

# EXECUTIVE SUMMARY

## *Sector Overview Report on Navigating Opportunities: Nurturing Dynamic Economic Policies in Indonesia*

This Sector Overview Report, titled "Navigating Opportunities: Nurturing Dynamic Economic Policies in Indonesia," has been prepared by the Institute for Economic and Social Research, Faculty of Economic and Business, Universitas Indonesia (LPEM FEB UI) in collaboration with the US-ASEAN Business Council (USABC). This comprehensive report is designed to inform the new government under President Prabowo Subianto about the strategic opportunities and regulatory challenges in seven pivotal sectors of the economy, providing a roadmap for enhancing economic relations and fostering a dynamic economic environment.

The sectors covered in this report are:

1. Energy and Mineral Resources
2. Film Entertainment
3. Food and Agriculture
4. Healthcare
5. Information and Communication Technology (ICT)
6. Trade Facilitation
7. Travel and Tourism

The methodology for compiling this report involved a multifaceted approach that included literature reviews, in-depth interviews with major stakeholders, in-depth interviews with government representatives, and secondary data analysis. This diverse methodological approach ensures a robust understanding of each sector's current landscape, challenges, and opportunities.

The primary objective of this report is to provide actionable insights and recommendations to the new administration, thereby supporting the development of policies that nurture economic growth, enhance public-private partnerships, and improve regulatory transparency. Through this report, LPEM FEB UI and USABC aim to contribute to the creation of a business-friendly environment that leverages Indonesia's strategic position in the global economy.

### **Energy and Mineral Resources**

Indonesia has made global commitments under the Paris Agreement to reduce national emissions and adapt to the impacts of climate change. To fulfill these commitments, the government could leverage the role of Carbon Capture and Storage (CCS). The country has immense potential to become a regional hub for cross-border CCS (CB-CCS) due to its potentially substantial CO<sub>2</sub> storage capacity of up to 700 gigatonnes. However, there are several key aspects to consider to accelerate the development of CB-CCS in Indonesia.

**A supportive policy framework that includes market-based principles for commercial terms, investment protection agreements, and safeguards for legal certainty** is important



for ensuring the success and long-term viability of CB-CCS initiatives in Indonesia. To address this, the government could: i) Establish enabling regulations based on market principles for commercial terms; ii) Implement investment protection agreements to attract long-term investors; iii) Promote legal certainty by preventing the unilateral revocation of licenses and agreements, and establishing long-term operational agreements; iv) Reconsider provisions, like Article 35 of Presidential Regulation (Perpres) No. 14/2024 that limits imported CO<sub>2</sub> to only 30% of the total storage capacity, that reduce the attractiveness of importing CO<sub>2</sub> to Indonesia for CB-CCS; and v) Consider revising Article 47 of Perpres No. 14/2024 regarding leakage during CB-CCS operations to align with Indonesia's Nationally Determined Contributions.

Additionally, **strong government-to-government dialogue and cooperation** are crucial. Bilateral negotiations should include detailed stipulations regarding transfer mechanisms, the value of captured CO<sub>2</sub>, and other CCS implementation procedures. The recent signing of a Letter of Intent between Singapore and Indonesia marks a significant step toward enabling a CB-CCS project. Building on this momentum, further collaborative efforts with other nations should be pursued to strengthen the regional CCS value chain.

Lastly, **securing public support for CB-CCS projects** is critical for the successful adoption of carbon capture efforts in Indonesia. This requires active stakeholder engagement and raising public awareness about the benefits of CB-CCS, including its potential to drive local decarbonization, create jobs, and generate economic opportunities. Transparent communication and inclusive participation will be key to gaining broad public backing. Another important aspect of the energy and mineral resources sector is Indonesia's downstream policy, as mandated by the 2009 Mining Law. The regulation, a key component of the country's industrial development agenda, requires the domestic processing of minerals to promote value addition and economic diversification. The government of former President Joko Widodo announced plans to expand this strategy to other minerals beyond nickel, bauxite, and copper, aiming to further increase economic returns, create jobs, and drive industrial growth. Several key aspects need to be addressed for this expansion to succeed.

