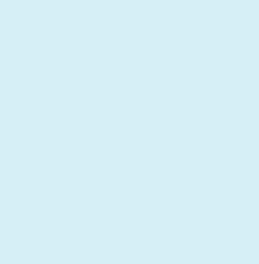


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Center for Indonesian
Policy Studies



Indonesia's Accession to OECD

Understanding the Economic Implications

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GLOSSARY

ADB:

Asian Development Bank

AFC:

Asian Financial Crisis

AIIB:

Asian Infrastructure Investment Bank

APEC:

Asia Pacific Economic Cooperation

APINDO:

Asosiasi Pengusaha Indonesia
(The Employers Association of Indonesia)

APIP:

Aparat Pengawasan Intern Pemerintah
(Government Internal Supervisory Apparatus)

ASEAN:

The Association of Southeast Asian Nations

BAPPENAS:

Badan Perencanaan Pembangunan Nasional
(National Development Planning Agency)

BIMP-EAGA:

Brunei– Indonesia - Malaysia – the Philippines
East ASEAN Growth Area

BKPM:

Badan Koordinasi Penanaman Modal (Ministry
of Investment and Downstream Industry)

BRICS:

Brasil, Russia, India, China, South Africa

CAGR:

Compound Annual Growth Rate

CBAM:

Carbon Border Adjustment Mechanism

CEPA:

Comprehensive Economic Partnerships

CEPII:

*Centre d'Etudes Prospectives et d'Informations
Internationales*
(Research and Expertise on the World
Economy)

CGE:

Computable General Equilibrium

CIP:

Competitive Industrial Performance

CMEA:

Coordinating Ministry of Economic Affairs

CPO:

Crude Palm Oil

Digital STRI:

Digital Services Trade Restrictiveness Index

ERIA:

Economic Research Institute for ASEAN and
East Asia

EU:

European Union

EV:

Electric Vehicle

FARC:

Revolutionary Armed Forces of Colombia

FCDO:

Foreign, Commonwealth and Development Office

FDI:

Foreign Direct Investment

FLEGT:

Forest Law Enforcement, Governance, and Trade

FS:

Feasibility Study

FTA:

Free Trade Agreement

FTZ:

Foreign Trade Zone

GATT:

General Agreement on Tariffs and Trade

GCG:

Good Corporate Governance

GDP:

Gross Domestic Product

GNI:

Gross National Income

GR:

Government Regulation

GTAP:

Global Trade Analysis Project

GVCs:

Global Value Chains

IA-CEPA:

Indonesia-Australia Comprehensive Economic Partnership Agreement

ICT:

Information and Communication Technology

IESR:

Institute for Essential Services Reform

IMF:

International Monetary Fund

IMT-GT:

Indonesia – Malaysia – Thailand Growth Triangle

ISD:

Indonesia Services Dialogue

JETP:

Just Energy Transition Partnership

KADIN:

Kamar Dagang dan Industri Indonesia
(The Indonesian Chamber of Commerce and Industry)

KIIs:

Key Informant Interviews

KPK:

Komisi Pemberantasan Korupsi
(Corruption Eradication Commission)

LNG:

Liquefied Natural Gas

LPBBTI:

Layanan Pendanaan Bersama Berbasis Teknologi Informasi
(Information Technology-Based Joint Funding Services)

MaGE:

Macroeconometrics of the Global Economy

MEMR:

Minister of Energy and Mineral Resources

MIR:

Minister of Industry Regulation

MNE:

Multinational Enterprise

MOF:

Ministry of Finance

MOT:

Ministry of Trade

MSME:

Micro, Small, and Medium Enterprise

NGOs:

Non-Governmental Organisations

NLE:

National Logistics Ecosystem

NTMs:

Non-Tariff Measures

OECD:

Organisation for Economic Cooperation and Development

OJK:

Otoritas Jasa Keuangan
(Financial Services Authority)

Persero:

Perusahaan Perseroan
(State-Owned Limited Liability Companies)

Perum:

Perusahaan Umum
(Public Corporation)

PISA:

Programme for International Student Assessment

PLN:

Perusahaan Listrik Negara
(Electricity State-Owned Enterprise)

POJK:

Peraturan Otoritas Jasa Keuangan
(Financial Services Authority Regulation)

PPATK:

Pusat Pelaporan dan Analisis Transaksi Keuangan
(Financial Transaction Reports and Analysis Centre)

PPP:

Public-Private Partnership

PR:

Presidential Regulation

Prolegnas:

Program Legislasi Nasional
(National Legislative Program)

Pre-FS:

Pre-Feasibility Study

PT PMA:

Perseroan Terbatas Penanaman Modal Asing
(multinational enterprises establishing their legal entity in Indonesia)

PUG-KI:

Pedoman Umum Governansi Korporat Indonesia
(Indonesian Corporate Governance Guidelines)

QRIS:

Quick Response Code Indonesian Standard

R&D:

Research and Development

RCEP:

Regional Comprehensive Economic Partnership

RIA:

Regulatory Impact Assessment

ROW:

Rest of the World

RPJPN:

Rencana Pembangunan Jangka Panjang Nasional
(National Long-Term Planning)

SNI:

Indonesian National Standard

SOE:

State-Owned Enterprises

SSEARIH:

South and Southeast Asia Research and Innovation Hub

STRI:

Services Trade Restrictiveness Index

TFP:

Total Factor Productivity

UI:

Indonesia

UK:

United Kingdom

UNCTAD:

United Nations Trade and Development

UNIDO:

United Nations Industrial Development Organisation

USA:

United States of America

VPA:

Voluntary Partnership Agreement

WDI:

World Development Indicators

WEO:

World Economic Outlook

WITS:

World Integrated Trade Solution

WRI:

World Resources Institute

WTO:

World Trade Organisation

EXECUTIVE SUMMARY

Indonesia aims to become a high-income economy by 2045, as outlined in its *Indonesia Golden Vision 2045*—a goal that necessitates significant economic reforms and a comprehensive transformation of its regulatory framework. As part of the strategy to achieve this ambition, Indonesia has sought membership of the Organisation for Economic Co-operation and Development (OECD) by 2027 and is now an official accession candidate. If successful, Indonesia would become the first ASEAN country and the third Asian nation, after Japan and South Korea, to join the OECD.

This study provides a set of preliminary insights and findings on how accession to the OECD, along with the required regulatory reforms, potentially affects Indonesia's macroeconomic conditions, including Gross Domestic Product (GDP), trade balance, and investment. For the purpose of this analysis, the study employs desk research to outline the current economic situation, applies Regulatory Impact Assessment (RIA) to identify potential reforms aligned with OECD accession, and uses Computable General Equilibrium (CGE) modelling to project the economic implications of joining the OECD.

Economically, Indonesia has maintained stable growth, averaging 5–6% over recent decades. However, despite these gains, the country continues to underperform in terms of productivity. Between 2005 and 2019, total factor productivity (TFP) growth was negative, averaging -0.7%. This productivity shortfall stems from various factors including: poor human capital, weak institutional frameworks, underperforming sectors, and limited innovation capacity. Indonesia's productivity levels lag not only behind major global economies such as China and India but also behind regional peers like Vietnam, Thailand, and Malaysia.

Indonesia remains a key destination for foreign direct investment (FDI) in ASEAN, attracting USD 22.1 billion in 2023—second only to Singapore's USD 175.2 billion. While Indonesia has maintained relatively strong inflows, FDI growth has stagnated since 2011 due to persistent regulatory barriers, inadequate infrastructure, and a complex business environment.

FDI is predominantly concentrated in the manufacturing sector (e.g., basic metal and metal products), with limited penetration into the services sector (e.g., transportation, warehousing, and telecommunications), which remains dominated by domestic investors. Even within manufacturing, foreign investment is heavily skewed towards commodity-based industries (e.g., food industry), while capital- and technology-intensive sectors (e.g., electronics) receive comparatively little attention.

In trade, Indonesia's total volume has grown, but its share of global trade remains modest—rising only from 0.8% in 2004 to 1.1% in 2023. This growth lags behind other ASEAN economies such as Singapore, Vietnam, Malaysia, and Thailand. While exports to China, India, and the United States have increased, engagement with OECD countries remains limited.

Moreover, Indonesia's export profile is increasingly dominated by commodities (e.g., coal and palm oil) rather than manufactured goods, and its participation in global value chains (GVCs) remains relatively limited. The country accounts for less than 1% of global electronic exports,

significantly behind regional competitors. For example, in 2022, Indonesia produced 1.5 million vehicles, trailing Thailand's 1.9 million.

Accession to the OECD will pave the way for Indonesia to boost its GDP, strengthen its trade balance, and attract greater investment, thereby supporting sustained economic growth. The CGE model estimates that OECD accession will bring notable benefits to Indonesia across both macroeconomic indicators and specific sectors of the economy. Under the scenario in which Indonesia joins the OECD, the country is projected to receive investment inflows totalling USD 87.7 billion in 2028, equivalent to 0.03% of Indonesia's GDP in that year. The maximum share of this investment (27%) is expected to come from the rest of the world (USD 24.1 billion in 2028), followed by 25% from OECD countries (USD 22.6 billion in 2028).

In terms of macroeconomic indicators, GDP growth rate per year is expected to be 0.78 percentage points higher than the baseline scenario in the short run (2028–2030) and 0.92 percentage points higher in the medium run (2031–2035). The trend is also similar with investment growth rate where it is expected to be 1.22 percentage points above the baseline in the short run (2028–2030), and by 1.78 percentage points in the medium run (2031–2035). In the short and medium run, trade dynamics are also set to evolve. In the early stages, rising FDI may lead to increased imports as firms expand and upgrade production. However, this is expected to pave the way for stronger domestic capacity and improved export performance in the long run, supporting Indonesia's deeper integration into global value chains. With respect to the financial account, greater foreign participation in the short to medium run may lead to higher income outflows, but over time, these are anticipated to moderate as local capacity strengthens and outward investment rises.

Sectoral impacts are also expected to vary over time.

