security in popular discourse[30]. Similar approaches apply to sugar (with seasonal bans and yearly import volume

[29] World Bank. *Trade Protectionism and Indonesian Policy for Intermediate Industry: Analysis Based on Firm-Level Data.* World Bank Group, November 2018. https://documents1.worldbank.org/curated/en/251051540825428024/pdf/131460-WP-PUBLIC-Trade-Protectionism-and-Indonesian-Policy-for-Intermediate-Industry.pdf.

[30] Timmer, C. Peter. *Food Security in Indonesia: Current Challenges and the Long-Run Outlook.* Working Paper 48. Washington, D.C.: Center for Global Development, July 2004. https://www.cgdev.org/sites/default/files/2740_file_WP_48_Food_security_in_Indonesia.pdf.

caps)[31] and to maize for feed (where only BULOG can import, as mentioned). The benefit of such restrictions is higher income for local farmers when domestic prices are propped up above world market levels. Indeed, Indonesian farmgate prices for rice have often been significantly higher than in Thailand or Vietnam, largely due to import protection. This encourages farmers to plant more rice and is aimed at boosting domestic output.

Costs to Consumers and Downstream Industries.

The flip side is that consumers pay more for food. Rice prices in Indonesia have been noted to be consistently higher than in neighboring countries over the last two decades[32]. As a result, urban and poor consumers are effectively taxed by these policies (since a higher share of their income goes to buying rice). There is also a poverty impact: while many farmers are poor, many net rice consumers are also poor – and if prices rise, the latter group suffers. Policymakers have attempted to manage this by buffer stock operations (BULOG releasing stock to tame prices) and targeted rice subsidies for the poor. However, the fundamental trade-off remains: *a tariff or ban that pleases farmers will hurt consumers.* During inflationary spikes or droughts, this trade-off becomes stark. For example, in late 2023, faced with a looming El Niño drought, Indonesia reversed course and authorized an additional 2 million tons of rice imports to stabilize supply[33] despite having aimed for self-sufficiency. This move was to prevent a price spike and replenish BULOG's reserves, showing that rigid self-sufficiency gives way to pragmatism when food security is threatened. In the sugar sector, Indonesia's high-cost domestic sugar production cannot meet demand, leading to frequent import quota adjustments for industrial sugar users (like beverage producers) to keep them supplied. When quotas are too tight, food/beverage industries complain of shortages or resort to informal imports. Thus, overly stringent import limits can backfire by either causing shortages or encouraging smuggling, undermining the policy intent.

Best Practice Approaches in Agriculture.

Many developing countries protect farmers but also recognize the need for imports to smooth out volatility. A possible best practice is a "tariff rate quota" (TRQ) system: allow a certain volume of staple imports at a lower tariff, and beyond that impose a higher tariff. This way, normal consumption needs can be partly met with imports (to keep prices in check), while excessive imports are still deterred. If well-calibrated, it can support farm prices without extreme price gaps. Another approach is variable tariffs that adjust with world prices – e.g., if global rice prices collapse, a higher tariff kicks in to protect farmers; if global prices surge, the tariff drops to zero to protect consumers. Indonesia has experimented with ad-hoc adjustments, but a more rules-based system could add predictability. Additionally, safety net programs for farmers can complement import policy. Instead of always restricting imports, the government could compensate farmers when prices are low (through direct income support or crop insurance). This would allow more openness to imports (benefiting consumers) while still shielding farmers from destitution in low-price years.

Non-tariff Measures in Agriculture.

Aside from quotas and bans, Indonesia maintains sanitary and phytosanitary (SPS) measures and quality standards that affect imports. Halal certification is now mandatory for virtually all imported food products, reflecting consumer preferences in a Muslim-majority nation. While important for consumer confidence, the harmonization of such standards with international benchmarks can prevent them from becoming unwitting

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[31] U.S. Department of Commerce, International Trade Administration. "Indonesia - Trade Barriers." *Country Commercial Guide.* Last updated 2023. https://www.trade.gov/country-commercial-guides/indonesia-trade-barriers.

[32] Timmer, C, *ibid*.

[33] USDA Foreign Agricultural Service. "El Niño Conditions Compel Indonesia to Import Additional 2 MMT of Rice." GAIN Report ID: ID2023-0020, October 6, 2023. https://www.fas.usda.gov/data/indonesia-el-nino-conditions-compel-indonesia-import-additional-2-mmt-rice.

trade barriers. Mutual recognition agreements (like with the U.S. on halal certifiers) are a positive step to facilitate imports meeting local requirements. Conversely, some SPS measures have been criticized as excessive – for instance, the requirement that every foreign meat processing facility be individually approved by Indonesian authorities[34]. This slows down import entry and was challenged by trading partners. Best practice would be for Indonesia to implement risk-based import inspections and to accept more internationally accredited certifications, which would safeguard health without unduly restricting supply.

Food Price Stabilization vs. Market Signals.

A core dilemma is that import restrictions keep domestic prices high, which incentivizes production (a desired outcome), but high prices can also encourage illicit imports and hurt consumers. One could argue that investments in agricultural productivity offer a more sustainable path to self-sufficiency than import bans. If Indonesian farmers can lower their cost of production (through better seeds, irrigation, etc.), they can compete with imports even at lower prices. In the interim, some protection might be needed, but it should be paired with aggressive productivity programs. The government's recent food estate programs and irrigation improvements attempt this, but results take time. Meanwhile, flexible import policy can help avert crises: for instance, when domestic rice output is ample, restrict imports moderately; but when output falters or demand spikes, import quickly to avoid runaway inflation. In 2013, as noted earlier, the government opened up beef and rice imports precisely to cool down prices when inflation was a threat[35]. That move was somewhat contrarian (importing to tackle inflation even though it could hurt some farmers), underscoring that consumer welfare and macro stability sometimes trump farmer protection in urgent moments.

Case of Horticulture and Animal Products.

Indonesia historically also protected horticultural farmers (fruits, vegetables) with import quotas and seasonal bans. This led to some notorious outcomes, like very high prices for certain fruits out of season. The WTO case brought by the U.S. and New Zealand in 2015 highlighted how restrictive Indonesia's regime was – requiring importers to guess annual needs in advance and barring imports during harvest times. Indonesia lost that case and subsequently adjusted some regulations[36]. This shows the importance of keeping import measures within the bounds of trade rules and using more permissible means (tariffs or safeguards) if truly needed, rather than arbitrary licensing.

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[34] U.S. Department of Commerce, International Trade Administration. "Indonesia - Trade Barriers." *Country Commercial Guide.* Last updated 2023. https://www.trade.gov/country-commercial-guides/indonesia-trade-barriers.

[35] Monash Business School. "How Indonesia and India Navigated the 2013 Taper Tantrum." *IMPACT Policy Briefs.* Monash University, 2023. https://impact.monash.edu/policy-briefs/indonesia-india-taper-tantrum/.

[36] U.S. Department of Commerce, *ibid.*

Box 2. Comparative Insights on Agriculture Sector

- ***India*** also heavily protects farmers (e.g., frequent export and import controls on onions, rice, etc. to manage domestic supply). While this can secure short-term goals, it often creates uncertainty and long-term inefficiencies. India's high rice tariffs and occasional bans achieved near self-sufficiency, but consumers pay double the world price for rice and the government spends massively on buffer stocks.
- ***The Philippines*** long had quantitative restrictions on rice; it recently shifted to a tariff system, whereby rice can be imported freely at a 35% tariff. Early evidence suggests this lowered rice prices for consumers, and the tariff revenue is earmarked to support farmers' mechanization and seeds. Indonesia could study this model of "tariffying" quotas and directly compensating farmers from the proceeds.
- ***Thailand*** *and* ***Vietnam*** generally keep rice export open and import minimal because they are surplus producers, but they have safety nets for farmers (like price pledging schemes in Thailand) without blocking trade. They demonstrate that competitiveness (lower costs) allowed them to be food secure without insulating from trade – in fact, they benefit from exports.

For Indonesia, the goal of food security should be interpreted not as zero imports, but as reliable access to affordable food for all. That can be achieved by a mix of domestic production and strategic imports. Import policy should ensure Indonesia can tap global markets when needed – e.g., importing rice in a bad harvest year quickly – while protecting against dumping or import surges that could permanently damage the farm sector. One risk of too much openness too quickly is that if imports flood in and many farmers exit the sector, the country could become overly import-dependent. Thus, a paced approach is prudent: gradually liberalize, allow the market to signal farmers what to specialize in (some high-value crops might be more viable than staple rice for small farmers), and use import policy to facilitate that transition (perhaps lower tariffs on farming equipment and fertilizer to boost productivity, even as you keep some tariffs on final produce initially).

Finally, stakeholder voices must be heard.

Farmers' associations often argue that imports drive them to bankruptcy (recent protests have occurred when rice imports were announced, calling it a threat to "food sovereignty"[37]). On the other hand, consumer advocacy and food industry groups push for more openness to stabilize prices and input supply. The government should convene these stakeholders to find middle ground – for instance, allowing imports through cooperatives or farmer organizations so farmers themselves benefit (there have been programs where BULOG imports corn and sells to small farmers' feedlots at subsidized rates – a model of combining import and domestic support). Transparency in how import quotas are allocated is also important to avoid rent-seeking or cartel behavior that can happen in tightly controlled import markets.