First, **strategic planning and preparation for downstream industries** are essential for sustainable development. It is important to develop a comprehensive roadmap for each commodity's downstream sector, taking into consideration the specific economic characteristics and feasibility of each mineral. To address this, the government could: i) Create roadmaps outlining the economic feasibility and reserves of each commodity, ii) Emphasize long-term exploration strategies for securing raw materials, and iii) Expand downstream sectors by transitioning toward manufacturing semi-processed and finished products.

Second, **regulatory alignment and legal certainty** are critical for the downstream industry's growth. Ensuring a streamlined regulatory framework across sectors—including mining, environment, and industry—is key to avoiding conflicting rules and delays. To achieve this, the government could: i) Align supervision and permit processes across ministries, ii) Regularly evaluate downstream policies to ensure effectiveness, and iii) Provide long-term legal certainty through stable mining investment frameworks.

Finally, the **integration of decarbonization measures** into downstream policies can be explored. Establishing CCS infrastructure could enhance the attractiveness of Indonesia's



mineral sectors by aligning with global decarbonization trends. This could involve: i) Developing CCS facilities to support low-emission downstream processing and ii) Attracting global investors by positioning Indonesia as a leader in low-carbon mineral processing.

## Film Entertainment

The Indonesian screen industry is recovering well from the COVID-19 pandemic. Driven by growing demand for local content, cinema admissions have surpassed pre-pandemic levels and Online Curated Content (OCC) services are projected to reach USD 500 million in annual revenues by 2025. This industry's economic potential is significant, generating USD 8.2 billion in 2022 and a projected USD 9.8 billion by 2027 while creating spillover effects in sectors like tourism. However, the industry's ability to maximize its potential is constrained by issues such as a shortage of skilled workers in the industry, infrastructure gaps, and insufficient government support.

One of the main challenges facing the Indonesian screen industry is **the shortage of skilled professionals in both technical and creative roles**, particularly in high-demand positions such as screenwriters, producers, and directors. To address this, the government could: i) Collaborate with industry associations and international institutions to provide targeted training programs; ii) Align formal education with the evolving workforce needs; iii) Expand on-the-job training opportunities; iv) Raise awareness of diverse career paths in the digital creative industry; and v) Involve multiple ministries, such as the Ministry of Youth and Sports and the Ministry of Manpower, in supporting workforce development initiatives for the film and TV industry.

Another critical aspect is **the need to accelerate investment in film industry infrastructure**. To achieve this, the recommendations include: i) Expanding the network of cinemas across the country; ii) Increasing post-production facilities to boost local content creation; iii) Identifying sites for new studios and production developments; iv) Utilizing pop-up production spaces to attract more projects; v) Establishing a location library and database to promote Indonesia's diverse landscapes for filmmaking; vi) Expanding broadband access for equitable content distribution online.

**The lack of clear design and implementation of movie production incentives in Indonesia** hinders the country's ability to attract both local and foreign filmmakers, making it less attractive compared to other countries in the region. To address this, the Indonesian government could: i) Implement straightforward, transparent, and efficient cash rebate schemes for both local and foreign filmmakers; ii) Offer additional incentives for employing local crews, conducting post-production domestically, and promoting lesser-known locations; iii) Scale rebates based on production budgets and filming duration to attract longer projects; and iv) Introduce a Location Scouting Support program to cover costs for international productions planning to film in Indonesia.

Aside from these, **the complexity of the regulation and permit application process for filmmakers** in Indonesia hampers efficient production workflows. To address this, the government could: i) Centralize the authority responsible for issuing permits to streamline coordination; ii) Combine central and regional permits to expedite the process; iii) Enhance coordination between relevant institutions; and iv) Establish clear leadership within the Ministry



of Culture (previously part of the Ministry of Education, Culture, Research, and Technology), the Ministry of Tourism and the Ministry of Creative Economy (both previously part of the Ministry of Tourism and Creative Economy/MoTCE) to provide filmmakers with proper guidance.

