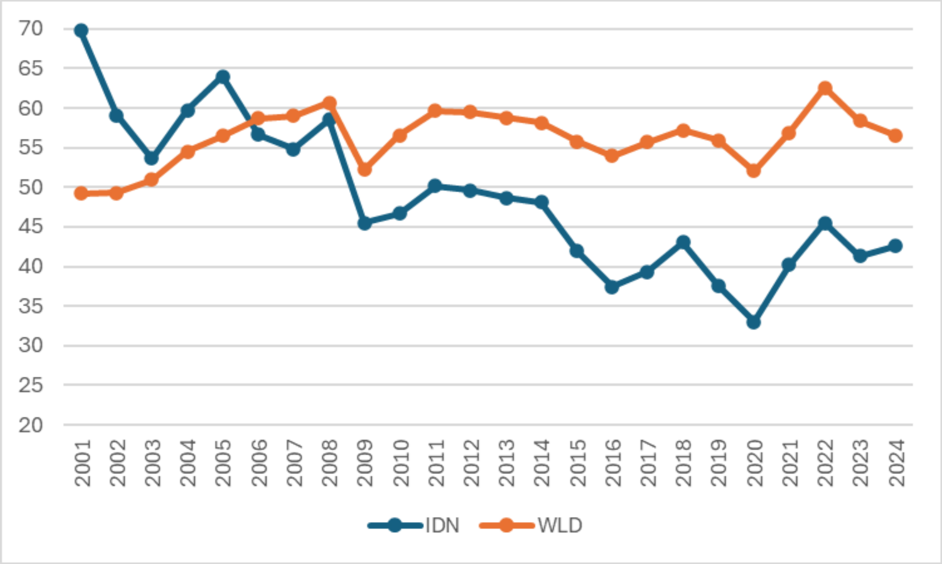
Centre for
Strategic and
International
Studies

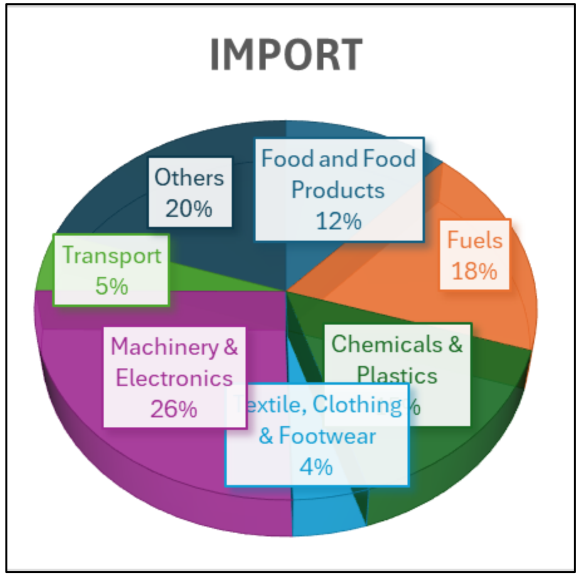
Resilience through Self-sufficiency: Indonesia’s Approach to Supply Chain Resilience

Yose Rizal Damuri

Context: Indonesia and Global Supply Chains

Indonesia's trade over GDP has been declining....





Comtrade Database

Indonesia is not as integrated to global supply chains as its neighbours.....

	Foreign Value Added in Final Demand		Foreign Value Added in Export	
	Indonesia	ASEAN	Indonesia	ASEAN
Agriculture	11%	17%	9%	14%
Industry	33%	42%	12%	23%
Manufacturing	35%	43%	15%	29%
Computer, electronic	42%	65%	25%	35%
Machinery and equipment	56%	79%	19%	36%
Motor vehicles	32%	44%	22%	36%
Textiles, wearing apparel	44%	48%	19%	29%

TIVA Database

Context: Policy and Economic Environment

- Pandemic Covid-19
- Geopolitical Conflict and Tensions
- Risks of Fragmentation

- Improving Economic Independence
- Industrial Deepening
- Taking Advantage of the Changing Global Economy

Grand Narrative of Economic Resilience....