For agriculture, Indonesia's import policy should ensure a minimum degree of openness to prevent shortages and extreme prices, while using the proceeds of any tariffs or the time afforded by temporary protections to invest in domestic productivity. A clear, rules-based import regime (tariffs or quotas announced well in advance, based on objective indicators like stock-to-use ratios) would help reduce the current uncertainty. It's a challenging equilibrium, but leaning too far into

[37] La Via Campesina. "Rice Imports Lead Farmers to Bankruptcy, Endangers Food Sovereignty: Serikat Petani Indonesia." *La Via Campesina Newsroom*, February 20, 2024. https://viacampesina.org/en/2024/02/rice-imports-lead-farmers-to-bankruptcy-endangers-food-sovereignty-serikat-petani-indonesia/.

autarky has proven costly in the past, whereas judicious imports can complement domestic production and enhance overall food security.

3.3. Energy Sector Considerations

The energy sector in Indonesia encompasses both fuels (oil, gas, coal) and power generation equipment/technology. Import policy in this realm must address energy security (reliable supply of fuels and electricity) and support the development of domestic energy industries (from oil refining to renewable energy manufacturing). It also intersects with climate goals as Indonesia transitions to cleaner energy.

Fuel Imports and Trade Balance.

Indonesia has a mixed status in energy trade – it is a leading exporter of coal and LNG, but a net importer of oil. As the economy and middle class have grown, domestic oil consumption outstrips production, making Indonesia a net crude oil and fuel importer for years[38]. This reliance on imported petroleum products has substantial effects: oil imports constituted a large portion of Indonesia's import bill, contributing to trade deficits especially when oil prices rise[39]. Import policy responses have included fiscal measures like raising fuel prices (to dampen demand) and promoting biofuel mandates (using domestic palm oil as biodiesel to substitute diesel imports). The B30 biodiesel program (30% palm methyl ester in diesel) is essentially an import-substitution strategy in the energy domain – it reduced diesel fuel import volumes, saving foreign exchange, while also supporting palm oil farmers by absorbing their output. However, it comes with costs (subsidies for the biofuel and potential engine compatibility issues). As an import policy, it showcases a creative approach beyond tariffs: using domestic blending requirements to reduce dependency. Moving forward, Indonesia plans to increase this to B40 and expand electric vehicles – all aimed at trimming fuel imports and strengthening the energy trade balance.

[38] East Asia Forum. "Indonesia: Where Bad Politics Threatens a Good Economy." August 15, 2013. https://eastasiaforum.org/2013/08/15/indonesia-bad-politics-meets-a-good-economy/.

[39] Monash Business School. "How Indonesia and India Navigated the 2013 Taper Tantrum." *IMPACT Policy Briefs.* Monash University, 2023. https://impact.monash.edu/policy-briefs/indonesia-india-taper-tantrum/.

From a trade policy perspective, keeping import duties on crude oil and fuel low is generally wise to not exacerbate domestic energy costs. Indonesia indeed keeps oil import tariffs low (often 0% on crude). Instead of tariffs, it has sometimes used export restrictions (like curbing coal exports temporarily to secure domestic coal for power plants) – not an import policy per se, but a related trade measure for energy security. Ensuring adequate refining capacity is another angle: currently, limited refining means Indonesia imports a lot of refined fuels. Policies to attract investment in refineries (potential joint ventures) are indirectly import-related – if successful, they could reduce refined product imports.

Importing Technology for Energy Development.

On the power generation side, Indonesia needs to import a vast range of equipment: gas turbines, renewable energy components (solar panels, wind turbines), transmission gear, etc. Historically, big fossil power projects were done by importing turbines and boilers (with some local fabrication of steel structures). With renewables, there was an impetus to create a local manufacturing base. This led to strong Local Content Requirements (LCRs) in energy projects, notably a 60% local content mandate for solar farms and varying thresholds for wind, hydro, and geothermal equipment. The idea was to encourage companies to set up solar panel assembly domestically and use local subcontractors. However, as mentioned, these LCRs ended up delaying projects and deterring investors, because local industry wasn't ready to meet the demand at competitive cost. International developers hesitated to bid on renewable projects where they might not meet the LCR or would face higher costs making the project unviable. Moreover, it risked Indonesia missing out on the rapid drop in global renewable prices by isolating itself. By 2023-2024, policy shifted: the government introduced exemptions for projects with significant foreign financing (≥50% foreign funded projects don't need to meet the LCR), and generally signaled more flexibility to get the renewables investment moving. This was also partly to unlock $20+ billion in climate finance under the Just Energy Transition Partnership, which required more open procurement[40].

The lesson is that for cutting-edge or new technologies, import openness is crucial to adoption. Imposing high import barriers or LCRs on, say, solar panels or advanced batteries before a domestic industry exists can slow the energy transition. A better approach might be *gradual localization*: initially import most equipment to rapidly build capacity (solar farms, etc.), while simultaneously offering incentives for firms to start manufacturing certain components locally (perhaps with knowledge transfer agreements). Once the local firms can compete, local content can be ramped up organically. In the interim, keeping import tariffs low or zero on renewable energy equipment (solar modules, wind turbines) will help lower the cost of clean energy for Indonesia. This aligns with global calls to eliminate tariffs on environmental goods – a cause Indonesia could champion to make green tech more affordable[41].

[40] Hogan Lovells. "Indonesia Relaxes Local Content Rules to Energise Green Energy Investment." Hogan Lovells Publications, August 21, 2024. https://www.hoganlovells.com/en/publications/indonesia-relaxes-local-content-rules-to-energise-green-energy-investment.

[41] World Bank. "Indonesia Can Use Trade Policies to Accelerate Its Green Transformation." *World Bank Blog*, March 2023. https://blogs.worldbank.org/eastasiapacific/indonesia-can-use-trade-policies-accelerate-green-transformation.

Energy Subsidies and Trade Policies.

Indonesia subsidizes certain energy products (electricity, LPG, some fuel) to keep them affordable. Cheap energy can inadvertently spur more imports (people consume more fuel, for example). Thus, import policy can't be viewed in isolation – it ties into subsidy policy. As seen in 2013, cutting a domestic fuel subsidy was a necessary complement to trade measures to reduce import demand[42]. Likewise, if electric vehicles are subsidized or promoted, that might increase electricity demand but reduce gasoline import needs. The government has to consider these dynamic effects.

Attracting Investment in Energy via Import Policy.

Energy projects, whether power plants or oil/gas development, often have huge imported components. Investors will factor in how easy it is to import what they need. If there are high tariffs on capital equipment or lengthy import permitting, it could dissuade investment. Efforts to remove import duties on LNG infrastructure parts or to simplify customs for drilling equipment, for example, can facilitate foreign companies participating in upgrading Indonesia's energy infrastructure. The Oil and Gas sector historically had its own regime – contractors could import equipment duty-free under production-sharing agreements. Maintaining such facilitative regimes ensures that developing domestic oil/gas (which reduces import dependence in fuel) is not hampered by import bureaucracy.

Coal and Gas Imports.

While Indonesia is a net exporter, note that as the economy diversifies, there have been times when certain coal qualities or gas have been imported for regional needs (e.g., Indonesia at times imported LNG to certain terminals despite exporting from others, due to internal logistics). Policies here focus on optimizing resources – generally Indonesia prefers to utilize domestic coal for power and avoid coal imports entirely. The export ban on raw nickel (as part of "downstreaming") hints at a philosophy of using domestic resources internally as much as possible. For energy, this meant trying to maximize domestic oil/gas production and only import as last resort. But if production declines, imports must fill the gap – and thus far, Indonesia has not imposed any undue barriers on importing needed petroleum (since that would be self-defeating causing energy shortages).

Box 3. Comparative Insights on Energy Sector

- ***Malaysia*** invested early in refinery capacity and petrochemicals and has a policy of low tariffs on energy equipment; it managed to mostly meet its fuel needs and even export some petroleum products. Their local content approach in oil/gas was through partnerships and training rather than strict import bans.
- ***Brazil*** in its renewable energy auctions initially had local content rules (for wind turbines, etc.), but later eased them and saw a big drop in costs as global suppliers entered. Local assembly followed once the market was big enough. This suggests sequencing matters.
- ***Gulf countries*** with huge solar plans have invited foreign suppliers freely to build projects, then enticed some to set up factories (e.g., panel factories in UAE) by guaranteeing large orders rather than by mandating content.

For Indonesia, which has ambitions in *solar manufacturing (e.g., polysilicon, PV panels)* and *EV batteries (leveraging nickel)*, the import policy should not choke the very industries it wants to spawn. In battery value chains, Indonesia is welcoming foreign investors (who import machinery and even some materials) to build plants

[42] Monash Business School. "How Indonesia and India Navigated the 2013 Taper Tantrum." *IMPACT Policy Briefs.* Monash University, 2023. https://impact.monash.edu/policy-briefs/indonesia-india-taper-tantrum/.

domestically. The government has offered tax holidays and infrastructure support rather than high import tariffs on batteries (which is wise, as high tariffs would just make EVs costly and slow adoption). Similarly, in the electric vehicle space, they reduced import tariffs for completely knocked down (CKD) kits to encourage local assembly, while keeping built-up car import tariffs relatively high. This combination can be effective if managed – ensuring that gradually more of the value addition shifts onshore.