- In the short run, the construction and utility sectors are forecast to experience significant growth above the baseline scenario, driven by the surge in foreign investment. Conversely, sectors with high trade exposure, such as agriculture and manufacturing, are likely to contract initially due to capital and labour reallocation, as well as increased competition from imports.
- In the medium run, agriculture and manufacturing are expected to begin recovering as the benefits of early infrastructure investments materialise, while growth in the construction sector begins to slow.
- In the long run, growth in both agriculture and manufacturing is projected to exceed the baseline scenario, reflecting the cumulative impact of investment, productivity improvements, and market reforms, while the construction sector's contribution tapers off.

However, becoming a member of the OECD requires Indonesia to adopt global standards and undergo comprehensive policy and regulatory reforms. In 2024, the OECD provided a roadmap for Indonesia's accession. This outlines the steps required for Indonesia to align with OECD standards, policies, and best practices. Indonesia will undergo a comprehensive review by 26 of the OECD's substantive committees.

Joining the OECD presents significant opportunities across a range of sectors, including manufacturing, services, extractives, and the renewable energy transition. Within manufacturing, key industries likely to benefit include the food and agro-industry, basic metals, chemicals and pharmaceuticals, textiles and apparel, automotive, and electronics. This is because joining the OECD will help Indonesia comply with sustainability and environmental standards, opening opportunities for investment and expanding exports in key sectors such as food, metals, and chemicals. Adopting international best practices from OECD countries will also boost investment and support the growth of high-tech industries like electronics and automotive. In the services sector, tourism, transportation, ICT, and education are expected to experience positive impacts. This is because joining the OECD would enable Indonesia to liberalise key sectors such as transport and telecommunications, accelerate digital economy growth, and expand global collaboration by aligning with international standards and reducing regulatory barriers. In the extractive industries, coal, gas, and metal ore mining could also see improvements. This is because OECD membership would help Indonesia respond to declining global demand for extractives by accelerating its energy transition through access to international best practices, climate finance, and green technology cooperation.

To fully realise these gains, targeted reforms will be needed. This study finds that there are several regulatory gaps between Indonesia’s investment, trade, and business environment regulations and those set out in OECD instruments. These gaps exist across both cross-sectoral and sector-specific regulations as follows:

Sectors	Gap Assessment	Potential Reforms
Trade	Partial alignment with OECD trade instruments; outdated consumer protection law lacking child safeguards.	Amend Law No. 8/1999; adopt OECD rules on anti-bribery and export credit; add child protection clauses.
Investment	Complex, overlapping rules; minimum capital requirement restricts FDI, especially for SMEs.	Indonesia to consider easing entry conditions for foreign direct investment, such as reviewing the current minimum capital requirement of IDR 10 billion.
Corporate Governance	Limited adherence to Responsible Business Conduct (RBC).	Formalise RBC principles in law; mandate reporting and ethical standards for businesses.
Market competition	SOE dominance and outdated competition laws hinder private sector growth.	Update anti-monopoly law; ensure equal market treatment for SOEs and private firms.
Agriculture	Focused on cultivation only; lacks sustainability and coordination with international goals.	Reform to include sustainability, inclusion, and inter-ministerial policy alignment.

Sectors	Gap Assessment	Potential Reforms
Energy	No comprehensive legal framework for renewable energy and climate integration.	Introduce umbrella regulation for renewables aligned with OECD instruments.
Sustainability	No integrated due diligence across labour, environment, or anti-corruption.	Improve transparency, reporting, and enforcement of sustainability standards.

In addition to regulatory alignment, Indonesia must undertake reforms to improve market access:

First, Indonesia should focus on reviewing non-tariff measures (NTMs), which significantly affect trade and industrial competitiveness. Economic analysis in this study reveals that 68% of Indonesia’s total imports are subject to NTMs. Reviewing selected NTMs, where appropriate, may help ease trade-related compliance costs without compromising legitimate policy objectives. In particular, streamlining NTMs in sectors closely linked to export and supply chain integration could create a more predictable business environment.

Second, Indonesia must make its services sector more open to investment. In the services sector, exploring ways to gradually enhance openness—such as revisiting existing restrictions in maritime services—could support improved logistics and efficiency over time.

Third, Indonesia must create a business environment that fosters efficiency rather than burdening industries with policies that raise operational costs. A key area for reform is Local Content Requirements (LCRs), which are widely applied across manufacturing sectors and impact the country’s renewable energy commitments. This needs to be addressed to ensure cost-effective access to intermediate goods that could support competitiveness in export-oriented industries.

Indonesia’s accession to the OECD represents a strategic opportunity to catalyse investment, enhance competitiveness, and accelerate progress toward its 2045 development vision. While the accession process itself will require important regulatory and policy adjustments, the long-term gains in investor confidence, institutional quality, and international credibility are substantial. **Crucially, the benefits of OECD membership will be maximised not only by undertaking the reforms necessary for accession, but also by maintaining the momentum of reform well beyond the point of membership. Continuous improvement—aligned with global standards and responsive to Indonesia’s evolving development priorities—will be essential to ensure that OECD integration delivers lasting, inclusive, and sustainable growth.**

INTRODUCTION

Indonesia aims to become a high-income economy by 2045, as outlined in its *Indonesia Golden Vision 2045* (Bappenas, 2019), a goal that necessitates significant economic reforms and a comprehensive transformation of its regulatory framework (OECD, 2024a). The National Long-Term Planning (RPJPN) 2025–2045 focuses on fostering sustainable growth, diversifying sources investment, and enhancing global competitiveness (Law No. 59/2024, 2024). As part of this strategy, Indonesia has sought membership in the OECD by 2027 and is now an official accession candidate. Should this be successful, Indonesia may become the first ASEAN country and the third Asian country after Japan and South Korea to join the OECD.

However, achieving this objective is challenging, as it requires Indonesia to adopt global standards and undergo comprehensive policy and regulatory reforms (OECD, 2024a). These reforms are vital to attracting FDI and promoting sustained economic growth. In 2024, OECD provided a roadmap for Indonesia's accession. This outlines the steps required for Indonesia to align with OECD standards, best policies, and best practices in accordance with *Indonesia Emas 2045* (Golden Indonesia 2045). Indonesia will undergo a comprehensive review by 26 of OECD's substantive committees. This technical review will cover areas such as structural reform, investment and open trade, inclusive growth, government, environment biodiversity and climate, infrastructure, and digitalisation.

While the challenges are considerable, they also represent a significant opportunity. **OECD membership will align Indonesia's governance, economic policies, and trade standards with international best practices, enhancing investor confidence, improving market efficiency, and strengthening trade relations.** Moreover, it will allow Indonesia to participate in global economic decision-making with an emphasis on sustainable development and innovation. With the OECD representing 80% of global trade and investment, Indonesia stands to gain greatly from enhanced trade and investment opportunities.

Understanding the potential benefits of OECD accession in terms of GDP, FDI, and trade is essential for stakeholders to take informed actions. Therefore, this report aims to provide initial findings and insights on how the regulatory reforms resulting from Indonesia's OECD accession potentially affect Indonesia's macroeconomy. The analysis is divided into five parts. Following this introduction, Part 2 provides an overview of Indonesia's current economic situation, benchmarking key indicators such as GDP, investment, and trade against other OECD member countries to assess the impact of accession. It also includes a sectoral analysis to identify which sectors may potentially benefit most from the changes. Part 3 focuses on the RIA, outlining the necessary regulatory reforms and the actions stakeholders must take to fully leverage the benefits of accession. Part 4, using the CGE modelling, analyses the potential impact of OECD accession on Indonesia's economy, using indicators such as GDP, FDI, trade, and sectoral performance. Finally, Part 5 offers recommendations for key stakeholders—including government officials, industry leaders, and investors—on how to maximise the benefits of Indonesia's OECD accession.

SCOPE OF THE STUDY AND RESEARCH METHODOLOGY

This study aims to provide initial findings and insights on the potential economic implications of Indonesia joining the OECD, focusing on its effect on FDI, GDP, and trade. The analysis is conducted using CGE modelling. The analysis is not limited to the national level but will also be reviewed at the sectoral level. This approach provides an overview of which sectors benefit the most when Indonesia joins the OECD. The sectors to be examined include manufacturing, services, the extractive sector (coal, gas and mining of metal ores), and green energy.

To join the OECD, Indonesia also needs to implement several regulatory and policy reforms. The identification of necessary reforms is analysed using the RIA method. This study focuses on regulations that have a national impact on the investment climate, trade, market competition, and corporate governance. In addition to the national-level analysis, a sectoral regulatory analysis is also conducted, covering agriculture, energy, infrastructure, manufacturing, sustainable environment, and the digital economy.

Desk Research

Desk research is critical to gather essential literature and secondary data, which forms the foundation for the economic analysis and regulatory impact assessment of this study. The desk research for this study covers the following analyses:

Analysis of Current Investment Trends in Indonesia and Peer Countries

Establish a baseline of investment context, including a sectoral analysis, and benchmark Indonesia's FDI trends with peer countries. The analysis includes:

- Comprehensive investment analysis focusing on Indonesia and peer countries, exploring overall trends and sector-specific dynamics. The analysis leverages data from the World Development Indicators (WDI) and includes a sectoral focus on industries highlighted in Indonesia's RPJPN Document (Law No. 59/2024, 2024), ensuring alignment with national development goals.
- Review the data from the Ministry of Investment and Downstream Industry/ BKPM to analyse key foreign investors, priority investment sectors, and existing market entry barriers, providing insights into opportunities and challenges for FDI growth.

Benchmarking the Economic Performance of OECD Membership in Comparable Countries

Assess the macroeconomic performance (including economic growth and trade performance) expected to result from OECD membership using comparator countries. It includes:

- Review relevant OECD reports on Indonesia, including OECD Economic Surveys: Indonesia 2024 and Services Trade in Indonesia (OECD, 2024b), to assess current economic conditions and trade dynamics.
- Analyse the OECD economic surveys of emerging economies similar to Indonesia, such as

Columbia (OECD, 2024c) and Costa Rica (OECD, 2023), to assess their economic performance before and after joining the OECD. Furthermore, assess the experiences of Turkey and Mexico to gain deeper insights into the benefits and challenges of OECD membership.