- Indonesian government's perception of supply chain resilience has evolved to strategic national security issues
  - Initially, resilience meant improving logistics and connectivity
  - The focus now is to increase domestic production and strategic stockpiles
- Complemented by sector-specific strategies to built end-to-end, from raw materials to consumer products
- The goal is to reduce imports dependence mostly by state-driven investments

Jokowi Launches New Phase of Industrial Park in Bid to Lure Investors Away from China

July 26, 2024, 06.50 PM

Prabowo stresses food, energy self-sufficiency for sovereignty

December 30, 2024 18:59 GMT+700

Major Policy Orientation

Joko Widodo's Period

- "Downstreaming" and Resources Nationalism
- Local Contents Regulations
- Business Climate Improvement

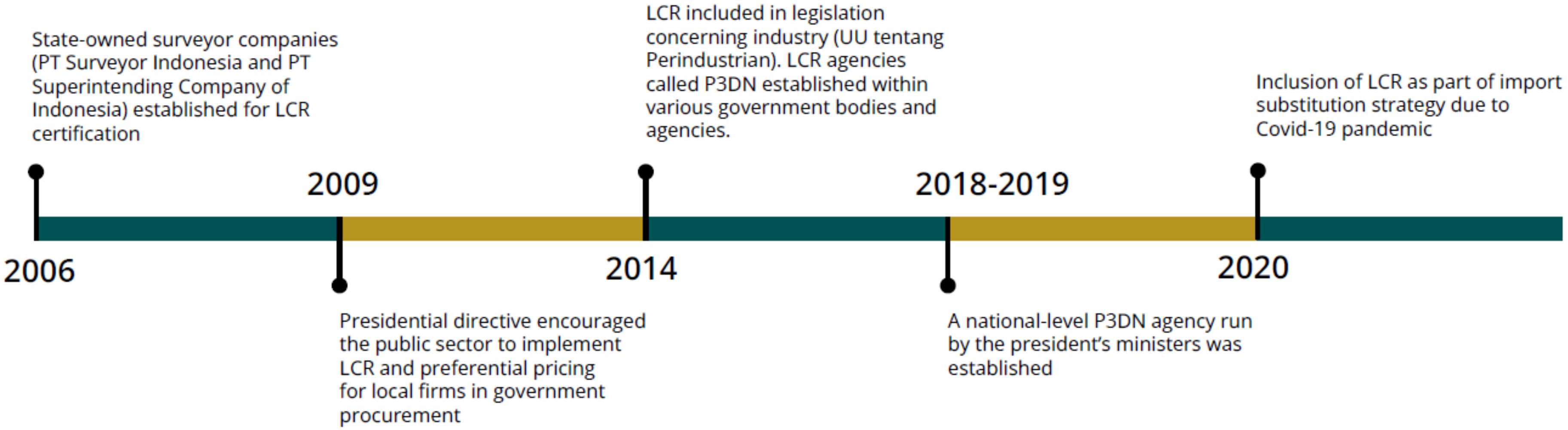
Prabowo's Period

- Continuation of Jokowi's Initiatives
- Expansion of Food Estate Program
- Domestic-first Energy Security

Indonesia’s Approach to Resilience: Downstream Strategy and Export Ban of Critical Minerals

- Export ban was introduced 2009
- Supposed to be implemented in 2014
- Due to lack of investment delayed in 2017 to 2022
- Investment came mostly from China 2016 – 2020
- Export ban for nickel was expedited to 2020

- Export ban of mineral is not a new policy, but regain its importance in the last few years as an industrial policy and strategy
- Indonesia has an ambition to become major hub for EV and other sustainable products which intensively use critical minerals
- It only attracted smelting companies for semi-processed
- The intention to build the whole nickel value chain remain to be far away from realization