Energy and Exchange Rate.

Large energy imports (oil) can weaken the currency; conversely, cutting them strengthens it. Energy import policy is therefore sometimes adjusted seasonally – e.g., building up oil inventories when prices are low, slowing purchases when the rupiah is under strain. If Indonesia can diversify its energy mix (more domestic geothermal, solar, etc.), it reduces vulnerability to such swings. In policy terms, one recommendation by analysts has been to use hedging and long-term contracts for importing fuels to reduce sudden FX outflows during price spikes, which is a financial strategy complementing physical import policy.

Climate-linked trade measures are emerging globally (like carbon border adjustments).

Indonesia's fossil fuel exports and imports could be affected. But with respect to imports, if other countries start taxing carbon-intensive imports, Indonesia might also consider environmental criteria in its import tariffs (perhaps lower tariffs for clean tech, as already suggested, and maybe disincentives for very high-emission equipment). Aligning import policy with sustainability goals can also unlock international climate finance, as seen with the JETP where policy adjustments (like easing LCRs) were needed to access funding[43].

The energy sector calls for open import policies for technology and fuels that Indonesia lacks, and strategic development of domestic capacity where feasible. Minimizing unnecessary local content mandates, encouraging joint ventures, and keeping a stable import regime for critical energy resources will help Indonesia secure energy at lower cost and attract investment. Over time, reducing import dependence on oil through alternatives will improve the trade balance – but that

[43] Hogan Lovells. "Indonesia Relaxes Local Content Rules to Energise Green Energy Investment." Hogan Lovells Publications, August 21, 2024. https://www.hoganlovells.com/en/publications/indonesia-relaxes-local-content-rules-to-energise-green-energy-investment.

should be done by boosting alternatives (renewables, domestic production) more so than by simply raising barriers to oil imports (which could cause energy shortfalls). The ultimate aim is energy self-reliance by competitiveness, not by isolation.

4 DETAILED POLICY RECOMMENDATIONS

Based on the above narratives and analysis, Indonesia should pursue a future-focused import policy that is strategic, evidence-based and adaptable. The following actionable recommendations are proposed at both the macro and sectoral levels:

4.1 Macro-Level Reforms

1. **Adopt a Strategic Tariff Framework (Macro-Level).**
   Reform Indonesia's tariff structure to be low and strategic. Keep average MFN tariffs in the single digits and reduce duties on critical inputs (e.g. machinery, electronics parts, chemicals) to 0–5%[44]. For consumer goods where some protection is needed, set tariffs at a moderate level (e.g. 10–20%) – high enough to nurture domestic production, but not so high as to create inefficiency or exorbitant prices. Crucially, commit to a schedule of gradual tariff reductions in protected sectors as they become more competitive. This could be outlined in a medium-term tariff road map, giving industries clear timeframes to prepare. By binding more tariffs at lower rates in the WTO (or through ASEAN), Indonesia can signal predictability. Any new tariffs or adjustments should be preceded by impact analysis and consultation with industry and consumer groups to ensure balance.

2. **Streamline and Reduce Non-Tariff Barriers (Macro-Level).**
   Conduct a comprehensive review of all import licensing regimes, quotas, and technical barriers with the aim to simplify or eliminate unnecessary NTMs. Priority should be given to agriculture and food NTMs that have been ruled trade-distortive (ensuring compliance with WTO rulings)[45], and to industrial standards that duplicate international norms. Merge overlapping permit requirements and move approvals online to increase transparency. Where import restrictions serve a valid purpose (e.g. disease prevention), ensure they are science-based and as least trade-restrictive as possible. For instance, replace blanket seasonal bans with tariff-rate quotas or price-triggered safeguards that can achieve similar objectives more flexibly. Indonesia should also expand mutual recognition agreements for standards (halal, safety, etc.) to avoid re-testing imports that have been certified by trusted foreign bodies[46]. Capacity building for domestic regulators (in food safety, animal health, etc.) will help Indonesia rely on smarter risk-based controls rather than blunt import bans. Overall, a leaner NTM regime will lower business costs and improve Indonesia's reputation among investors[47].

3. **Enhance Trade Facilitation and Customs Efficiency (Macro-Level)**
   Fully implement the WTO Trade Facilitation Agreement measures to cut import clearance times further. Invest in digital customs systems and interoperability between port agencies to minimize delays. Indonesia should continue customs reforms such as pre-clearance processing (letting importers submit data before goods arrive)[48], authorized economic operator programs for low-risk importers, and one-stop inspection for

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[44] World Bank. Trade Protectionism and Indonesian Policy for Intermediate Industry: Analysis Based on Firm-Level Data. World Bank Group, November 2018. https://documents1.worldbank.org/curated/en/251051540825428024/pdf/131460-WP-PUBLIC-Trade-Protectionism-and-Indonesian-Policy-for-Intermediate-Industry.pdf.

[45] U.S. Department of Commerce, International Trade Administration. "Indonesia - Trade Barriers." *Country Commercial Guide*. Last updated 2023. https://www.trade.gov/country-commercial-guides/indonesia-trade-barriers.

[46] U.S. Department of Commerce, International Trade Administration. "Indonesia - Trade Barriers." *Country Commercial Guide*. Last updated 2023. https://www.trade.gov/country-commercial-guides/indonesia-trade-barriers.

[47] World Bank. "Indonesia Can Use Trade Policies to Accelerate Its Green Transformation." *World Bank Blog*, March 2023. https://blogs.worldbank.org/eastasiapacific/indonesia-can-use-trade-policies-accelerate-green-transformation.

[48] Firman Bunyamin and Eko Yulianto, "Trade Facilitation in Indonesia and Results of the ASTFI II Study," in *Follow-up ASEAN Seamless Trade Facilitation Indicators*, ed. Salvador M. Buban et al. (Jakarta: ERIA, 2023), 76–99, https://www.eria.org/uploads/9_Ch_4-Indonesia.pdf.

goods (to avoid multiple inspections by different agencies). By 2025, the target should be to bring Indonesia's average import clearance time on par with regional best performers (like Malaysia). Reducing bureaucratic friction acts as an "invisible tariff" reduction, making it easier for firms to import capital goods and raw materials. The government can also improve transparency by publishing updated import procedures, fees, and decisions online, so businesses (especially SMEs) know what to expect. Streamlined import processes will particularly help manufacturing exporters who need timely inputs, thus indirectly boosting export competitiveness along with imports[49].

4.2 Manufacturing-Specific Recommendations

4. **Implement Targeted Infant Industry Support (Manufacturing).**
Rather than broad import protection, use targeted support tools for priority industries. For example, for sectors like electronics assembly, machinery, or pharmaceuticals that Indonesia wants to develop, consider temporary measures such as *time-bound* higher tariffs or import quotas combined with performance conditions. As a policy, this could mean granting, say, a 5-year period during which imports of certain competing finished products face a higher tariff, but domestic firms in that sector must meet milestones (output, export, technology adoption) to continue enjoying that protection[50]. Simultaneously, support these industries with subsidies or tax credits for upgrading equipment and skills (which is WTO-consistent if done as production incentives). After the period, tariffs should step down automatically. This approach disciplines both government and industry – avoiding permanent protection and "moral hazard"[51]. Indonesia should institutionalize a review mechanism: an inter-ministerial body can evaluate if an industry has matured enough to face import competition, and recommend liberalization or extension of support as needed. Such conditional support mirrors practices in countries that successfully grew infant industries without breeding chronic inefficiencies.

5. **Revise Local Content Requirement (TKDN) Policies (Cross-Sectoral).**
Modernize Indonesia's local content rules to ensure they encourage domestic value-add without deterring investment. Immediately review sectors where TKDN mandates are very high or problematic – e.g. ICT equipment (40% rule) and renewable energy (formerly 60% solar rule) – and lower or suspend these requirements until domestic capacity catches up[52,53]. Shift the emphasis from compulsory local content to incentivized local content: for instance, offer tax rebates or discounted financing for projects that voluntarily exceed a certain local content threshold, rather than penalizing those that don't meet an unrealistic threshold. Ensure any remaining LCRs are transparent, consistent, and compliant with trade agreements (or justified under allowed exceptions). In government procurement, where domestic preference can be applied, use it judiciously by preferring local products only when they are within, say, 15% of the cost of imports – this keeps pressure on local suppliers to stay efficient. The government should also increase support for suppliers development programs (linking multinationals with local SMEs) so that over time Indonesian

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[49] Chatib Basri, "Trade Policy in Indonesia: Between Ambivalence, Pragmatism and Nationalism," *Bulletin of Indonesian Economic Studies* 59, no. 1 (2023): 1–25, https://doi.org/10.1080/00074918.2023.2282821.

[50] World Bank. *Trade Protectionism and Indonesian Policy for Intermediate Industry: Analysis Based on Firm-Level Data.* World Bank Group, November 2018. https://documents1.worldbank.org/curated/en/251051540825428024/pdf/131460-WP-PUBLIC-Trade-Protectionism-and-Indonesian-Policy-for-Intermediate-Industry.pdf.