## Food and Agriculture

Agriculture is essential to Indonesia's socio-economic framework, contributing an average of 13.22% to GDP from 2010 to 2023 and providing livelihoods for approximately 28.21% of the workforce. Despite a gradual decline in its GDP contribution over the years, the sector still plays a crucial role in food security by supplying staple crops and raising farmers' incomes, thereby reducing poverty, particularly in rural areas. Hence, Indonesia's 2045 development framework (Visi Indonesia 2045) prioritizes food security and improving farmers' welfare, with the aim of significantly enhancing productivity by 2045. It outlines key strategies including developing agricultural education, integrating sector policies, improving farmer institutions, and increasing investments in infrastructure. These initiatives aim to create a self-reliant food security system while enhancing the financial condition and livelihoods of farmers. Furthermore, self-sufficiency in food is a central aspect of President Prabowo's Asta Cita campaign platform, reflecting a commitment to achieving national independence and sovereignty.

Enhancing agriculture productivity to achieve food sovereignty and farmers' resilience goals requires a transformative approach in how the government provides support to farmers. Two critical aspects that the government can focus on are reforming the subsidy strategy and accelerating the adoption of seed technologies, like genetically modified (GM) products.

Currently, **Indonesia's seed subsidy program faces challenges such as inefficiencies in distribution, limited access for farmers, and fluctuating subsidy values.** Many farmers receive minimal assistance and report lower yields compared to those who do not participate in these programs. To address these issues, the government may consider: i) Encouraging greater private sector participation in seed production through public-private partnerships (PPPs), ii) Implementing a robust monitoring and evaluation framework to help assess program effectiveness, and iii) Enabling data-driven adjustments based on feedback from farmers and stakeholders.

**Credit assistance offers greater versatility for farmers in Indonesia compared to seed subsidies.** Issues with seed quality and distribution timing hinder the effectiveness of seed assistance, while credit assistance more effectively addresses the various challenges farmers face. This study observes that farmers allocate capital differently based on local conditions, indicating that credit assistance could significantly enhance productivity by allowing more flexible investment decisions. Given this, the government is encouraged to: i) Prioritize the expansion of credit assistance programs like People's Business Credit (*Kredit Usaha Rakyat*, KUR), alongside simplifying loan application procedures and increasing financial literacy among farmers; ii) Enhance the role of agricultural extension services (PPL) to better support farmers in adopting new technologies and practices; and iii) Build a more competitive seed industry through public-private partnerships that could ensure the availability of high-quality seeds.



Another issue is **the adoption of GM products in Indonesia, which faces challenges such as regulatory inefficiencies, public scepticism, and limited support for farmers.** There used to be concerns regarding dependency on GM seeds from multinational corporations, but these are becoming less relevant as state-owned enterprises (SOEs) have initiated research and development efforts to produce locally adapted GM varieties. To further facilitate the integration of GM products, it is crucial to: i) Overhaul the existing regulatory framework by streamlining approval processes and establishing a centralized body, such as the Biosafety Commission, to manage all aspects of GM product oversight; ii) Develop a comprehensive roadmap for GM adoption to provide strategic guidance for stakeholders and outline timelines for regulatory reforms and public awareness initiatives; iii) Increase government involvement in post-commercialization monitoring, alongside enhanced budgetary support for R&D, to ensure safety standards and promote innovation tailored to local needs; and iv) Conduct targeted public awareness campaigns, leveraging accessible online resources and engaging various institutions, to inform and educate the public about the benefits and safety of GM products, thereby fostering acceptance and informed decision-making.

## Healthcare

The healthcare landscape in Indonesia has been undergoing significant transformation to improve the overall quality of healthcare, enhance accessibility, and prioritize preventive care. The National Medium-Term Development Plan (RPJMN) outlines two main health-related goals: accelerating improvements in community nutrition and strengthening the healthcare system, including medicine and food control. Therefore, for the healthcare sector, this report focuses on two key aspects: First, government initiatives related to nutrition interventions for stunting prevention and eradication. Second, the role of innovative medical devices in improving health accessibility and treatment.