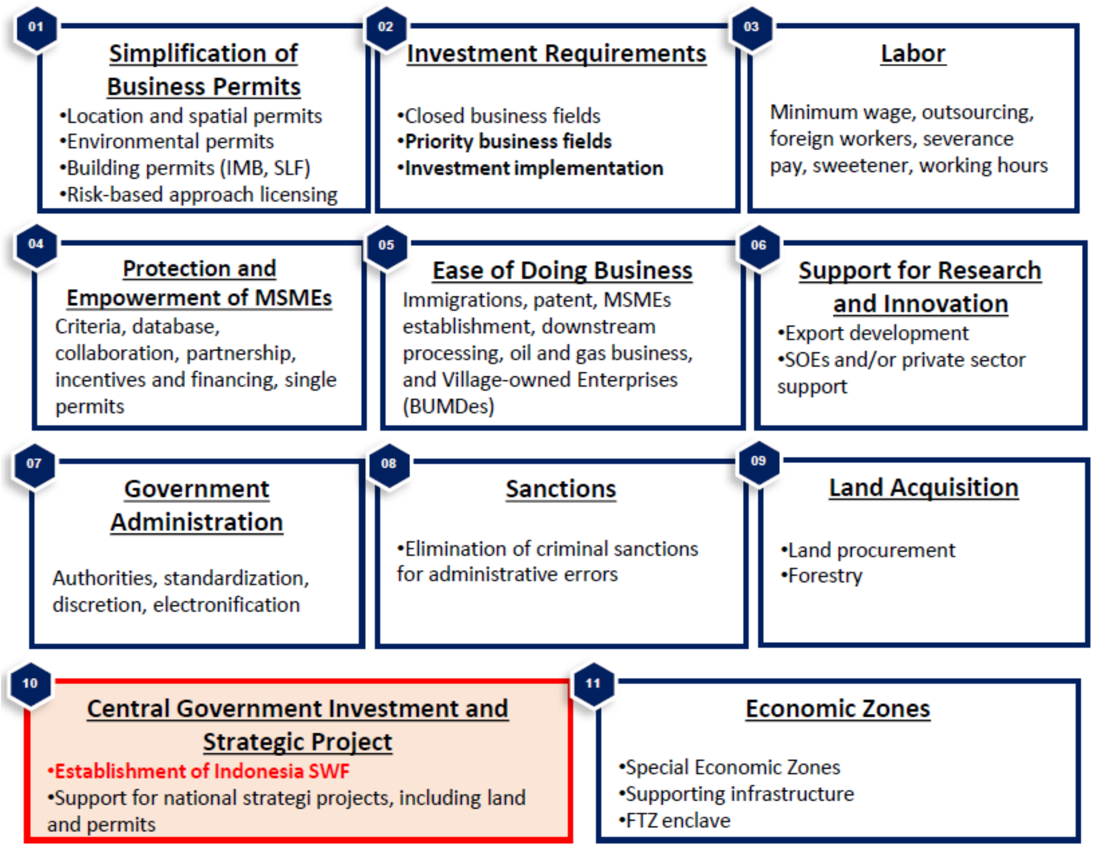


Indonesia's Approach to Resilience: Local Content Requirements

- LCR is not a new policy either, but regained popularity to support import substitution strategy and encourage industrial production in Indonesia
- It is compulsory regulation for many products to enter Indonesian market
- Applied to health and medical products, as well as ICT, and recently extended to green products, such as solar panel
- CSIS study (2023) reported that LCR negatively affected industrial performance of manufacturing sector, both downstream and upstream