- Data-driven analysis of economic growth and trade trends over the past two decades for Indonesia and its peer countries, including selected OECD and ASEAN members. Utilise comprehensive datasets from sources like the International Monetary Fund (IMF) Data Mapper, WDI, and Trade Map to benchmark performance and identify areas for policy improvement.

Sector-Specific Policy and Investment Analysis

The objective of this analysis is to provide contextual insights into the sectors likely to be impacted by reforms associated with Indonesia's OECD accession, with a particular focus on their anticipated influence on sectoral FDI. The analysis highlights key sectors, including manufacturing, services, renewable energy, and extraction. Manufacturing has long been a cornerstone of Indonesia's economy, driving value creation and job generation. In Indonesia's long-term planning, the manufacturing sector's contribution to GDP is targeted to increase to 28% by 2045 (Law No. 59/2024, 2024). Meanwhile, the services sector, one of the fastest-growing in the economy, is critical for harnessing the potential of digitalisation, driving economic diversification, fostering innovation, and creating high-value jobs in a rapidly evolving global landscape. Renewable energy is pivotal for ensuring energy security, reducing reliance on fossil fuels, meeting international climate commitments, and supporting sustainable economic growth. Lastly, with the growing international demand for critical minerals, the extraction sector, one of Indonesia's largest traditional industries, plays a vital role in leveraging the country's abundant natural resources and maintaining its strong position in commodity exports.

Analysis of Regulatory Impact Assessment (RIA) on Indonesia's OECD Accession

Indonesia's accession to the OECD requires understanding of how the current regulatory landscape aligns with the OECD's standards and what regulatory changes may be necessary. For this project, the assessment includes:

- Identifying OECD legal instruments related to the economic, social, and environmental sphere relevant to Indonesia's accession; and
- Comparing them to Indonesia's relevant regulations to assess whether they align with the OECD standards embodied within those legal instruments.

This assessment focuses on regulation and policies related to trade, investment, corporate governance, and market competition in sectors highly impacted by foreign investments, such as agriculture, energy, infrastructure, manufacturing, services, and digitalisation. Also, the assessment tries to identify Indonesia's policies related to sustainability and environmental aspects and digitalisation in connection with investment policies. However, these regulations are non-exhaustive, meaning that the potential regulations can be adjusted—either reduced or expanded—based on the priority list of regulations identified by the government.

There are three main steps for this assessment:

Figure 1.
Regulatory Impact Assessment Method



1. Mapping and Review of Key OECD's Legal Instruments and Indonesia's Applicable Regulations

Indonesia's accession to the OECD entails compliance with Indonesian regulations towards relevant OECD instruments. Since its creation in 1961, the OECD has adopted 260 legal instruments that set out the agreed standards and best practices of OECD countries in addressing a particular policy challenge. Different types of OECD legal instruments are decisions, recommendations, substantive outcome documents, international agreements, arrangements, understandings, and others (OECD, 2024a).

If Indonesia intends to become a member of the OECD, it must comply with these legal instruments. Compliance with such legal instruments will inevitably impact and cause regulatory reform in Indonesia's legal framework.

2. Identification of Potential Reforms

The result of this identification provides information on which OECD standards have been met by national regulations and policies, and which are not yet regulated. The report also identifies which ministries/institutions are in charge of the area/sector that might require regulatory transformation.

The Indonesian government is already conducting a regulatory gap analysis aiming to identify and list the potential regulations that are not in line with the OECD instruments, but without in-depth analysis. Hence, a full list of regulatory reforms necessary to align with the OECD standards is not to be provided in the government report.

In contrast, this report will focus on specific regulations that have significant impacts on investment, trade and business environment regulations in Indonesia but are not in line with OECD instruments. Moreover, this study provides further analysis outlining the feasibility for those regulations to be reformed.

3. Impact Analysis

Thirdly, impact analysis is built on the reforms identified in phase 2 above. The analysis continues by examining both qualitative and quantitative aspects of the impact assessment. The qualitative analysis assesses the regulatory implications of the proposed reforms and anticipates how stakeholders might respond. Meanwhile, the quantitative impact assessment utilises CGE modelling to analyse how FDI and other economic indicators are likely to change if the regulatory reforms are implemented.

A. Qualitative Impact Assessment using KIIs

The legal impact analyses show how the stakeholders are expected to respond if regulatory reforms are made. The analysis is primarily conducted through Key Informant Interviews (KIIs) that establish how the reforms might affect the various stakeholders, including:

- Government agencies: Changes in governance practices and policy frameworks.
- Businesses: Compliance with new standards, increased market competition, and opportunities for foreign trade and investment.
- Foreign investors: Impact on ease of doing business, lifting trade barriers, and increased transparency and predictability.
- Society: Potential effects on employment, consumer protection, and environmental outcomes.

Finally, findings and conclusions outline the expected impacts, supported by data and stakeholder feedback, including recommendations for reform prioritisation, potential risks, and challenges in reform implementation.

B. Quantitative Impact Assessment Using Computable General Equilibrium (CGE) Modelling

In addition to the qualitative analysis, quantitative analysis indicating the impact of regulatory reforms on the overall economy is conducted through CGE modelling. A CGE model consists of a set of equations representing a structured global economic system, enabling the assessment of specific policy scenarios. Using the CGE model, this study compares Indonesia's economic output under a business-as-usual scenario with that under the OECD accession scenario.

The study's approach is to use the GDyn-FS model, documented in Gupta, Patunru, and Gretton (2024) to simulate an increase in FDI as a proxy for Indonesia's accession to the OECD. **Our main hypothesis states that Indonesia's accession to the OECD improves Indonesia's business climate, which in turn increases FDI inflow.**

The CGE model in this study uses the following data:

- The study utilises the GTAP Database, which provides a snapshot of the global economy with four reference years: 2004, 2007, 2011, and 2014 (Aguiar et al., 2019). The Database describes global bilateral trade patterns, international transport margins, and protection matrices that link individual countries/regions. It covers 121 countries and 20 aggregate regions. It also covers 65 product and service sectors.
- The parameters used in the study may include investment by sector, output by sector, exports by sector, imports by sector, and total factor productivity.
- The study updates the baseline estimate of GDP over the period of 2015–2029 using estimates from the World Economic Outlook (IMF, 2021). These data and projections include estimates of the impact of COVID-19 and its immediate aftermath on national output.

Expert Consultations

The expert consultations are conducted as a series of KIs to validate findings from desk research, regulatory impact assessments and CGE modelling by discussing with experts and seeking on-the-ground realities. This enables the study to gather qualitative insights on the economic, geopolitical, and sectoral implications of Indonesia's OECD accession. In addition, it informs the project about the challenges and opportunities from the perspectives of government officials, foreign investors, trade bodies, industry experts, and civil society, and informs actionable recommendations proposed in the study for Indonesian policymakers. Interviews were recorded as semi-structured interviews to cross-validate with insights from the other research methods adopted (desk research, regulatory analysis, and RIA).

The key informants include government officials from various line ministries, including: Ministry of National Development Planning (Bappenas); Ministry of Trade (MOT); Ministry of Cooperatives; Ministry of Micro, Small, and Medium Enterprises; and Ministry of Law.

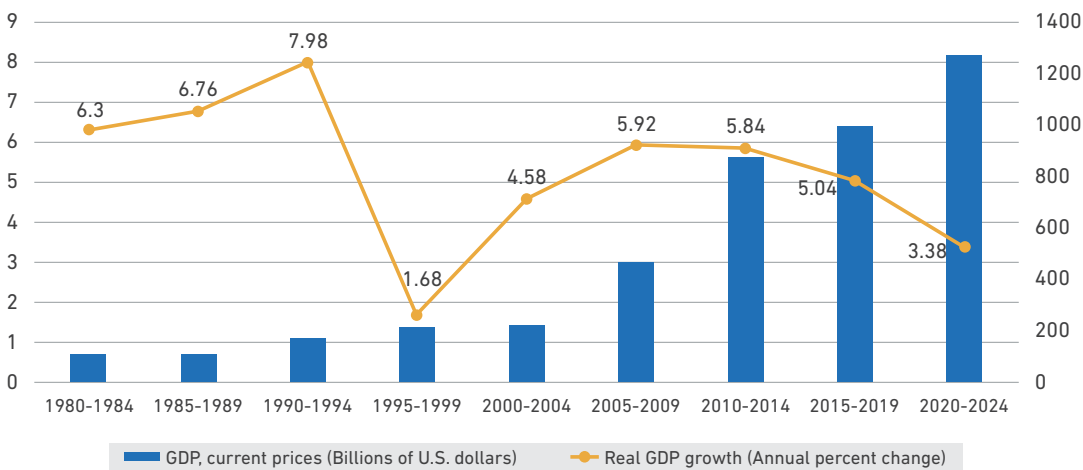
Interviews are based on a tailored and structured list of key questions most relevant for each informant based on their sectoral experience and perspective. The questions address regulatory reforms and economic implications, FDI and sectoral investment, geopolitical and trade relations, policy and institutional recommendations, and social and environmental considerations.

UNDERSTANDING OF OECD ACCESSION FOR INDONESIA

Indonesia's Economic Strength: Untapped Potential and Underperformance

Indonesia has posted stable economic growth averaging 5–6% over recent decades, positioning it among the world's top 20 economies despite economic headwinds and the COVID-19 pandemic (Ridhwan, et. al., 2021, World Bank, 2023). Its large domestic market, abundant resources, and young workforce have supported this performance. Furthermore, Indonesia's GDP per capita has demonstrated a consistent upward trajectory, reflecting significant improvements in living standards and promising potential for further advancements in poverty reduction and human development.