[51] *Ibid*.

[52] World Bank. "Indonesia Can Use Trade Policies to Accelerate Its Green Transformation." *World Bank Blog,* March 2023. https://blogs.worldbank.org/eastasiapacific/indonesia-can-use-trade-policies-accelerate-green-transformation.

[53] Reuters. "Indonesia Relaxes Local Content Rules to Energise Green Energy Investment." *Reuters,* January 2024. https://www.reuters.com/business/energy/indonesia-relaxes-local-content-rules-2024.

firms can competitively supply components, achieving TKDN goals organically. By recalibrating TKDN, Indonesia will address investor concerns and avoid trade partner disputes, while still fostering local industry in a feasible way[54].

6. **Agricultural Import Management for Food Security.**
   Reform import policy for staple foods to achieve "managed openness." Replace ad-hoc import bans with a rules-based system: for example, implement tariff-rate quotas (TRQs) for rice, sugar, and maize that allow a base quantity of imports at a low tariff and impose higher tariffs beyond that. Calibrate the quota volumes annually based on production forecasts and buffer stock levels, in a transparent formula shared with the public (to depoliticize the process). Maintain moderate bound tariffs on key staples (e.g. 30-40% on rice) but use variable levies if needed to stabilize domestic prices within a band. Strengthen BULOG's role in price stabilization by letting it freely import within set limits to maintain stocks, rather than requiring separate approvals[55]. Simultaneously, channel tariff revenues or budget funds into farmer support – e.g., subsidize seeds, fertilizer, and farm mechanization from the proceeds of any staple imports. This creates a win-win: consumers get price relief from imports when needed, and farmers receive direct assistance to improve productivity, making them less dependent on price supports. Indonesia can also encourage contract farming or buy-back schemes where private traders who import must purchase a certain amount from local farmers, integrating imports with domestic marketings. By making these changes, Indonesia would move toward food security through resilience – ensuring availability and affordability – rather than strict self-sufficiency at all costs. It's important to communicate that *food security means secure access to food, not zero imports*, to build public support for these nuanced measures.

4.3 Agriculture-Specific Recommendations

7. **Promote Export-Oriented Import Use (Manufacturing & Export Sectors).**
   Create schemes that explicitly link imports to export promotion. For instance, expand and publicize the Indonesia National Single Window and Bonded Logistics Centers where manufacturers can import inputs duty-free for re-export. Consider implementing an "Import for Export" program where companies get fast-track import clearance and tax deferral if they commit to exporting a portion of their output. The government could also provide import duty drawbacks automatically for any duties paid on inputs that go into exports (if not already in place). These steps reduce the anti-export bias that import duties can create. Another idea is to develop Special Economic Zones (SEZs) or upgrading existing ones, where inside the zone, materials can be imported with minimal customs formalities and no tariffs, as long as finished goods are exported. While Indonesia has some SEZs, ensuring their processes are truly efficient and world-class will attract firms that might otherwise choose Malaysia, Vietnam, or Thailand for ease of importing and exporting. Integrating domestic firms into these zones as suppliers can further spread the benefit. Overall, treating imports as a facilitator for exports – not a threat – should be a guiding principle. This aligns with the fact that two-thirds of Indonesia's exports involve imported inputs[56]; acknowledging this interdependence is key to policy coherence.

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[54] "Indonesian Officials Head to the US to Offer Incentives as Part of Tariff Negotiations," *The Straits Times*, April 8, 2025, https://www.straitstimes.com/asia/se-asia/indonesian-officials-head-to-the-us-to-offer-incentives-as-part-of-tariff-negotiations

[55] USDA Foreign Agricultural Service. "El Niño Conditions Compel Indonesia to Import Additional 2 MMT of Rice." GAIN Report ID: ID2023-0020, October 6, 2023. https://www.fas.usda.gov/data/indonesia-el-nino-conditions-compel-indonesia-import-additional-2-mmt-rice.

[56] World Bank. "Indonesia Can Use Trade Policies to Accelerate Its Green Transformation." *World Bank Blog*, March 2023. https://blogs.worldbank.org/eastasiapacific/indonesia-can-use-trade-policies-accelerate-green-transformation.

4.4 Energy-Specific Recommendations

8. **Safeguard Mechanisms and Fair Trade (Cross-Sectoral).**
   To balance greater openness, Indonesia should strengthen its use of WTO-compliant trade remedy tools to address genuine unfair trade. Invest in the capacity of the Trade Safeguards Committee and Antidumping Committee to monitor import surges and dumping cases. This way, if a certain sector faces an unforeseen flood of imports that threatens serious injury, Indonesia can impose a temporary safeguard measure (tariff or quota) in a rules-based manner, rather than resorting to permanent protection[57]. Similarly, pursue antidumping investigations where evidence warrants, to penalize predatory pricing by foreign exporters. By doing so, the government provides a safety valve for industries and workers, which can build confidence to support broader liberalization. It's important, however, that these remedies not be abused to simply shield inefficiencies – hence, applying rigorous analysis and sunset clauses to any measures. In parallel, engage actively with partners and at the WTO to resolve market access issues (for instance, negotiating mutual removal of problematic barriers). Ensuring *reciprocal openness* – that Indonesia opens its market and others open theirs – can be achieved via trade negotiations and diplomacy. In essence, Indonesia can be open but also assertive about fair play, which will protect against the worst outcomes of import competition without derailing the general openness strategy.

4.5 Cross-Sectoral and Institutional Measures

9. **Sector-Specific Import Policy Tweaks:**

   - **Manufacturing**
     Remove import tariffs on all capital goods not made domestically to spur industrial upgrading (e.g. specialized machinery)[58]. Simplify import procedures for spare parts and samples to encourage technology transfer. Avoid import bans on used machinery but regulate quality via standards instead – this lets SMEs acquire affordable equipment. For the automotive sector, consider reducing tariffs on eco-friendly vehicle imports (electric cars) for a few years to accelerate adoption, while preparing local manufacturing; this could be coupled with requirements that those importing EVs invest in assembly or charging infrastructure locally.

   - **Agriculture**
     Establish a transparent import calendar for key commodities (announce well in advance when and how much will be imported if needed) to reduce uncertainty. Encourage regional trade arrangements for food security – e.g., as part of ASEAN, create rice emergency reserves and commitments that members will supply each other in crises, so Indonesia can rely on friendly import sources when domestic output falters. This reduces the political resistance to imports if framed as mutual support. Furthermore, remove or lower tariffs on agricultural inputs (tractor parts, agro-chemicals) to reduce farmers' costs – supporting them via cheaper inputs rather than high output prices.

   - **Energy**
     Continue zero-rating import duties for renewable energy equipment and critical power infrastructure. In public tenders for energy projects, relax local content rules (as already started) and explicitly allow international bidding with imported content to ensure Indonesia secures the best technology at the

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[57] United Nations Conference on Trade and Development (UNCTAD). *Trade, Gender and Development: Policy Challenges and Options for Developing Countries in the Context of Global Value Chains.* Geneva: UNCTAD, 2017. https://unctad.org/system/files/official-document/ditctncd2017d5_en.pdf.

[58] World Bank. *Trade Protectionism and Indonesian Policy for Intermediate Industry: Analysis Based on Firm-Level Data.* World Bank Group, November 2018. https://documents1.worldbank.org/curated/en/251051540825428024/pdf/131460-WP-PUBLIC-Trade-Protectionism-and-Indonesian-Policy-for-Intermediate-Industry.pdf.

lowest cost[59]. Use import policy to facilitate the nascent EV battery industry – e.g., allow easy import of raw materials not available domestically (lithium, graphite) so that Indonesia's battery factories can source all needed inputs. Also, remove any VAT or fees on imported equipment used for oil and gas exploration to incentivize increasing domestic production (reducing future import needs). Essentially, make importing any resource or tech that improves domestic energy supply as frictionless as possible.

10. Institutionalize Evidence-Based Policy and Stakeholder Engagement:

Create a standing Trade Policy Advisory Council comprising government, industry, consumer groups, and independent experts (including from academia or think tanks like ERIA) to continuously evaluate import policies. This body would review data on how import measures are affecting prices, competitiveness, investment, etc., and issue annual recommendations. It should also examine international best practices and Indonesia's commitments. By having a formal consultative mechanism, policymakers can adjust course in a timely manner and build consensus. For instance, if a certain NTM is found to severely hurt downstream users, the council could urge its removal or redesign. Such an evidence-based approach ensures mid-course corrections – recognizing that some policies might need revision as circumstances change. Moreover, it provides a forum for disclaimer of uncertainties: when evidence is mixed (e.g., on whether a local content rule is yielding benefits), the council can flag this and suggest pilot programs or further study rather than uncritical continuation. Embedding periodic review and sunset clauses in import-related regulations would force this re-assessment. In short, make import policy agile, data-driven, and participatory, which reduces the risk of both severe policy mistakes and stakeholder alienation.

[59] Reuters. "Indonesia Relaxes Local Content Rules to Energise Green Energy Investment." *Reuters,* January 2024. https://www.reuters.com/business/energy/indonesia-relaxes-local-content-rules-2024.