The new administration has announced plans to introduce a “free meals” program to address the low nutrition and stunting problems in Indonesia. Therefore, it is **imperative to ensure the nutritional value of the nutritional value meals included in the program and evaluate its beneficiaries.** This entails considering issues such as the low intake of essential amino acids and concerns about the program’s nutritional quality, how stunting stems from deficiencies in pregnant mothers and children under five, and the efficacy of the program if it initially targets pre-school, elementary school, middle school, high school, and boarding school students. To address this, the government could: i) Ensure the free meals program contains a high protein ratio from animal-sourced food (such as milk, egg, chicken, fish, etc.); ii) Include high-protein medication for stunted children under the Processed Food for Special Medical Needs (PKMK) or Food for Special Medical Purposes (FSMP) program in reimbursement and funding.

Furthermore, there are concerns about **the lack of clear mechanisms for private sector involvement and the need to develop tools to monitor and evaluate the costly program.** Currently, there are no regulations governing the procurement of nutritional food to combat stunting. Thus, it is recommended that the government: i) Include specific scientific guidelines for procurement, budget allocation, and program collaboration to leverage the private sector's capacity to supply high-protein nutritional products, and ii) Develop monitoring and evaluation tools to ensure the “free meals” program’s effectiveness and efficiency in reducing stunting.



**A robust long-term roadmap and strategy are also needed to develop the domestic medical devices industry.** The government is encouraged to: i) Develop a long-term roadmap for the medical devices industry, ii) Conduct industrial mapping to assess the capacity and availability of resources/inputs to support domestic medical device production, ii) Use the industrial mapping to identify feasible medical devices that can be produced in Indonesia and shift away from the current one-size-fits-all local content requirement (LCR) approach.

In addition, there is a need to create a coherent and supportive regulatory framework and environment for the development of the domestic medical device industry. Currently, **the regulatory pathways are not streamlined, the LCR policy is counterproductive, and the industrial environment has not yet adequately supported growth and innovation in the medical device industry.** To address this, the government is encouraged to: i) Relax policies related to AKLs (imported medical devices) to align with the priorities in Indonesia's Health Transformation Pillars, ii) Implement the LCR policy in stages and regularly review and update it, iii) Develop a detailed Indonesia medical devices dictionary (KFA) to guide LCR policy implementation, iv) include various forms of company contributions in calculating local content, v) Provide incentives for innovation and R&D and encourage collaboration between academia, industry, and healthcare providers, and vi) Support market expansion and promote public-private partnerships.

## **Information and Communication Technology**

Indonesia's digital economy has experienced remarkable growth, increasing over 400% from 2017 to 2021, and is projected to rise by 62% from 2021 to 2025. This transformation, enabled by widespread internet access exceeding 97% in 2022, impacts all societal layers and is integral to the Visi Indonesia Emas 2045 initiative. Moving forward, the sector's growth relies on addressing issues in the areas of digital infrastructure, including data centers, telecommunication infrastructure, artificial intelligence (AI), and data governance.

Data centers are essential to digital infrastructure, providing flexibility, resource sharing, and reduced costs. However, they require high investment costs, access to energy and renewable energy, and high-speed internet connection. For data centers providing hyperscale storage services, the facilities tend to be state-of-the-art and purpose-built to meet individual requirements, **requiring certainty and a long-term revenue stream to remain profitable.** Another **driver of cloud business investment is a regulatory environment that enables the free flow of data.** For investments in the cloud business to be viable, regulations should also give customers and users the flexibility to make their own choice of location for data storage and processing. **The regulatory environment, which is marked by forced localization and inconsistent policies, may deter foreign investment and limit the growth potential of the ICT sector** despite its significant economic contribution. Overly restrictive barriers for cross-border data transfers constrain the potential for developing countries to reap the benefits of exporting data-intensive services as the demand for digital services grows. Import restrictions and tariffs on high-tech hardware and equipment, which are often not produced locally, may also impede the growth of the data center industry. Although Indonesia is a member of the WTO Information Technology Agreement (ITA), it faces difficulties in fully





capitalizing on its benefits (e.g., integration in the ICT supply chain) due to compliance challenges causing regulatory uncertainty and disincentivizing investments.