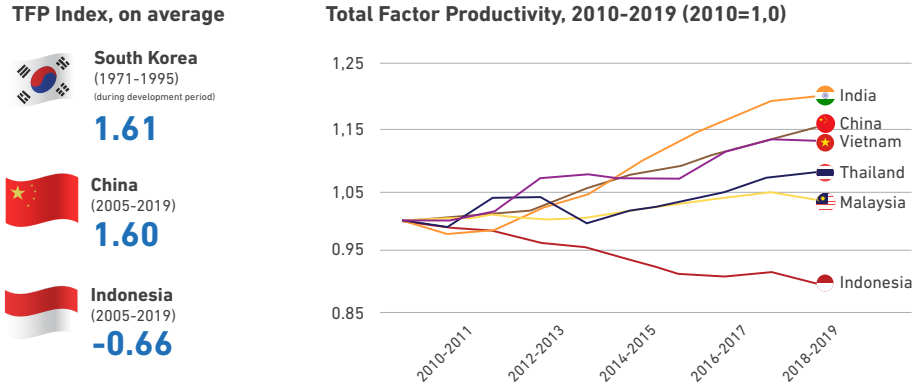
Figure 2.
Indonesia's GDP (1980–2024)



Source: IMF DataMapper, 2025

Despite gains in GDP per capita and living standards, Indonesia underperforms in productivity, with Total Factor Productivity (TFP) growth of -0.66% between 2005 and 2019. Indonesia's productivity level lags behind China, India, and ASEAN peers like Vietnam, Thailand, and Malaysia.

**Figure 3.
Indonesia's TFP**



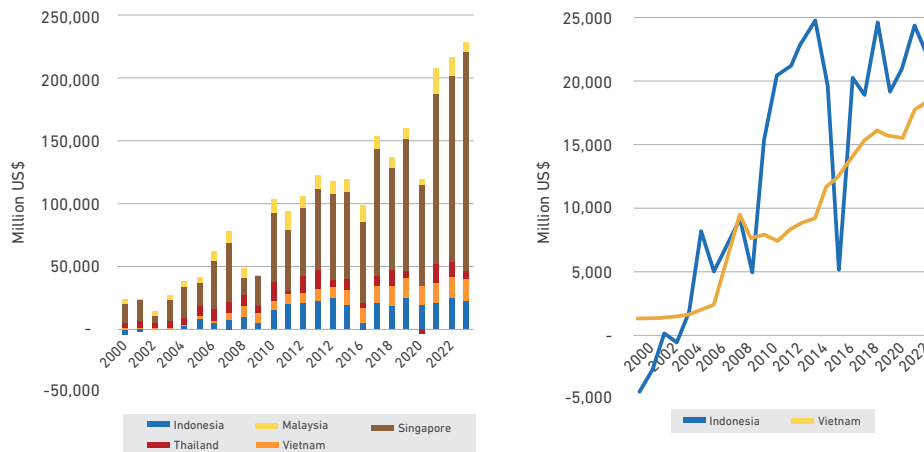
Source: National Long-Term Development Planning 2025–2045 (Law No. 59/2024)

This productivity shortfall stems from various factors including poor human capital, weak institutional frameworks, underperforming sectors, and limited innovation capacity. Moreover, these challenges are also outlined in the National Long-Term Development Planning 2025–2045, outlined in Law No. 59/2024. Therefore, Indonesia must overcome these constraints to unlock its untapped economic potential and sustain long-term development. In order to meet the standards of OECD membership and achieve long-term sustainable growth, **Indonesia must overcome persistent structural challenges in productivity, investment quality, and trade competitiveness.**

1. Investment Trends

Indonesia's foreign direct investment (FDI) has grown since the 1997–1998 Asian Financial Crisis, making it the ASEAN country with second largest FDI (\$22.08 billion) after Singapore (\$175.24 billion) in 2023. This increase was driven by economic reforms and deregulation efforts introduced in the 1990s and the post-reformation period (Basri, 2018).

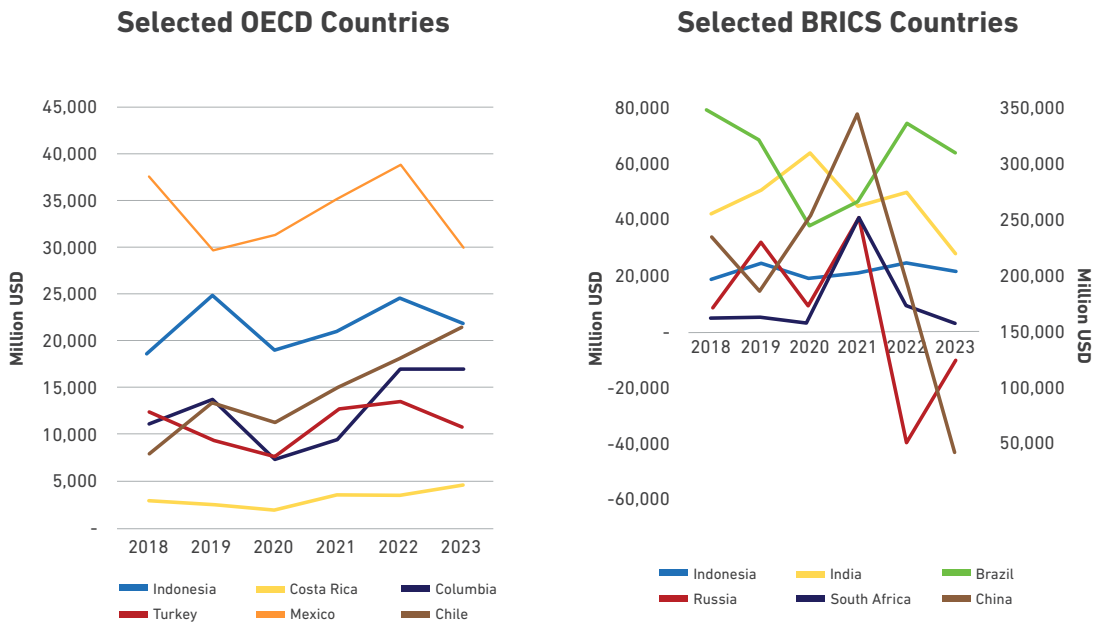
**Figure 4.
FDI Inflow to ASEAN Countries**



Source: World Development Indicators | DataBank, 2025

Among developing OECD countries, Indonesia's FDI performance remains competitive, but it trails BRICS economies with larger markets and stronger investment climates. This disparity highlights the importance of market size, investor confidence, and targeted policies in attracting foreign investment (Figure 5a and 5b).

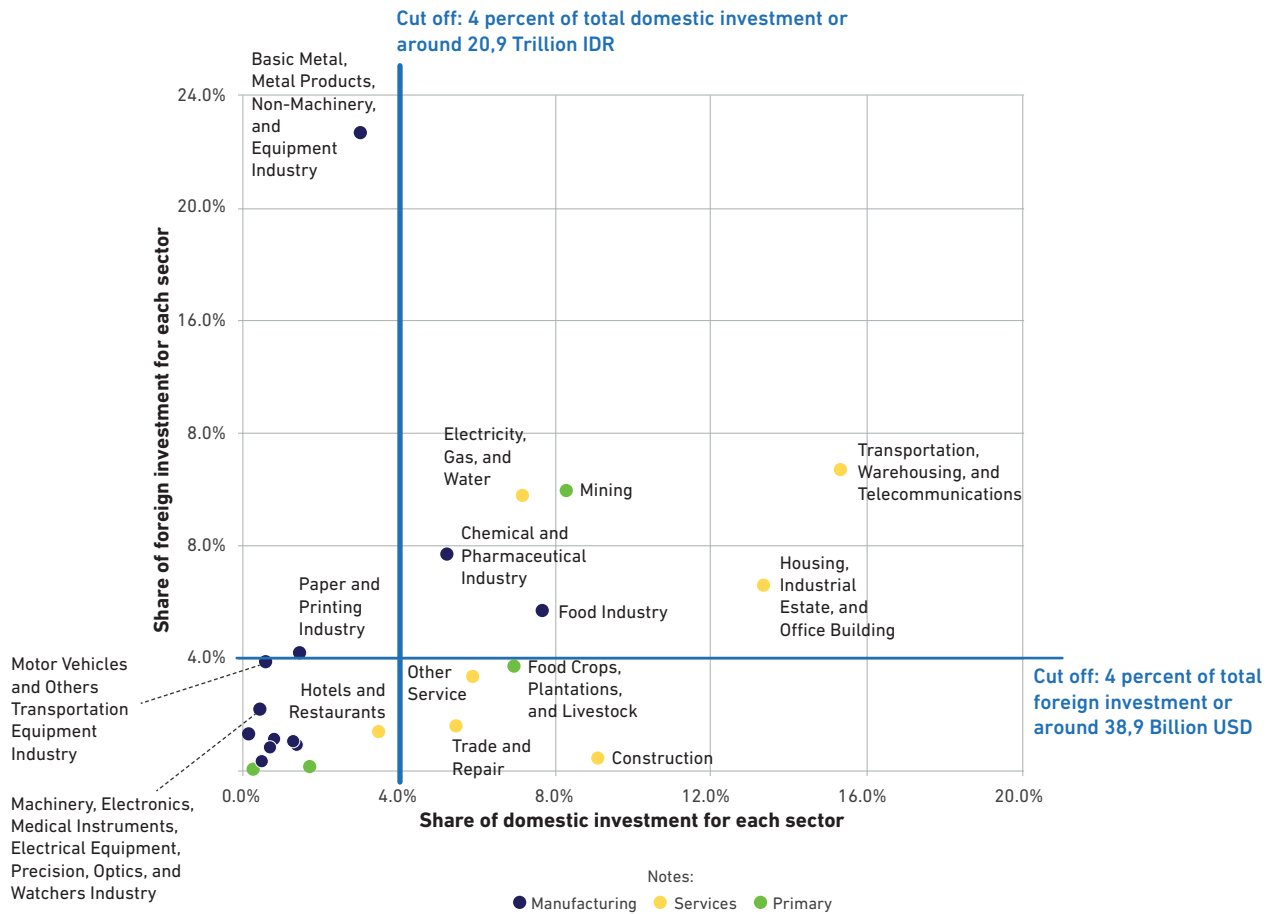
Figure 5.
FDI Inflows of Indonesia and Selected Countries



Source: World Development Indicators | DataBank, 2025

Despite the inflows reflected in figure 4b, Indonesia's FDI growth has stagnated since 2011, signalling underperformance relative to its economic potential (United States Department of State, 2022). Structural bottlenecks—such as regulatory hurdles, inadequate infrastructure, and a complex business environment—impede investment expansion. In contrast, Vietnam, which once had the lowest FDI inflows in ASEAN due to its restrictions on foreign investment before 2005, has now aggressively attracted FDI through targeted incentives and deeper integration into global value chains. These incentives include business-friendly policies, proactive investor engagement, and strong manufacturing base.