UBUNTU EMPATHY

5 INDONESIA'S STRATEGIC POSTURE FORWARD

Going forward, Indonesia must navigate immediate challenges while laying groundwork for long-term resilience and establishing it's own unique strategic posture. This section outlines a three-pronged strategy to navigate the pathways: **Response** (short-term mitigation), **Reform** (medium-term overhaul), and **Rise Up** (long-term opportunity capture) – each presents actionable steps informed by recent developments and stakeholder input.

5.1. Response (Short Term) - Immediate Measures to Mitigate the Tariff Shock

In light of the recent escalation in global trade tensions Indonesia must act swiftly to contain short-term disruptions. The immediate priority is to stabilize key sectors, protect employment, and maintain business confidence through pragmatic and targeted interventions. The following short-term responses are recommended to mitigate the direct impacts of the tariff shock while preserving space for longer-term stability and reform.

Engage in high-level trade diplomacy with the U.S.

Rather than retaliating, Indonesia is pursuing negotiations to defuse the 32% U.S. tariff threat. A high-level delegation, led by Chief Economic Minister Airlangga Hartarto, is set to negotiate with U.S. counterparts - with offers to significantly increase imports from the U.S. (e.g. buying more LNG, LPG, soybeans) and even invest in U.S. sectors, aiming to reduce the bilateral trade surplus and secure an exemption.

Thus the government should use the opportunity and actively advocate for the reinstatement of preferential market access mechanisms—specifically, the Generalized System of Preferences (GSP) or equivalent sectoral arrangements. Although the U.S. GSP program expired on December 31, 2020, and is still awaiting reauthorization by Congress, Indonesian exporters should press for its renewal, particularly during the ongoing 90-day negotiation period following the proposed 32% tariff increase on Indonesian goods. Importantly, GSP-eligible products are still being flagged in U.S. customs systems, allowing for potential duty refunds if the program is reinstated retroactively. As Indonesia offers trade concessions to help address the bilateral trade imbalance—such as expanding imports of U.S. agricultural and energy products—it should simultaneously seek reciprocal benefits through preferential access for vulnerable export sectors like apparel, footwear, furniture, and electronics. Such goal can be approach by (1) developing sector-specific agreements, and (2) collaborate with U.S. businesses that benefit from Indonesian imports to build support for preferential trade terms. All of these would would help soften the blow to Indonesia's labor-intensive industries, protect jobs in the short term, and maintain export competitiveness while broader reforms are underway.

These pragmatic concessions, including lowering duties on U.S. goods and lifting some import quotas, must be accompanied by the appointment of Indonesian Ambassador to the U.S. which has been delyaed for two years to demonstrate goodwill and the importance of U.S. to Indonesia.

Coordinate regionally and maintain a balanced stance with China

Indonesia is aligning with ASEAN partners to present a united front. President Prabowo has consulted other Southeast Asian leaders, including Malaysia's Prime Minister Anwar Ibrahim, to jointly urge the U.S. for flexibility. Specifically, Prabowo held phone calls with four ASEAN leaders to coordinate a collective response to the latest round of U.S. tariff hikes.

At the same time, a calibrated approach toward China is critical to manage any surge of redirected exports while avoiding over-reliance on Chinese goods or markets. The focus is on keeping impacts "manageable" and not letting Indonesia become a dumping ground for cheap imports. For instance, the influx of low-priced Chinese products has hit Indonesia's garment makers hard, shuttering factories and prompting calls for import tariffs.

To address these challenges, Indonesia is diplomatically pressing China to invest in Indonesia rather than simply export into it. President Prabowo has called for collaboration with China, emphasizing that his country wants to be part of China's emergence as not only an economic but also a "civilizational power."

Establishment of a special task force to address potential layoffs

President Prabowo Subianto has instructed the formation of a dedicated task force to handle potential layoffs resulting from the U.S. tariffs. This task force will include government officials, trade unions, academicians, and representatives from the state insurance provider BPJS. Its mandate is to map job opportunities, connect affected workers with employment, and provide necessary support to those impacted. The initiative responds to concerns that workers in sectors like textiles, garments, footwear, palm oil, electronics, and spare parts are at risk of job loss in the coming months.

Deploy temporary safeguards and import controls if needed

To prevent a flood of imports from overwhelming local producers, authorities should be ready to invoke WTO-consistent safeguard measures or anti-dumping actions. IBC industry members have urged short-term protection to counter sudden import surges during this crisis. For example, if diverted Chinese products threaten sensitive sectors like FMCGs, Indonesia could impose provisional safeguards or tighter import licensing to slow the influx while longer-term measures are formulated. Any such restrictions should be targeted and time-bound, so as not to provoke retaliation or supply disruptions.

Activate import substitution and supply security plans

Reducing immediate dependence on imports for critical goods can cushion the shock. The government and private sector can fast-track production of select commodities domestically or source them from alternative partners. Past episodes provide a model – for instance, in 2018 Indonesia raised import taxes on luxury consumer goods and accelerated biodiesel use to cut oil import needs. Similarly now, temporary tax incentives, expedited permits, or government orders could encourage local manufacturers to produce key inputs (machinery, electronics components, etc.) that have become pricier or scarce. This strategy eases the current account strain and protects foreign reserves, buying time until global trade conditions stabilize.

Extend targeted relief to affected industries and SMEs

The government should be prepared to support export-oriented sectors hit by the tariffs (e.g. textiles, apparel, footwear) through fiscal relief and subsidies. Immediate actions include emergency credit lines, tax deferrals, or electricity cost discounts for factories facing order cancellations or margin pressure due to the U.S. tariff. Such support will preserve jobs and production capacity in the short run. Likewise, for small and medium enterprises, authorities should consider temporary subsidies for raw materials or financing assistance so that SMEs aren't crippled by *import cost spikes* or competition from suddenly cheaper foreign goods. These safety nets ensure that businesses stay afloat during the turbulence.

Institutionalize public–private crisis coordination

Swift, consultative policymaking is essential in this volatile period. The government has already begun gathering input from businesses – an IBC-hosted focus discussion with industry leaders was convened to brainstorm responses. Building on this, a joint crisis task force can be formed (comprising key ministries, IBC representatives, and sectoral associations) to monitor trade impacts in real time. This task force would advise on fine-tuning policies (e.g. adjusting specific tariffs, issuing import permits) and communicate updates to the business community, reducing uncertainty. Early engagement with the private sector has yielded valuable insights – for example, businesses cautioned against panic-driven removal of local content rules and overly broad import liberalization. Incorporating such feedback ensures that response measures are grounded in on-the-ground realities and enjoy support from those they affect.

5.2. Reform (Medium Term) - Resilience through Policy and Institutional Overhaul

While immediate action is necessary to address the current tariff shock, it is equally critical that Indonesia confronts the structural weaknesses exposed by this crisis. The country must undertake reforms that enhance domestic resilience, improve policy coherence, and reduce dependence on volatile global trade dynamics. The following medium-term reforms aim to strengthen the foundation of Indonesia's trade and industrial policy, enabling the nation to navigate future disruptions with greater agility and strategic clarity.

Recalibrate local content regulations (TKDN) and industrial incentives

Rather than abolishing local content rules under external pressure, Indonesia should refine them to support competitiveness. President Prabowo has signaled openness to *"flexibility on…uncompetitive local content rules,"* suggesting burdensome TKDN mandates be replaced with smarter incentives. This means developing a unified, stable local content framework that encourages use of domestic inputs without strangling industry. For example, high-value investments or technology transfers by foreign firms could count toward TKDN compliance, or firms exceeding a local sourcing target might earn tax breaks instead of facing import bans.

The goal is a single, consistently applied rule across sectors - a point stressed by IBC members who noted that fragmented or ever-changing TKDN policies create inefficiency and high costs. A stable TKDN regime, paired with productivity-linked subsidies, will uphold industrial resilience and ensure Indonesia doesn't *"weaken its domestic manufacturing"* base even as it accommodates trade partners.

Streamline and reduce non-tariff barriers

A comprehensive review of import licensing, quotas, and technical barriers is needed to eliminate unnecessary frictions. Indonesia maintains many non-tariff measures – some vital for health or safety, others redundant or protectionist. The government should simplify overlapping permits and phase out trade-distortive restrictions, especially those already flagged by WTO rulings. For instance, opaque import quotas in agriculture or ad-hoc bans should be replaced with transparent tariff-rate quotas or price-triggered safeguards that protect farmers without outright choking supply. Moving approvals and certifications online would increase transparency and predictability for importers. Where legitimate standards exist (halal, SPS measures, etc.), regulators can pursue mutual recognition agreements so that goods certified by trusted foreign bodies don't face duplicate testing.

The overarching aim is a leaner trade regulation regime – one that cuts red tape, lowers compliance costs, and still achieves regulatory objectives. By doing so, Indonesia will address business complaints about unpredictable costs and delays, and improve its reputation among investors and trading partners.

Increase domestic capacity and reduce import dependency

Medium-term resilience requires making local industry more competitive globally. This requires investments in technology, skills, and infrastructure so that Indonesian firms can produce a greater share of inputs and capital goods domestically. The government should expand programs for vocational training, R&D grants, and industry-academia partnerships to upgrade manufacturing capabilities. As the World Bank has observed, heavy import protection alone cannot build competitiveness – what works is investing in firms' ability to *"climb the value chain"* and lowering their operating costs (energy, logistics). Thus, policies like the 2020 Omnibus Law that eased investment and improved the business climate must continue, focusing especially on sectors where Indonesia has potential to substitute imports (e.g. petrochemicals, electronics components, pharmaceuticals).