To enhance data center infrastructure in the country, the government could: i) Prioritize collaboration with the private sector, leveraging its resources and expertise to improve connectivity and position Indonesia as a regional hub; ii) Avoid implementing data localization policies; and iii) Consider eliminating import tariffs and restrictions on high-end ICT hardware and equipment to support further growth in data center industry, broader digital economy and other related downstream sectors (e.g., digital skilling, AI start-ups, domestic advanced manufacturing, etc). It is equally important to iv) Foster an enabling environment for data center development and operation by streamlining and simplifying multiple permitting processes and increasing the certainty of the regulatory landscape for investors.

Telecommunication infrastructure development in Indonesia still faces several challenges. The country's archipelagic nature complicates the rollout of digital networks, necessitating substantial investment in specialized equipment for remote areas. Regulatory hurdles, including complex permitting processes and local government levies, further impede progress. Additionally, **spectrum availability and high spectrum costs**, which constitute approximately 12% to 14% of telecom operators' revenue, are higher than the global average of 10%, **slowing down the rollout of 5G services and limiting market competition and network quality**. To address these issues, it is important for the government to: i) Harmonize regulations and potentially provide financial incentives for spectrum usage, which could enhance the telecommunications landscape in Indonesia; and ii) Immediately roll out the low-band spectrum (700 MHz) for broad coverage and rural penetration, the mid-band spectrum (2.6 GHz and 3.5 GHz) for a balance of speed and coverage in urban areas, and the high-band spectrum (26 GHz and 28 GHz) for delivering ultra-fast speeds and high capacity in dense urban environments. In addition, iii) The Ministry of Communication and Digital Affairs (MoCDA), previously known as Ministry of Communication and Informatics (MoCI), should shift from its operational role to focus on regulation and oversight. This transition would relieve MoCI of non-tax state revenue (PNBP) targets, potentially leading to more competitive spectrum pricing and increased private sector participation in Indonesia's digital transformation initiatives.

AI offers significant growth potential for Indonesia, but **its adoption has been hindered by underdeveloped infrastructure, including high-speed internet, 5G networks, and advanced data centers**. The government's strategy of providing guidance on AI governance through a circular letter, rather than imposing strict regulations, is appropriate for the current stage of AI development; however, as the technology evolves, a tailored legal framework for each subsector is necessary to avoid stifling innovation with a "one size fits all" approach. To encourage responsible AI growth, Indonesia could i) Implement a risk-based regulatory framework focused on sector-specific use cases and establish mechanisms for public-private data sharing to create data-rich environments; ii) Develop robust frameworks for AI ethics, fairness, inclusiveness, transparency, and security to ensure safe and responsible deployments; and iii) Align AI regulations with international best practices, such as those in the ASEAN Guide on AI Governance and Ethics, to maintain competitiveness in the global AI landscape.



## **Indonesia's Personal Data Protection (PDP) Law No. 27/2022 lays out a comprehensive framework for personal data governance but faces several implementation challenges.**

The roles and responsibilities of data controllers and processors are not entirely clear, leading to uncertainty, especially as data processors lack visibility into the data they manage. The short response times given for data controllers to fulfill requests and its broad breach notification requirements further complicate compliance. Recommendations to improve data governance include: i) Reducing restrictions on cross-border data transfers to support AI development, upholding strong data protection measures, and clarifying the establishment and responsibilities of the PDP implementing agency. ii) The PDP Law could also benefit from adopting elements of GDPR, particularly in streamlining the obligations of data controllers and processors to enhance compliance efficiency and reduce unnecessary administrative burdens.

## **Trade Facilitation**

Indonesia's trade climate has faced significant challenges due to the implementation of two critical regulations by the Ministry of Trade. Regulation No. 31/2023 (Regulation 31) benefits local SMEs in the short term but does little to support their long-term sustainable growth and has had unintended consequences of limiting Indonesian consumer choices. Local industry experts say it is more productive for the government to invest in public-private sector partnership programs and initiatives to help develop SME digital capabilities and drive international growth.