Figure 6.
Foreign Investment vs. Domestic Investment in Indonesia



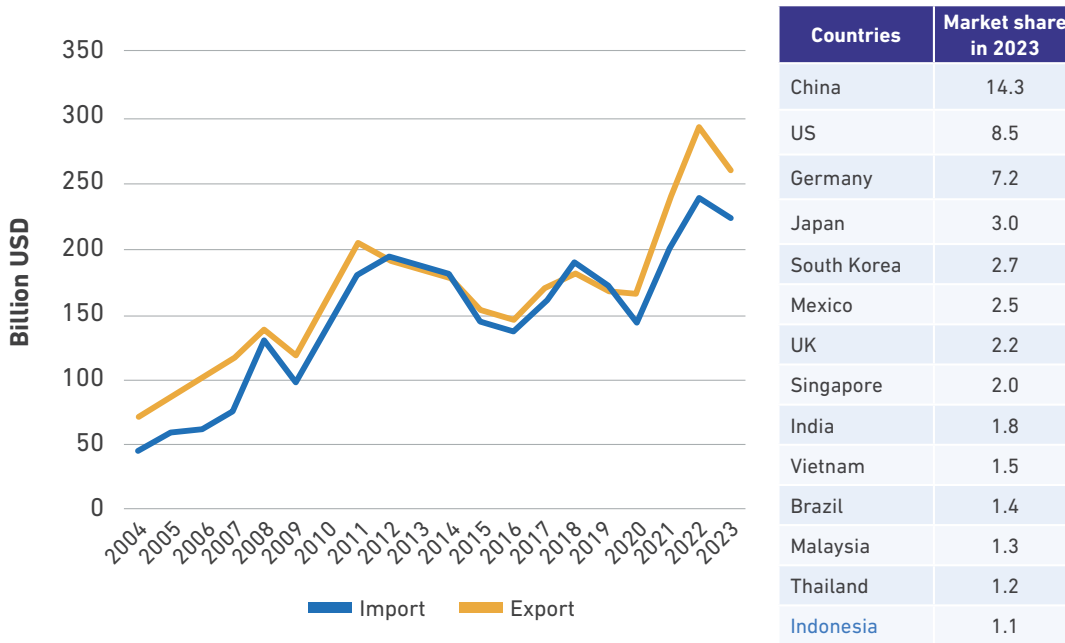
Source: BKPM data, 2020–2023 average

Considering the composition of its foreign and domestic investment, Indonesia risks falling behind in global competition for advanced manufacturing and technology-driven industries. The sectoral composition of investment reveals a reliance on services for domestic investment (BKPM, 2024), while 23% of foreign investment is allocated to basic metal, chemicals, and food industries. Only a smaller portion of domestic investment has been directed towards manufacturing, with notable focus on the food industry as well as chemicals and pharmaceuticals. However, sectors integrated into global value chains—such as electronics and automotive—remain underinvested by both domestic and foreign investors.

2. Trade Performance

Indonesia's total trade (imports and exports) has grown in volume since 2004, but its global trade share rose only modestly—from 0.8% in 2004 to 1.1% in 2023—falling behind ASEAN peers like Singapore, Vietnam, Malaysia, and Thailand. Comparatively, Vietnam's trade share surged from 0.3% to 1.5%, reflecting its rapid integration to the global value chain and success in attracting FDI.

Figure 7.
The Development of Indonesia's Trade and Market Share Compared

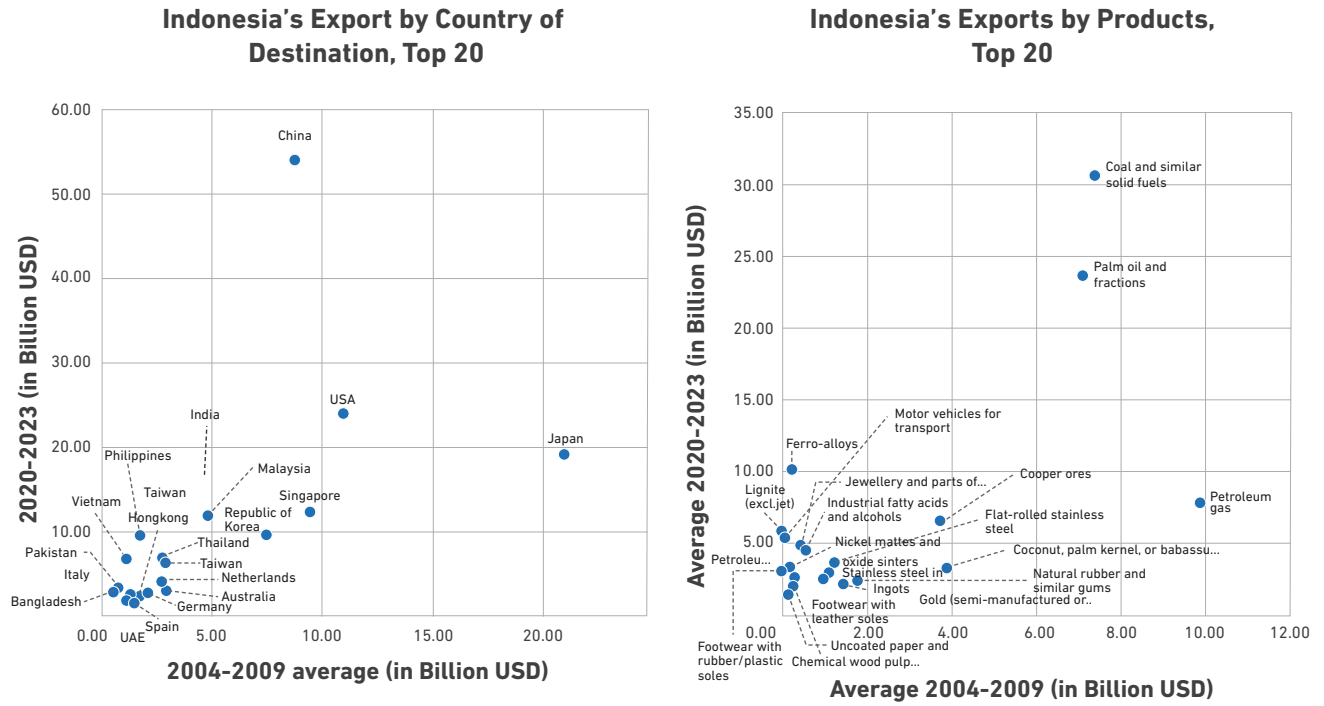


Source: Trade Map, analysed, 2025

Meanwhile, Indonesia's imports have grown at a faster pace than exports, reflecting strong domestic demand and industrial expansion. The country's top 20 import products are heavily dominated by industrial goods, highlighting their crucial role in supporting manufacturing and infrastructure development. Key suppliers include China, Singapore, and Japan, which provide consumer goods, machinery, and intermediate products essential for Indonesia's industrial growth and production efficiency.

Indonesia's exports to China, India, and the US have increased, but trade with OECD countries remains limited, indicating untapped export potential. Meanwhile, exports to Japan, Singapore, and Australia have experienced slower growth, indicating challenges in mature and highly competitive markets.

Figure 8.
Indonesia's Exports, Top 20



Source: Trade Map, analysed, 2025

In terms of export composition, Indonesia's exports are mainly driven by commodity exports such as coal, palm oil, ferro-alloys (Laksono, Oktiyanto & Vadita, 2024). Meanwhile, traditional manufacturing exports, such as footwear and textiles, have shown stagnant or declining growth. This contrasts with ASEAN peers, which have expanded their industrial exports and deepened their integration into global production networks.

Compared to peer ASEAN countries, Indonesia is less involved in global value chain (GVC) participation. This is indicated by low exports in electronics and automotive industries. Indonesia accounts for less than 1% of global electronic exports, lagging behind regional peers such as Vietnam and Malaysia. In 2022, Indonesia only produced 1.47 million vehicles, lower than Thailand, which produced 1.88 million vehicles.

In contrast, East and other Southeast Asian countries have become central hubs for these industries, with nations like China, Vietnam, Thailand, and Malaysia deeply integrated into regional production networks. For instance, Vietnam's electronics exports surged from \$47.3 billion in 2015 to \$114.4 billion in 2022, reflecting its growing role in electronics manufacturing. Similarly, Thailand produced approximately 1.88 million vehicles in 2022, underscoring its status as a major automotive manufacturing centre in the region.

To enhance its trade performance, Indonesia has actively pursued Free Trade Agreements (FTAs) both bilaterally and through ASEAN-led regional arrangements. Bilateral FTAs that have already been implemented include agreements with Japan (IJEPA), Australia (IA-CEPA), South

Korea (IK-CEPA), the United Arab Emirates (IUAE-CEPA), the European Free Trade Association (EFTA), and Chile (IC-CEPA). In addition, Indonesia participates in several FTAs under the ASEAN framework. The most significant of these is the Regional Comprehensive Economic Partnership (RCEP)—a mega-regional agreement involving ASEAN and five of its key trading partners: China, Japan, South Korea, Australia, and New Zealand. RCEP covers nearly one-third of global GDP and aims to simplify trade rules, improve market access, and strengthen regional supply chains. Indonesia is also negotiating a free trade agreement with the European Union under the Indonesia-EU Comprehensive Economic Partnership Agreement (IEU-CEPA) framework, which seeks to boost bilateral trade and investment. Moreover, Indonesia recently concluded its bilateral trade negotiations with Canada through the Indonesia-Canada Comprehensive Economic Partnership Agreement (ICA-CEPA), which is expected to be implemented in 2026.