As voiced by some IBC members, The aim is a balanced development: for critical products, domestic suppliers should meet more of the nation's needs, and for products that must be imported, Indonesia's exporters should earn the foreign exchange to pay for them. By cultivating a base of efficient local suppliers, Indonesia can mitigate the risk of excessive import reliance while also creating jobs.

Importantly, any protective measures (tariffs, local content) for nascent industries should be coupled with clear performance targets and sunset clauses. As sectors mature, tariffs can be gradually reduced and firms exposed to full competition. This disciplined approach ensures temporary support translates into genuine competitiveness.

Improve logistics and reduce supply chain bottlenecks

High internal logistics costs have long undercut Indonesia's trade efficiency – moving goods across the archipelago is disproportionately expensive, at ~23% of GDP, compared to 13–15% in peer economies. Streamlining Indonesia's logistics will make its exporters and importers far more agile in the face of global turmoil. The government should accelerate infrastructure projects (ports, roads, inter-island shipping) and implement the National Logistics Ecosystem reforms to integrate warehouses, trucking, and customs systems. Enhancing domestic shipping connectivity (e.g. through the Sea Toll program) and reducing inter-island transport costs will help manufacturers source and distribute at lower cost.

Regulatory reforms are just as important: simplifying port clearance procedures, deploying digital tracking systems, and eliminating illegal levies can significantly cut delays. IBC members emphasized that stronger logistics capacity is needed to *"balance external pressures"* like supply chain disruptions – for example, if global shipping is upended, a resilient domestic logistics network can keep essential goods moving internally. Better logistics will also attract investment: as UNCTAD notes, companies are diversifying supply chains across multiple regions, and Indonesia can become a preferred hub if it offers efficient routes for both imports of inputs and exports of finished goods.

Ensure regulatory consistency, transparency, and policy coherence

Nothing undermines business confidence more than erratic policy swings. Going forward, Indonesia must institute a more predictable trade policy regime. Any changes to import rules (tariffs, quotas, standards) should be announced with adequate lead time and after consultations with stakeholders. The days of sudden import bans or overnight rule shifts should be left behind – such unpredictability was cited by the OECD and others as detrimental to Indonesia's industrial growth. Instead, the government can publish medium-term roadmaps (for tariff reduction, local content requirements, etc.) that give businesses a clear adjustment path.

Regulatory overlaps and contradictions must be resolved by strengthening inter-agency coordination: for example, aligning the Trade Ministry's import licensing with the Industry Ministry's TKDN rules, so businesses are not caught between conflicting mandates. The momentum of recent omnibus reforms should continue by **consolidating various import regulations into a single, development-oriented framework**. This could mean unifying multiple regulations into one law or one electronic portal, making it easier to understand and comply.

Consistent implementation on the ground is equally critical – training customs and port officials in the updated rules will reduce inconsistencies and rent-seeking. By enhancing rule of law and transparency in trade policy, Indonesia will address IBC's concerns about arbitrary enforcement and cost unpredictability. In essence, a stable and transparent policy environment, where businesses know the "rules of the game" in advance, will encourage firms to invest and expand, thereby improving long-run resilience.

5.3. Rise Up (Long Term) – Turning Crisis into Opportunity

Beyond mitigation and reform, Indonesia must look ahead and seize the strategic openings created by the shifting global trade landscape. The current disruption presents an opportunity to reposition Indonesia within regional and global value chains, foster innovation-led growth, and drive long-term competitiveness. The following long-term strategies are designed to ensure that Indonesia not only navigates this episode, but emerges stronger, more diversified, and better integrated into the future of global trade.

Leverage China as a strategic partner in development

Geopotically, China will now aim for a strenghtened economic relationship primarily with its neighbours amidst the trade war. Indonesia should use this opportunity to more intensely invite China to be a development partner not only in prevention of the influx of cheap goods towards Indonesia market, but also in the accelleration of poverty alleviation, in the expansion of middle class, and in the advancement of national productivity. These are areas where China has been known to be extremely sucessful by and that Indonesia can be assisted and supported with.

Strengthening Indonesia's human capital, upgrading industrial capabilities, and modernizing its production ecosystem will be critical to building a more resilient regional and domestic economy. Through joint initiatives in vocational education, digital infrastructure, and value-added manufacturing, the two countries can foster inclusive growth that benefits both.

As Indonesia's middle class grows in size and strength, it will create a larger and more dynamic consumer base—one capable of absorbing regional industrial output and deepening bilateral trade ties. This synergy between rising demand and improved supply capacity will allow Indonesia and China to grow together in a more balanced and mutually reinforcing economic partnership.

Diversify export markets and pursue new trade agreements

The tariff crisis highlights the danger of over-reliance on a few big markets. Indonesia should use this moment to aggressively seek out new export destinations and solidify trade ties beyond the U.S. and China. One priority is finalizing the long-negotiated Indonesia–EU Comprehensive Economic Partnership Agreement, unlocking greater access to Europe's large market. Likewise, deepening regional integration through ASEAN (and RCEP) can boost intra-Asian trade that is less exposed to Western protectionism. Even within developing regions, there is untapped potential – for instance, increasing exports to Africa, the Middle East, and South Asia where Indonesia's consumer goods and halal products have growing appeal.

Coordinating Minister of Economy, Airlangga Hartarto, has already indicated plans to ramp up engagement with European countries as an alternative to the U.S. and Chinese markets. In the long term, Indonesia could also consider joining high-standard trade pacts like the CPTPP to lock in diversified market access and trade reforms. By expanding its portfolio of free trade agreements, Indonesia insures itself against shocks in any single market and can capture growth in emerging economies.

This diversification strategy will also help stabilize export earnings (and the rupiah) by smoothing demand: a downturn or tariffs in one market can be offset by sales to others. In sum, *export market diversification* is a key strategy to rise – it not only reduces vulnerability but also forces Indonesian firms to meet varied quality standards, indirectly upgrading their competitiveness.

Integrate into shifting global supply chains as a manufacturing hub

The realignment of global production triggered by trade tensions presents a historic opening for Indonesia to attract investment. As U.S. tariffs push multinational companies (including Chinese manufacturers) to relocate facilities, Indonesia should position itself as a prime destination. Government officials have noted interest from Chinese firms in moving factories (e.g. furniture, electronics) to Indonesia rather than Vietnam, given tariffs hit countries like Vietnam as well.

To capitalize, Indonesia must aggressively improve its investment climate: streamlining business permits, providing serviced industrial land (e.g. Kendal Industrial Park, Batang SEZ), and ensuring stable policies for investors. "*Welcome to Indonesia*" should be the message – as one official put it, those with factories in China are being invited to shift production to Indonesia. By securing a share of these relocations, Indonesia can embed itself in global value chains for electronics, apparel, automotive, and other sectors.

Over the long run, this means not just assembling goods but gradually moving up to higher-value activities (design, component manufacturing) as capabilities grow. The government can facilitate this by requiring or encouraging foreign investors to source from local SMEs, transfer knowledge, and link up with local suppliers. Every factory that moves to Indonesia brings jobs, technology, and export potential – helping the economy *rise up* more. Moreover, Indonesia should strengthen regional supply chain cooperation under initiatives like the Indo-Pacific Economic Framework (IPEF) and through ASEAN connectivity projects, so that it becomes a key node in Asia's supply networks. A diversified and robust manufacturing base will leave Indonesia far less vulnerable to any one country's trade policy, effectively repositioning it as a "plus one" alternative in the *China+1* strategy of global firms.

Accelerate progress of green and high-tech industries

Indonesia can turn this crisis into an opportunity by fast-tracking its move into future growth sectors, especially those aligned with global sustainability trends. One avenue is the electric vehicle (EV) and battery industry – Indonesia controls some of the world's largest nickel reserves (critical for batteries) and has been courting investors in battery cell and EV production. By offering incentives and ensuring regulatory support, Indonesia could become a key player in the EV supply chain in the coming decade, exporting batteries or even assembled electric cars. Similarly, renewable energy technology is ripe for expansion: solar panel manufacturing, wind turbine components, and related equipment could be scaled up with the right partnerships.

IBC's members highlighted the Philippines' approach to renewable energy as a model of long-term development focus, suggesting Indonesia should emphasize major strategic sectors rather than fixate narrowly on protective regulations. The government's recent step to relax local content rules for green energy investments is a promising move in this direction – it signals to international firms that Indonesia is open to collaboration to build its clean energy capacity. Over the long run, nurturing green industries not only creates a new export avenue (as global demand for clean tech soars) but also supports Indonesia's climate commitments and energy security.

The same goes for the broader tech sector: initiatives to grow domestic capabilities in semiconductors, telecommunications equipment, and digital services will pay off by integrating Indonesia into the fast-growing digital economy of the region. By investing in these forward-looking industries now, Indonesia can rise up in the aftermath of the current trade setbacks with a more modern, innovation-driven export portfolio.