To promote the growth and development of local SMEs, countries such as Vietnam, Thailand, Malaysia and Singapore provide supportive programs and incentives that encourage SMEs to take advantage of cross-border e-commerce opportunities and enhance their competitiveness against foreign counterparts. We recommend that the government revisit Regulation 31 and consider the following: i) Remove the USD 100 ban on e-commerce imports, ii) Assess the viability of imposing VAT on imported e-commerce goods, iii) Partner and leverage foreign e-commerce platforms to empower local SMEs to grow locally and internationally, and iv) Cultivate an open e-commerce environment that adopts global industry best practices, promotes innovation, and a level playing field for both local and foreign businesses to succeed through deeper public-private sector dialogue.

In addition to Regulation 31, the government also imposed other restrictive measures, or non-tariff barriers, on various imported commodities, intending to shield local manufacturers from foreign competition. One of the main changes is Regulation 36, which saw **significant and frequent changes that exacerbated the complexity of Indonesia's import policy and trade restrictions**. While the changes are intended to protect domestic consumers and encourage the growth of domestic industries, they increase trade barriers, which could be a massive impediment to long-term growth and development. Therefore, the recommendations for the government include: i) Creating a more coherent long-term trade policy strategy and ii) Enhancing the quality and transparency of trade policy formulation and implementation. The policymaking process and formulation should refer to a higher-level ecosystem industrial strategy and be conducted more deliberately with adequate room for public consultation. In particular, it would be beneficial to: iii) Ensure that information on tariffs and other trade





measures, including licensing requirements and quota allocation formulation, are easily accessible; iv) Streamline and integrate the import administration system, including reducing paperwork and providing real-time information on requirements to avoid delays and confusions; and v) Seek input from and collaborate with the private sector, both domestic and foreign direct investors.

## Travel and Tourism

Tourism is recognized as an important contributor to Indonesia's economic growth, particularly in Bali where it accounts for approximately 61% of Gross Regional Domestic Product, creating substantial employment opportunities. However, increasingly, this growth has been concentrated in certain destinations, especially in southern Bali. **Dispersing tourism more effectively—through improved infrastructure, capacity building in secondary destinations, and partnerships with communities and the private sector to encourage responsible travel — will ensure tourism remains a positive force for driving Indonesia's future.**

The government has implemented several strategic initiatives to promote sustainable tourism practices. These include the development of five "Super Priority Destinations" (DSPs) across Indonesia. This initiative aims to decentralize tourism activities away from Bali, thereby alleviating the pressure on its infrastructure and spreading economic benefits to other regions. Another significant effort is the Tourism Village program, designed to boost local economies, preserve cultural and natural heritage, and distribute tourism benefits more equitably.

**The development of DSPs is progressing but continues to face several challenges, including infrastructure limitations and unresolved land disputes.** Local authorities lack the authority to build critical infrastructure, discouraging investment, while land disputes with local communities have also stalled development. Similarly, **the Tourism Village program has made progress in promoting sustainable tourism across Indonesia, but challenges persist in human resource development, the identification of unique tourism offerings, and infrastructure disparities.** Many tourism villages still lack skilled personnel and struggle to highlight distinctive features that would attract visitors, undermining their appeal. Additionally, infrastructure deficiencies result in uneven access to tourism sites, hindering economic growth in certain regions.

To improve the effectiveness of these programs, there are several recommendations that can be adopted by the government. i) Urgent infrastructure development is necessary to enhance accessibility and improve visitor experiences across all tourism destinations, ensuring equitable benefits from tourism. Additionally, ii) Equipping the local populace with skills in hospitality, business management, and eco-tourism through education and comprehensive training programs can strengthen the local workforce and promote sustainable practices. iii) Promoting cultural heritage, local events, and festivals and iv) Educating tourists about responsible travel can preserve heritage and enhance the overall tourism experience.

Furthermore, **it is crucial to foster public-private partnerships to drive the success of such programs. Enhanced collaboration between the government, local communities, and the private sector can help to direct tourism more equitably within Indonesia. The private sector can support through capacity-building initiatives, promoting secondary**



**destinations and unique cultural festivals to a global audience, committing to initiatives that preserve local heritage, and supporting education for tourists about responsible travel practices.** A collaborative effort can create a balanced tourism ecosystem that benefits all stakeholders involved, ultimately ensuring the long-term sustainability of tourism in Indonesia.