Box 1: Structural Challenges in Global Value Chain Participation

Indonesia faces significant hurdles in expanding trade and global value chain (GVC) participation due to a combination of global economic shifts, domestic supply-side limitations, regulatory inefficiencies, and geographical challenges. Key points contributing to Indonesia's trade challenges include:

1. Global economic trends and technological advancements increase demands for high-tech goods. Meanwhile, Indonesia's exports remain concentrated in raw materials, limiting its adaptability and long-term competitiveness.
2. Supply-side constraints, such as low productivity, weak innovation, and limited diversification away from primary commodities hinder Indonesia's ability to scale up higher-value industrial exports, making its trade vulnerable to price volatility.
3. National trade policies and regulatory frameworks are often too complex or inconsistent. Despite the presence of FTAs and CEPAs, non-tariff barriers also increase trade costs and create uncertainty for exporters.
4. Indonesia's geographical characteristics as an archipelago present substantial logistical and infrastructure challenges. This includes limited connectivity and insufficient transportation facilities, which elevate trade costs and reduce overall efficiency.

To enhance its trade potential and economic benefits, Indonesia needs to undertake substantial reforms focused on strengthening export competitiveness and increasing global integration, shifting towards higher-value industrial exports and improving supply chain linkages, alongside investments in modern logistics and digital trade capabilities.

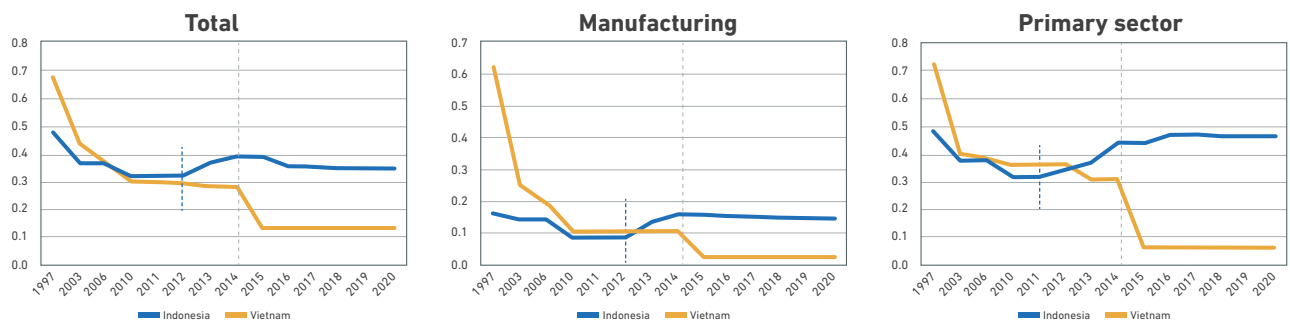
The Urgent Need for Structural and Policy Reforms

Indonesia's FDI performance has stagnated since 2011, held back by restrictive policies, bureaucratic inefficiencies, and regulatory uncertainty. To attract sustainable, high-value investments, Indonesia must focus on economic diversification and strengthen key sectors like manufacturing and services.

Accession to the OECD imposes higher standards of governance, transparency, and policy consistency, compelling member countries to address institutional weaknesses and adopt best practices. This will signal to investors a credible commitment to reform, enhancing Indonesia's appeal for high-quality FDI. Experiences from ASEAN and OECD countries demonstrate that policy reforms and institutional improvements can significantly enhance FDI inflows and boost economic performance.

The OECD's FDI Restrictiveness Index¹ shows that Indonesia has become more restrictive since 2012, whereas Vietnam has actively liberalised its investment policies since the early 2000s, particularly after major reforms in 2013 (Figure 9). The critical issue lies in Indonesia's restrictive investment policies.

Figure 9.
FDI Restrictiveness Index Indonesia and Vietnam



Source: OECD, 2025

Indonesia continues to lag behind ASEAN peers like Thailand, Malaysia, and the Philippines in investor perception. Key factors that deter investors include: bureaucratic complexity, underdeveloped infrastructure, and regulatory unpredictability. These structural barriers prevent Indonesia from fully capitalising on its large domestic market. This condition makes Indonesia more vulnerable to competition from more investment-friendly ASEAN countries (Arise+ Indonesia's Survey, 2020).

¹ FDI restrictiveness is an OECD index gauging the restrictiveness of a country's FDI rules by looking at four main types of restrictions: foreign equity restrictions; discriminatory screening or approval mechanisms; restrictions on key foreign personnel and operational restrictions.

Figure 10.
Investment Perception Study

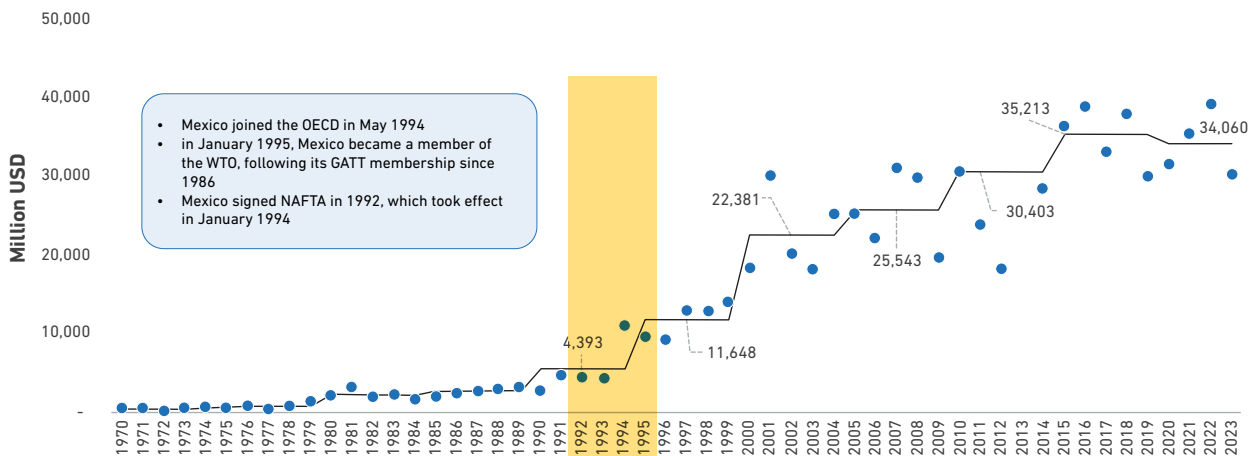
Is Indonesia in terms of:	Less Favourable	More Favourable	Similar	Thailand	Malaysia	Cambodia	Laos	Phillippines	Vietnam
Market access									
Other regulatory aspects affecting your sector									
Skilled labour availability and costs									
Land / premises availability and costs									
Taxes and incentives									
Legal protections for investors									
Licensing / permitting processes / requirements									
Government support and facillitation to investors									

Source: Arise+ Indonesia's survey, 2020

The experience of OECD members offers valuable lessons on how policy reforms and institutional improvements can enhance FDI inflows and boost economic performance. Countries such as Mexico, Türkiye, Costa Rica, and Colombia illustrate how aligning policies with OECD standards can stimulate investment growth and drive long-term economic transformation.

Figure 11.
Mexico's FDI Inflows

FDI inflows and 5 years average

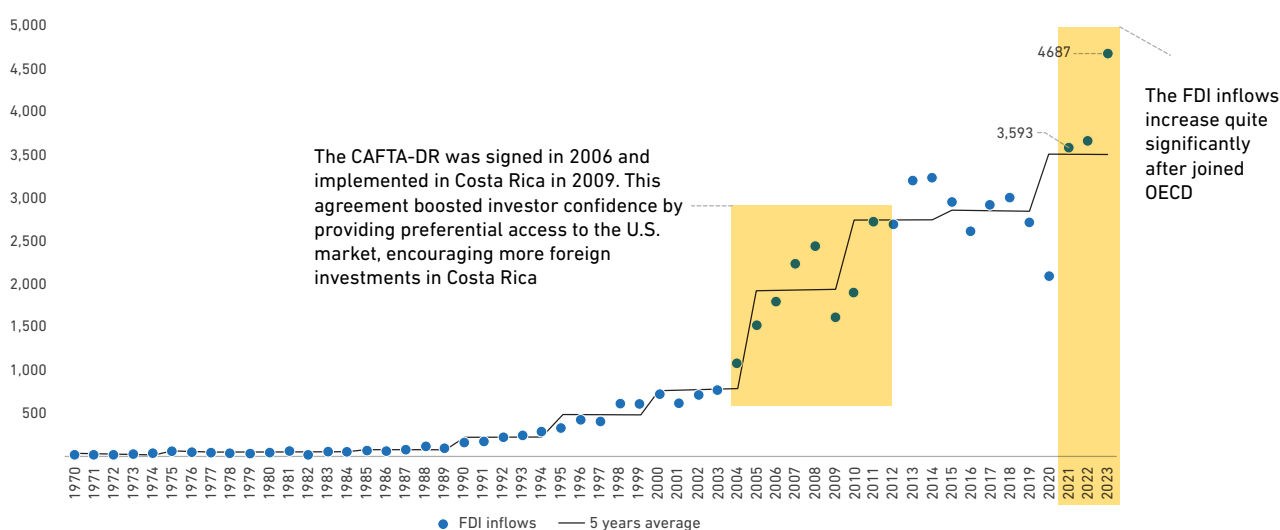


Source: World Development Indicators | DataBank, 2025

Mexico's experience highlights the importance of long-term structural reforms in attracting FDI (Figure 11). While the country joined the OECD in 1995, its reform process began earlier, in 1985, focusing on trade liberalisation, investment promotion, and economic restructuring. Trade

reforms included the elimination of licensing on nearly 3,600 tariff lines, the reduction of non-tariff barriers, and lower tariff rates, leading to Mexico's accession to the General Agreement on Tariffs and Trade (GATT) in 1986. On the investment front, Mexico transitioned from an inward-oriented economic model to one that prioritised competitiveness in non-oil exports. This shift reduced dependence on oil revenues and promoted market-driven economic activities, positioning Mexico as a leading destination for foreign investment in Latin America.