Leverage trade and investment diplomacy to strengthen Indonesia's role in global value chains

In the long term, Indonesia should be not just a rule-taker but a rule-shaper in global trade. The government can use forums like the G20, WTO, and APEC to advocate for the interests of emerging economies in any new trade arrangements. For instance, Indonesia can lobby for further exemptions or special treatment for developing countries under national security tariff regimes such as the now expired U.S. GSP– a point raised in UNCTAD's analysis that current U.S. tariff policies *"disproportionately affect"* small economies without fixing trade imbalances.

Diplomatically, Indonesia should also capitalize on its strategic importance: as a large ASEAN economy, it can work with partners to ensure major powers consider ASEAN's stability in their trade decisions. Proactive economic diplomacy could involve forging mini-lateral deals – such as supply chain agreements with Japan, South Korea, and Australia to source critical inputs jointly, or investment pacts with Middle Eastern countries looking for Asian partners.

World Bank President Ajay Banga has urged developing nations to lower their own tariffs and engage in regional trade to offset the risks of U.S. protectionism. History shows open economies grow faster and withstand shocks better, so Indonesia's strategy to rise up should include continued trade liberalization where it makes sense (e.g. cutting remaining high tariffs gradually, as industries become competitive.

By championing cooperation over retaliation, Indonesia can help prevent a spiral of fragmentation. Instead, it can emerge as a hub of "*South-South*" trade and investment, connecting diverse markets. In practical terms, this might mean leading efforts within ASEAN to harmonize standards, pushing for the implementation of the RCEP agreement's provisions, and inviting more foreign investment in export-oriented sectors. Such steps will reinforce Indonesia's integration into global value chains on favorable terms – not as a vulnerable link, but as a proactive, indispensable node.

Drive structural transformation for value-added exports

Finally, Indonesia's long-term rise must be underpinned by moving up the value chain. Relying on exports of raw or low-value goods (whether palm oil, unprocessed minerals, or basic textiles) leaves the economy exposed. The government should double down on industrial downstreaming initiatives – for example, continuing the push to process nickel into batteries and expanding palm oil refining into oleochemicals. By retaining more value domestically, Indonesia gains more bargaining power in trade and creates higher-paying jobs that further drive domestic consumption.

Additionally, embracing a strategy of using imports to enable exports is key: rather than seeing imports purely as a threat, policymakers should treat them as inputs that, when accessible at competitive prices, allow Indonesian firms to produce sophisticated export products. This means avoiding import restrictions on machinery, advanced components, and raw materials that the local economy needs - a stance that will attract foreign investors who depend on efficient supply chains.

In essence, the rise up phase is about ensuring that when the next global trade upswing or supply chain reconfiguration comes, Indonesia is not just selling what it always has, but has new, diversified offerings – making the economy more robust and prosperous than before the crisis.

The Response–Reform–Rise Up framework provides a roadmap for Indonesia's import strategy in turbulent times. In the immediate term, decisive action and collaboration can blunt the tariff impacts. Over the medium term, substantive policy reforms will address structural vulnerabilities that the crisis exposed – from costly logistics to rigid regulations. And in the long run, Indonesia can emerge stronger by seizing new opportunities: attracting industries, entering new markets, and advancing its economic diversification.

Box 4. Policy Recommendations Grouped by Category of Action

Safeguard

- Protect nationally critical sectors (e.g. food and energy) through import assurance, targeted reserves, and reduced over-dependence on any single supplier.
- Maintain predictable and affordable access to strategic imports (e.g. inputs for manufacturing).
- Prevent Indonesia from becoming a dumping ground for redirected exports, particularly low-cost excess supply from China, by using WTO-compliant safeguards and anti-dumping tools.
- Shield SMEs and vulnerable workers from sudden dislocation through safety nets, targeted support, and temporary response mechanisms (e.g. Presidential task forces and sectoral assistance funds).

Stimulate

- Mobilize investment into upstream and downstream capabilities by improving regulatory certainty, leveraging Special Economic Zones (SEZs), and offering strategic tax and innovation incentives.
- Reform TKDN (local content) policies by shifting from rigid requirements to performance-based incentives that encourage real productivity and supply chain development.
- Channel tariff revenues and restructured budgets into capacity building, R&D, and SME scaling programs, particularly in tradable and technology-enabled sectors.
- Incentivize subnational governments to engage in trade and industrial transformation through performance-based fiscal transfer* and investment facilitation schemes.

Shift

- Accelerate market diversification to reduce reliance on a few key export markets—by tapping into underutilized FTAs and promoting regional trade corridors.
- Redirect resources towards productive investments, including logistics, and future industries development.
- Guide select industries to shift toward Indonesia's emerging comparative advantages in the green economy, digital manufacturing, and regional processing hubs (e.g. EV batteries, sustainable agro-industry).
- Encourage industries to move up the value chain, from commodity-based exports to more sophisticated, higher-margin goods.

Streamline

- Reform import licensing regimes, non-tariff barriers, and customs systems to reduce costs, ease business operation, and meet global benchmarks.
- Implement bureaucratic simplification through deregulation, digital integration, and better institutional coordination including single window service.
- Improve domestic supply chain efficiency, including logistics hubs, road and port infrastructure to reduce costs and delivery delays.
- Align trade, industrial, and investment policies under a single, coherent development narrative to eliminate policy contradictions and administrative fragmentation.

Synergize

- Ensure full integration of import and industrial strategies with national development frameworks—including RIPIN, RPJMN 2025–2029, and Asta Cita - and the policies of ministries, SOEs, and regional governments.
- Establish formalized consultation platforms with the private sector (e.g. IBC members) to shape responsive, accountable, and commercially relevant policies.
- Create a win-win cooperation with China, not merely as a trade partner, but as a co-investor in productivity, value chain integration, and middle-class growth.
- Strengthen regional trade resilience through ASEAN, and explore economic opportunities in BRICS and the Global South, including market develppment, joint standards, supply chain cooperation, and coordinated positions on global trade reforms.

6 CONCLUSION

The escalation of global trade tensions, most notably the 2025 tariff war initiated by the United States, including the proposed 32% U.S. tariff, is not just a test of negotiation skill, but a deeper test of whether Indonesia can align its trade policy with the realities of its development trajectory. This situation has has exposed both structural vulnerabilities and strategic opportunities within Indonesia's trade architecture – thus it calls for a renewed urgency to Indonesia's need for a coherent and forward-looking trade policy.

The risks are real, especially for labor-intensive sectors and price-sensitive consumers - but so are the opportunities to recalibrate policy toward long-term resilience. The conventional binary between liberalization and protectionism is no longer adequate. This paper argues that trade policy, particularly on import, should be reframed as a developmental tool: one that enhances industrial capability, supports macroeconomic stability, and ensures inclusive growth. A recalibrated, evidence-driven approach - that is responsive to both global pressures and domestic priorities - is critical for safeguarding national competitiveness in this new trade landscape.

It is important that the government must move beyond reactive measures toward a system that is deliberate, adaptive, and grounded in national priorities. Drawing upon international best practices and grounded in the directives of national planning frameworks including RIPIN 2015–2035, RPJMN 2025–2029, and the Asta Cita agenda, this paper has laid out a comprehensive path forward: combining short-term diplomatic response, medium-term institutional reform, and longer-term strategic repositioning. What emerges is the need for a clearer articulation of national importing goals, a more calibrated role for non-tariff measures, and an import regime that is no longer driven by fragmented sectoral interests, but by cohesive development logic. Importantly, this effort cannot rest solely on the shoulders of government. The active participation of the private sector, whose voices have been heard throughout this paper, is essential for designing a system that is responsive, competitive, and credible.

IBC underscores the need for differentiation across sectors. For example, in manufacturing, openness to capital goods and intermediate inputs is critical for global value chain participation. In agriculture, a delicate balance is required between farmer protection and consumer affordability. In energy, strategic import policies can enable both security and decarbonization objectives. All of these call for reforms that are sector-specific, institutionally coordinated, and informed by both data and stakeholder perspectives. The inclusion of voices from Indonesia's leading business leaders reflects the growing demand for a pragmatic, forward-looking trade policy—one that prioritizes productivity, supply chain security, and economic sovereignty.

Trade frictions are likely to remain a feature of the global landscape. But for Indonesia, the real question is not how to avoid them entirely - but how to turn them into pressure points for transformation. Going forward, as the international trade environment becomes increasingly fragmented and unpredictable, Indonesia must reassess its strategic posture. With the right strategy, today's disruptions can become tomorrow's advantage.

APPENDIX:

Reducing Indonesia’s Reliance on Key Exports to the U.S.

A High-Level Exercise of Market Diversification

Against the backdrop of the U.S. tariffs escalation, in which Indonesia faces a 32 percent reciprocal levy, Indonesia faces risks that translate into different exposure to potential revenue losses and employment risks. To safeguard export earnings and diversify risk, Indonesia must tailor market-diversification efforts to each product line, seeking new destinations whose demand trajectories and regulatory environments align with our strategic objectives. This section exhibits a high-level exercise in examining alternative markets for Indonesia’s five leading U.S. export commodities and outlines the challenges each opportunity presents.