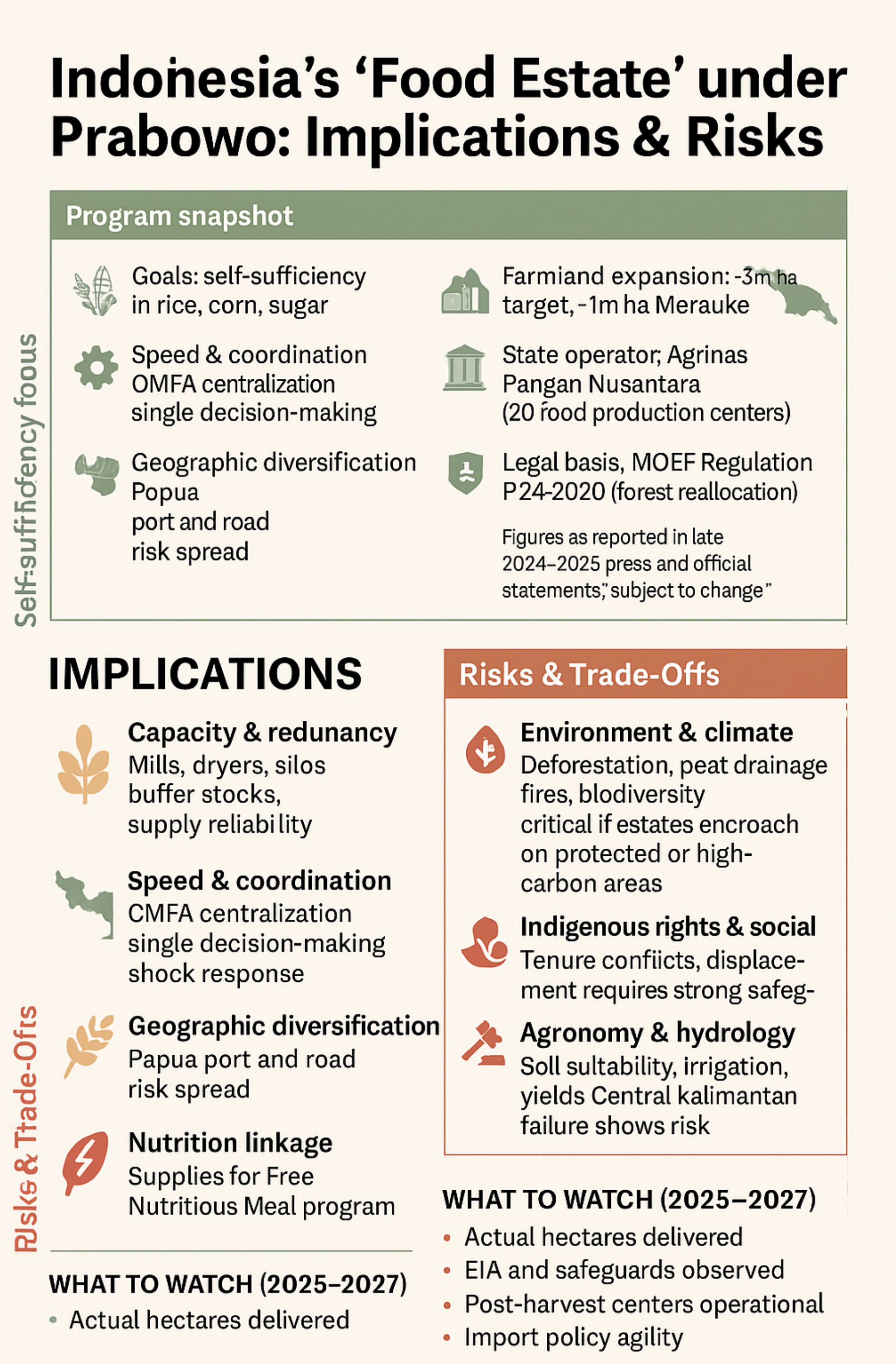
Regulatory Reform and Business Climate Improvement

- The government also launched campaign to improve business climate
- The recent one is the introduction of Omnibus Law on Job Creation that reviewed 79 laws related to economic activities and business
- But the result remain to be seen since it attracts a lot of objections and difficult to keep the spirit of reform in the implementing regulations
- For instance, the implementing regulation on industrial development introduced new protectionist measure of commodity balance that undermine business activities



Prabowo’s Food Estate Program for Food Resilience

- Food estate strategy puts self-sufficiency at the center of resilience: bigger, faster, more state-directed
- The target is expanding farmland by 3 million ha in five years, and to produce 20 million ton of paddy, reducing reliance on imports
- Complemented by series of import control via the “commodity balance” mechanism



Domestic-first Energy Resilience

- Increase the use of biofuel to B50 (diesel with 50% FAME) in 2026
- Gasification of coal to DME to reduce dependence on imported LPG and monetize low-cost coal with plan to produce it in Sumatra and Kalimantan
- Increase DMO for natural gas and building infrastructure
- All of them is to increase the use of domestic sources and increase energy sovereignty

Economic Resilience through Self-sufficiency

	Developed Economies	Emerging Economies
Objectives	Their national security broadened to include economic dimensions	Their emphasis tends to be on basic needs and macroeconomic stability
Focus	Encapsulating efforts to safeguard critical economic interests from external threats	Focus more on food security, energy access, and avoiding balance-of-payments crises rather than high-tech supply chains
Common Strategies	Ensuring stable supplies of critical materials; protecting sensitive innovations	Energy and food self-sufficiency; maintaining foreign reserves to protect currencies

- Indonesia finds itself somewhere between these two paradigms although recently lean towards self sufficiency approach
- Improving competitiveness by extending domestic supply chain of various manufacture is another strategy that Indonesia pursues

Business Responses to These Strategies

- The government strategies tend to encourage domestic supply chains development, often by having import restrictions to inputs
- Business associations pressed the government to relax import restrictions because risk of running short on inputs
  - Shifting some procurement to local suppliers where quality permits, but still limited
- The government just released new regulations on local contents of that relax the calculation of domestic contents for manufacturing products
- Food manufacture producers have been significantly affected by import restrictions on food raw materials, leading to higher prices and less competitive industry
- The result of these strategies to improve resilience is unclear, while the impact has affected economic and business performance

Thank you!