Figure 12.
Costa Rica's FDI Inflows



Source: World Development Indicators | DataBank, 2025

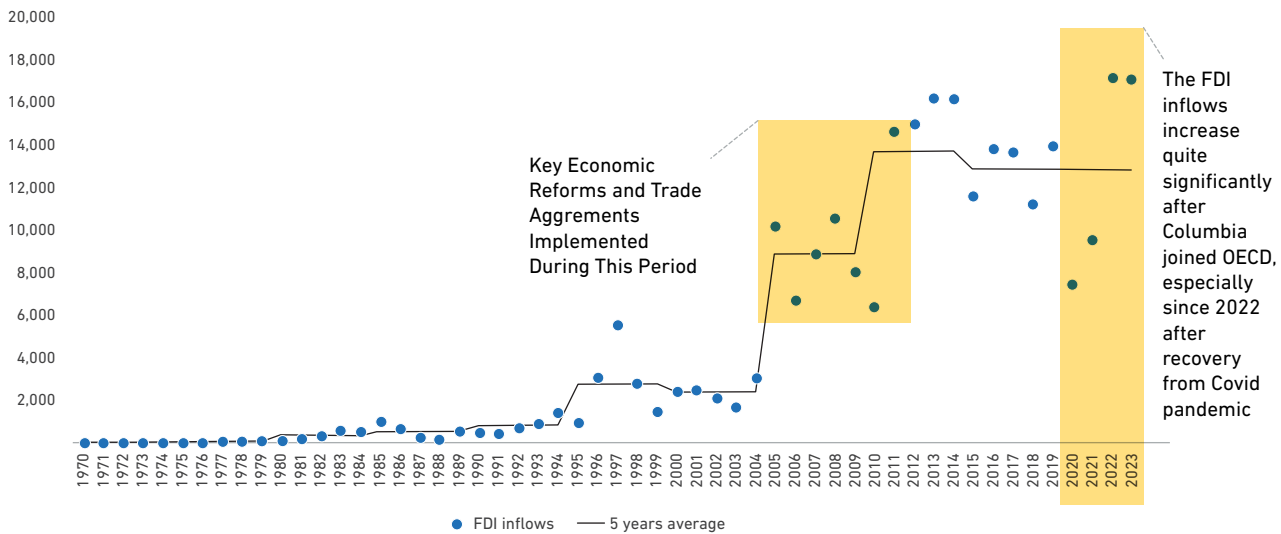
Costa Rica offers a compelling case of economic diversification and institutional strengthening.

Over the past decades, the country transformed from an agriculture-based economy into a diversified, high-tech manufacturing and services hub (Figure 12). It has successfully attracted FDI in electronics, medical devices, and sustainable tourism, bolstered by a stable democratic system, strong institutions, and an active free trade policy. A milestone in Costa Rica's investment strategy was its accession to the OECD in 2021, which signalled a commitment to good governance, transparency, and international best practices. This further boosted investor confidence, resulting in a surge in FDI inflows, increased innovation, and job creation.

Colombia's post-OECD accession experience underscores the role of structural reforms in strengthening investor confidence (Figure 13).

After joining the OECD, Colombia implemented tax reforms, trade liberalisation measures, and infrastructure investments, significantly improving its business environment. Additionally, the 2016 peace agreement with the FARC rebels played a pivotal role in stabilising Colombia's investment climate. Although FDI initially declined due to the COVID-19 pandemic, the country rebounded strongly, surpassing pre-pandemic levels, demonstrating the effectiveness of its reforms in fostering a resilient investment climate. Colombia also diversified its economy beyond resource extraction, attracting investments in manufacturing, services, and technology, further solidifying its FDI position.

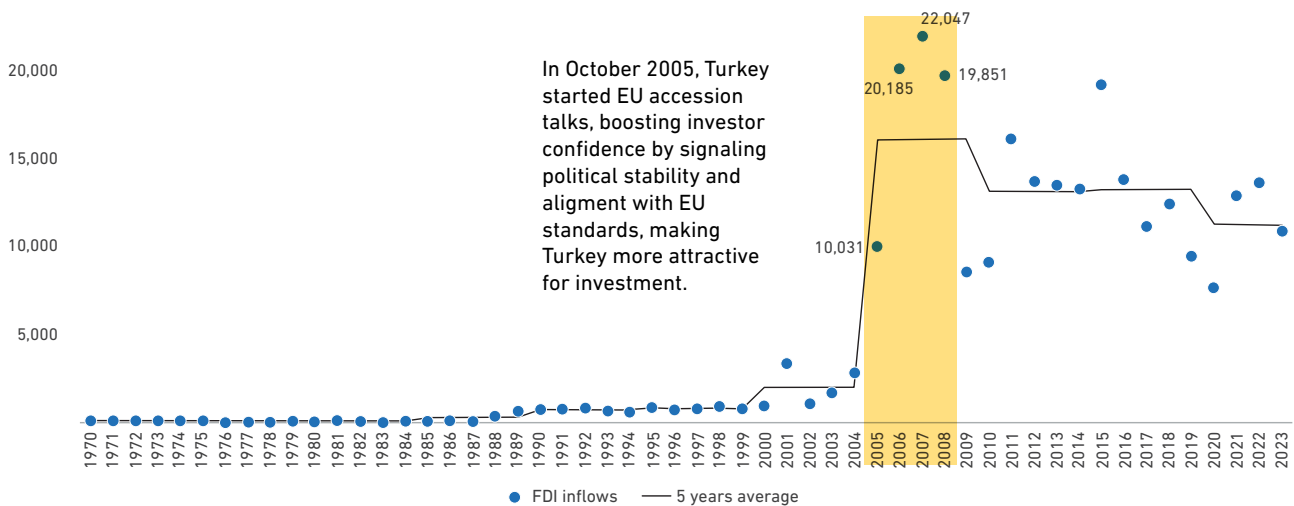
Figure 13.
Colombia's FDI Inflows



Source: World Development Indicators | DataBank, 2025

Türkiye's experience highlights the importance of sustained reforms in fostering long-term FDI growth (Figure 14). While Türkiye has been an OECD member since 1961, it experienced only modest FDI inflows for several decades. A turning point came in the early 2000s, when Türkiye introduced major structural reforms, including fiscal consolidation, banking sector modernisation, and trade liberalisation. These measures enhanced macroeconomic stability, reduced investor risks, and improved the overall business environment. Additionally, the initiation of EU accession talks in 2005 further strengthened investor confidence, as it signalled Türkiye's alignment with EU regulatory standards and political stability. These combined factors bolstered FDI inflows, particularly in export-oriented manufacturing sectors, driving Türkiye's economic transformation and industrial expansion.

Figure 14.
Türkiye's FDI Inflows



Source: World Development Indicators | DataBank, 2025

The experiences of these countries show that commitment to economic reforms, alongside institutional strengthening, policy transparency, and alignment with international best practices, is crucial to enhancing Indonesia’s attractiveness as an investment destination.

To broaden its investment base, Indonesia must focus on economic diversification and targeted promotion of high-value sectors, such as manufacturing and services, where it holds comparative advantages. These strategic efforts will not only attract sustainable FDI but also drive job creation and long-term economic growth.

Türkiye’s experience underscores the importance of prioritising long-term structural reforms to build a strong economic foundation while leveraging opportunities for regional and global integration. Investor trust is key—by fostering policy consistency and a stable business environment, Indonesia can unlock its full FDI potential and drive structural economic transformation. As seen in Türkiye’s case, consistent, long-term policy improvements are needed to ensure that membership translates into tangible economic benefits and sustainable growth.

Beyond these country-specific examples, Indonesia’s potential OECD membership could serve as a catalyst for critical domestic reforms. Accession to the OECD imposes higher standards of governance, transparency, and policy consistency, compelling member countries to address institutional weaknesses and adopt best practices. By aligning with OECD guidelines, Indonesia would be better positioned to improve its investment climate, reduce regulatory barriers, and strengthen investor protections. This process not only builds global confidence in Indonesia’s economic management but also signals a commitment to long-term, market-driven growth, ultimately attracting higher-value FDI and enhancing sustainable economic development.

Bridging the Gap: Strengthening Indonesia’s Trade and Investment Ties with OECD Countries

Since 2007, Indonesia has been an OECD Key Partner, actively engaging in various policy areas to advance economic reforms, enhance governance, and foster international cooperation.

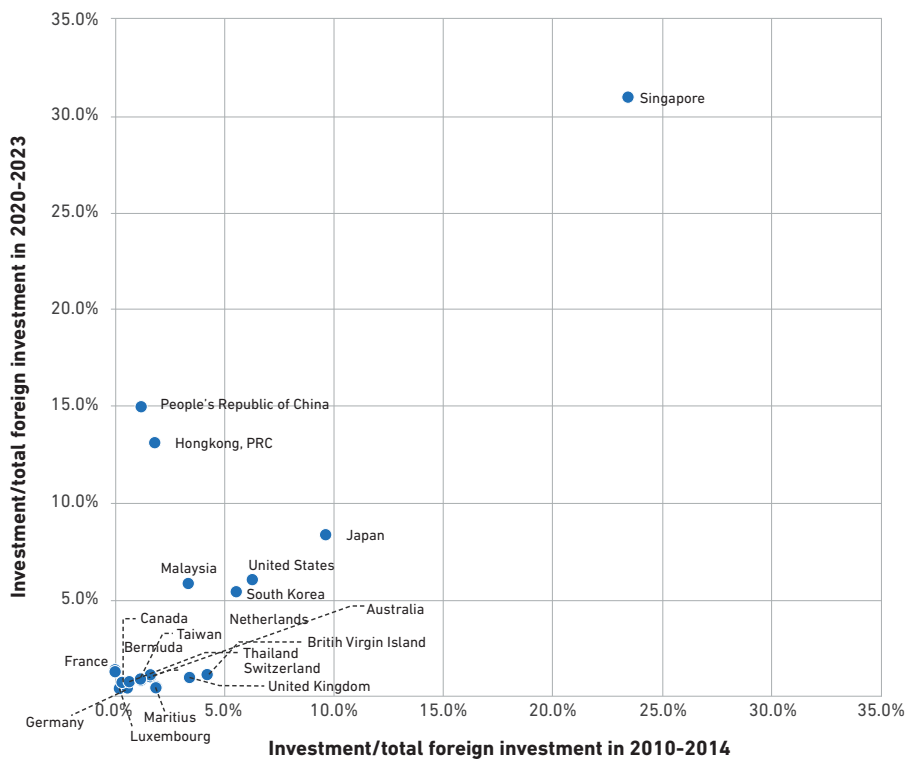
This partnership demonstrates Indonesia’s commitment to aligning with global standards and leveraging international expertise to improve economic policies. A major milestone was reached in February 2024, when Indonesia was officially invited to become an OECD accession candidate—a critical step toward potential full membership. This invitation reflects the OECD’s recognition of Indonesia’s economic progress and its readiness to further integrate with OECD principles and frameworks.