Indonesia’s Top 5 Export Commodities to United States

HS Code	Product Label	Value exported in 2023 (USD thousand)	Annual growth in value between 2019-2023, %, p.a.	Share in Indonesia's exports, %	Quantity exported in 2023 (tons)
'1511	Palm oil and its fractions, whether or not refined (excl. chemically modified)	1,518,747	37	7	1,763,030
'8517	Telephone sets, incl. smartphones and other telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of voice, images or other data, incl. apparatus for communication in a wired or wireless network, parts thereof (excl. transmission or reception apparatus of heading 8443, 8525, 8527 or 8528)	1,113,064	32	42	9,816
'6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather (excl. orthopaedic footwear, skating boots with ice or roller skates attached, and toy footwear)	984,172	12	33	46,857
'4011	New pneumatic tyres, of rubber	915,178	14	51	208,693
'8543	Electrical machines and apparatus, having individual functions, n.e.s. in chapter 85 and parts thereof	777,253	156	41	3,530

Palm Oil and Its Fractions (HS 1511)

In 2023 Indonesia shipped USD 1.52 billion of palm oil to the U.S., representing about 7 percent of its global exports of this product . Major alternative markets include the Netherlands, Germany, Turkey, and Belgium, all of which import between USD 0.51 billion and USD 1.53 billion annually.

Potential Alternative Markets (HS Code '1511) – selected based on countries with largest import volume

Potential Market for Expansion	Value imported in 2023 (USD thousand)	Trade balance in 2023 (USD thousand)	Quantity imported in 2023	Unit value (USD/unit)	Annual growth in value between 2019-2023 (%)
Netherlands	1,527,008	-379,840	1,381,358	1,105	0
Germany	917,853	-439,455	696,866	1,317	20
Turkey	801,092	-675,454	813,844	984	24
Belgium	513,945	-415,207	366,853	1,401	9

Key Challenges in Alternative Markets:

- **Netherlands, Germany & Belgium (EU-wide)**: Compliance with the EU Deforestation Regulation, which requires full traceability and "zero deforestation" proof for palm oil imports; failure risks non-admission of consignments or hefty fines.
- **Netherlands & Germany**: Adherence to the EU's Renewable Energy Directive II (ILUC caps), which phase out palm-based biofuels unless certified under strict sustainability schemes; non-compliance may bar biodiesel imports.
- **Turkey**: Growing feedstock self-sufficiency efforts and complex quality standards for palm oil in both food and biofuel use, requiring RSPO (Roundtable on Sustainable Palm Oil) certification for market access; Turkey's biofuel policy has capped palm use and threatens higher tariffs on non-certified oil.

Telephone Sets (HS 8517)

Smartphones and related apparatus accounted for USD 1.11 billion (≈ 42 percent share) of Indonesia's U.S. exports in 2023 . Primary alternatives are Hong Kong, UAE, China, Germany, and Japan.

Potential Alternative Markets (HS Code '8517) – selected based on countries with largest import volume

Potential Market for Expansion	Value imported in 2023 (USD thousand)	Trade balance in 2023 (USD thousand)	Quantity imported in 2023	Unit value (USD/unit)	Annual growth in value between 2019-2023 (%)
Hong Kong, China	63,471,779	-6,131,721	0	n.a.	-3
United Arab Emirates	43,339,148	-12,939,620	0	n.a.	20
China	30,514,576	198,133,431	83,312	366,269	-8
Germany	27,830,143	-14,367,964	10,8337	256,885	5
Japan	27,098,828	-24,091,965	0	n.a.	3

Key Challenges in Alternative Markets:

- **Hong Kong**: Potential downstream re-export constraints due to shifting U.S. export controls on certain components (e.g., semiconductors under the Entity List), which may limit transshipment of U.S.-origin parts.
- **UAE**: Certification bottlenecks—Gulf Cooperation Council (GCC) conformity marking and local telecom type approval add costs and delays.

- **China**: Intense competition from domestic brands and retaliatory tariffs on select Indonesian imports under China's safeguard investigations.
- **Germany**: Mandatory CE marking, RoHS (Restriction of Hazardous Substances) and WEEE (Waste Electrical and Electronic Equipment) compliance impose strict technical and environmental standards.
- **Japan**: Local Giteki certification (Technical Conformity Certification) and strong domestic consumer preferences challenge market entry.

Footwear (HS 6403)

Leather footwear exports to the U.S. totaled USD 0.98 billion in 2023, about 33 percent of global exports for this item . Top non-U.S. markets include Germany, France, Italy, China, and the Netherlands.

Potential Alternative Markets (HS Code '6403) – selected based on countries with largest import volume

Potential Market for Expansion	Value imported in 2023 (USD thousand)	Trade balance in 2023 (USD thousand)	Quantity imported in 2023	Unit value (USD/unit)	Annual growth in value between 2019-2023 (%)
Germany	5,312,972	-532,980	125,186	42,441	0
France	4,103,476	-114,7695	71,969	57,017	3
Italy	3,554,634	5,370,899	90,563	39,250	7
China	2,970,979	5,555,048	61,592	48,236	7
Netherlands	2,854,156	-393,393	87,723	32,536	8

Key Challenges in Alternative Markets:

- **Germany & France**: REACH restrictions on chromium-VI in leather tanning and mandatory eco-labeling for textile and leather goods; non-compliant footwear faces recall or ban.
- **Italy**: High fashion standards and consumer preference for "Made in Italy" labels make price-competitive Indonesian products less attractive without strong brand positioning.
- **China**: Rising domestic production capacity and protectionist measures favoring local SMEs, including local content subsidies.
- **Netherlands**: Strict waste-reduction and recyclability rules for polymers in soles under EU Circular Economy Action Plan.

New Pneumatic Tyres (HS 4011)

In 2023 Indonesia exported USD 0.92 billion of tyres to the U.S. (≈ 51 percent share) . Alternative buyers are Germany, France, Mexico, Canada, and the U.K.

Potential Alternative Markets (HS Code '4011) – selected based on countries with largest import volume

Potential Market for Expansion	Value imported in 2023 (USD thousand)	Trade balance in 2023 (USD thousand)	Quantity imported in 2023	Unit value (USD/unit)	Annual growth in value between 2019-2023 (%)
Germany	7,813,158	-1,493,862	1,345,631	5,806	6
France	4,823,586	-2,064,055	773,545	6,236	9
Mexico	4,290,029	-2,244,219	0		13
Canada	3,441,951	-1,630,207	34,567,309	100	6
United Kingdom	3,164,556	-2,602,275	65,3114	4,845	6

Key Challenges in Alternative Markets:

- **Germany & France (EU)**: Stringent EU tyre-label requirements (rolling resistance, wet grip, noise) and anticipated carbon border adjustment mechanism (CBAM) duties on carbon-intensive products.
- **Mexico**: Complex rules of origin under USMCA; Indonesian tyres must meet local value-addition thresholds to avoid high duties.
- **Canada**: Heavy vehicle weight-and-dimension regulations differ by province, complicating standardization of tyre sizes and ply ratings.
- **United Kingdom**: Post-Brexit divergence from EU standards may create dual-compliance burdens for the EU and U.K. markets.

Electrical Machines & Apparatus (HS 8543)

Electrical apparatus exports reached USD 0.78 billion in 2023 (≈ 41 percent share) . Potential destinations are China, Germany, Singapore, Thailand, and Japan.

Potential Alternative Markets (HS Code '8543) – selected based on countries with largest import volume

Potential Market for Expansion	Value imported in 2023 (USD thousand)	Trade balance in 2023 (USD thousand)	Quantity imported in 2023	Unit value (USD/unit)	Annual growth in value between 2019-2023 (%)
China	6,507,117	12,363,705	31,455	206,871	3
Germany	3,843,478	1,395,642	37,411	102,737	17
Singapore	2,476,889	862,109	0		21
Thailand	2,332,687	-616,795	0	206,871	8
Japan	2,318,135	969,537	0	102,737	-4

Key Challenges in Alternative Markets:

- **China**: Preference for domestically manufactured components under the Made in China 2025 program and local certification requirements (CCC mark).
- **Germany**: VDE certification for safety and EMC (electromagnetic compatibility) tests adds time-to-market and lab costs.
- **Singapore**: Small market size with high per capita imports but limited growth potential; intense competition from global brands .
- **Thailand**: Local content incentives under the Board of Investment that favor joint ventures over pure imports.
- **Japan**: JIS (Japanese Industrial Standards) certification is mandatory and requires localized testing procedures.

Moving forward, a granular, product-by-product strategy is essential. Policymakers and industry associations should convene sectoral working groups to:

1. **Map capacity**; quantify the import ceilings and growth trajectories of target markets beyond the U.S.
2. **Adapt market access**; pursue trade agreement upgrades or unilateral tariff preferences in priority jurisdictions.
3. **Align supply chains**; assist exporters with logistical support (e.g., bonded warehouses, streamlined certification) tailored to each new destination.

By diversifying Indonesia's five most U.S.-exposed export lines into at least three alternative markets apiece, Indonesia can lower its exposure to sudden tariff shifts, stabilize export revenues, and bolster long-term industry resilience.

This exercise serves as a hypothetical hedge against geopolitical trade risks and also lays the groundwork for deeper and more robust approach of such simulation to be peformed by the relevant working groups.

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