OECD membership would bring certain benefits for Indonesia. It increases Indonesia’s attractiveness to foreign investors through the strengthening of economic framework and governance standards. It signals a commitment to international economic openness and regulatory improvements. The OECD’s extensive research and knowledge base would also offer valuable insights to support Indonesia’s long-term development goals. Furthermore, membership would elevate Indonesia’s global influence, positioning it as a key player in shaping international economic policies and trade discussions.

Despite the potential advantages of OECD membership, Indonesia’s economic ties with OECD member countries remain limited. FDI from OECD nations in Indonesia has been relatively low and has shown a declining trend, particularly when compared to the significant rise in

investment from Singapore, China, and Hong Kong. While Japan, the US, and South Korea remain major investors in Indonesia, their investment levels have stagnated, signalling sustained but unenthusiastic interest from these key economies. Moreover, European and other OECD member countries remain underrepresented in Indonesia's FDI landscape, indicating an opportunity to attract greater investment from these regions (Figure 15).

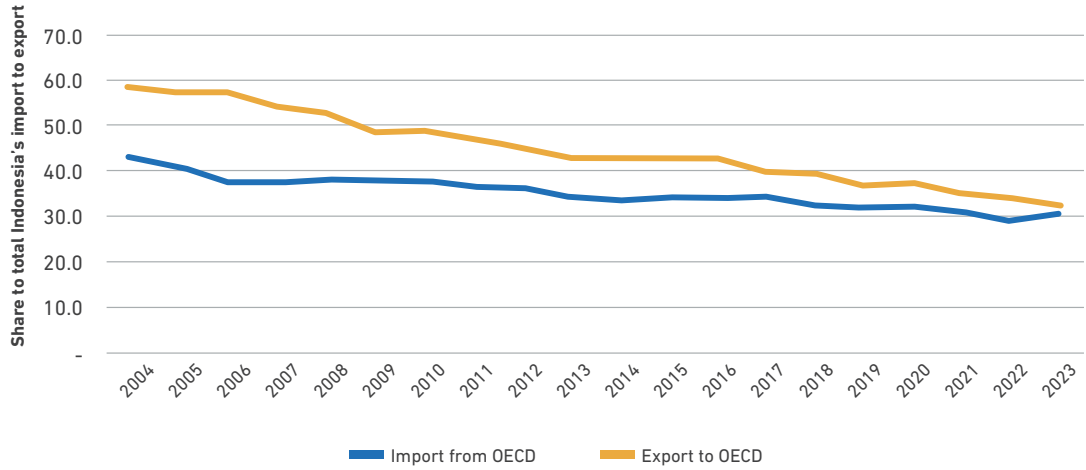
Figure 15.
Changes in Foreign Investment between 2010–2014 and 2020–2023, Top 20



Sumber: Dikompilasi dari berbagai sumber termasuk BPS, DBS, World Bank, ITU, APJII, AFTECH, AFPI, OJK, BI, Katadata, diolah oleh penulis

Indonesia's trade with OECD countries has also weakened over time, with both exports to and imports from these nations declining as a share of total trade (Figure 16). This trend suggests that OECD markets are becoming less central to Indonesia's trade strategy, while OECD-origin products are playing a smaller role in Indonesia's industrial and consumer markets. If this continues, Indonesia risks missing opportunities for market expansion, technology transfer, and industrial collaboration with some of the world's most advanced economies.

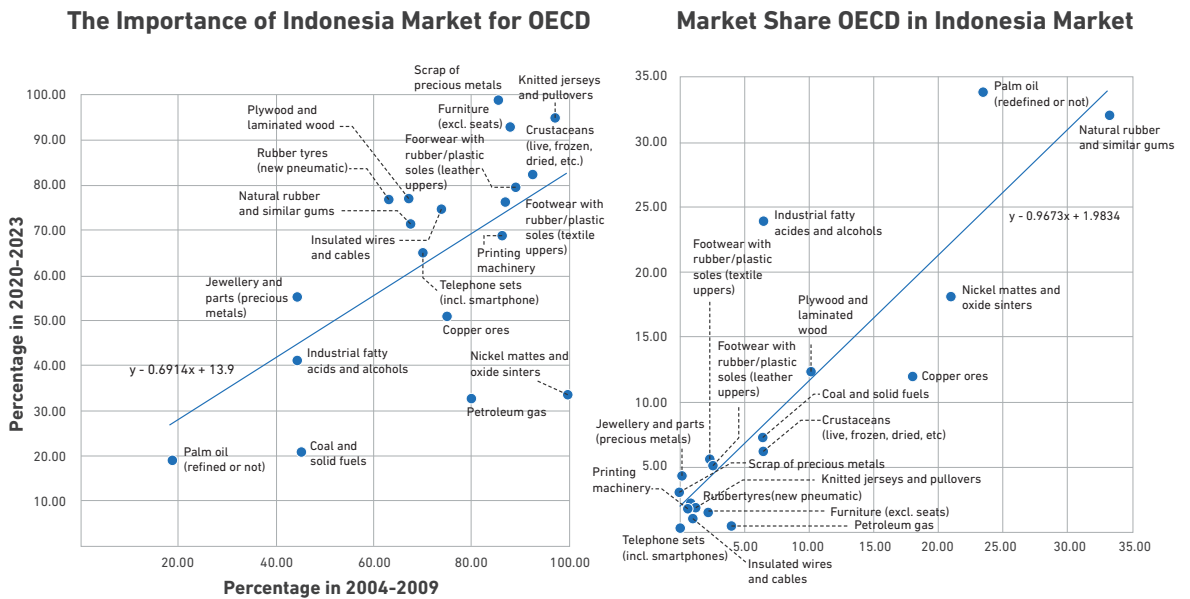
Figure 16.
Share Trade with OECD to Total Indonesia's Exports and Imports



Source: Trade Map, analysed, 2025

Indonesia's exports to OECD countries remain relatively low (Figure 17a), along with the domination of resource-based goods and lack of manufactured goods. Resource-based exports, especially coal and palm oil, continue to dominate, showing strong growth due to sustained demand in OECD markets. This is accompanied by stagnation and decline in some manufactured goods exports like footwear and textiles, indicating challenges in maintaining competitiveness.

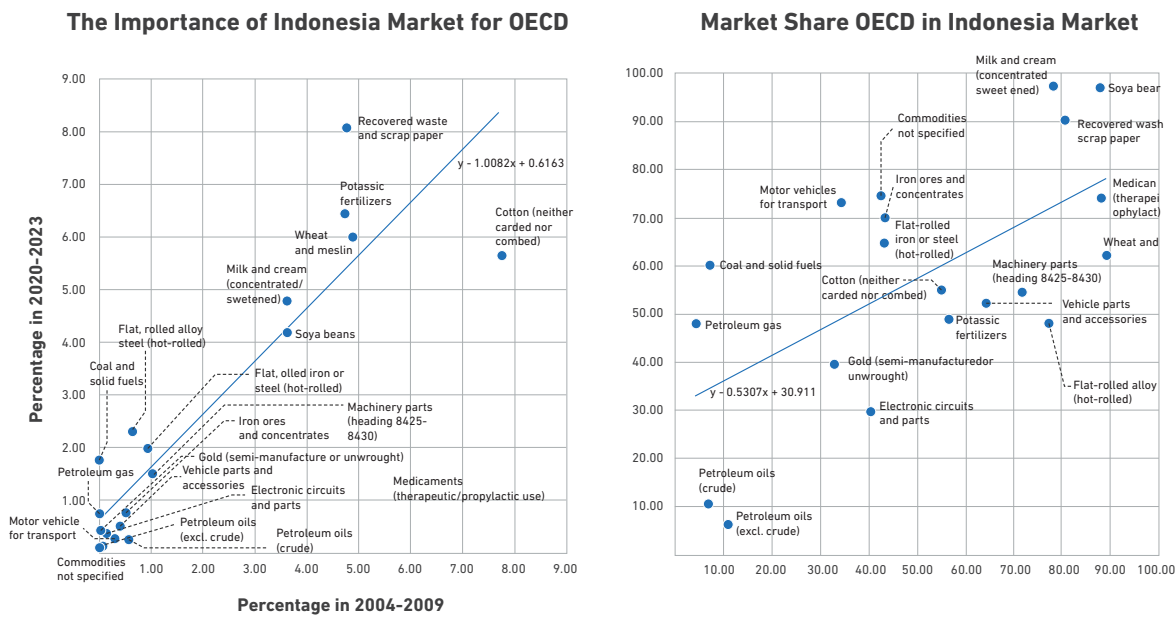
Figure 17.
Indonesia's Exports to OECD Countries by Products, Top 20



Source: Trade Map, analysed, 2025

Despite the decline in Indonesia's exports to OECD markets, OECD countries continue to supply several key imported products to Indonesia. Vehicle parts and accessories have seen substantial growth, driven by Indonesia's expanding automotive sector. Additionally, imports of capital goods, machinery parts, and electronic circuits have increased, reflecting Indonesia's rising demand for industrial inputs and technology upgrades.

Figure 18.
Indonesia's Imports from OECD Countries by Products, Top 20



Source: Trade Map, analysed, 2025

Indonesia's service trade—much like its merchandise trade—remains heavily concentrated in Asia, yet OECD economies such as the US and EU emerge as significant trading partners. Asia, Singapore, China, and Japan play key roles in both service imports and exports across various modes like the internet (mode 1), consumption abroad (mode 2), and temporary movements of persons (mode 4). In OECD economies, France and the UK lead as major sources of service imports, whereas Germany and Switzerland have become notable destinations for Indonesian service exports. These exports are dominated by travel services while other services mainly cater to the domestic market, suggesting untapped potential for expansion into high-value international services.²

² WTO Services Trade Modes:

Mode 1: Cross-border trade – Services provided from one country to another (e.g., consultancy via telecom).

Mode 2: Consumption abroad – Consumers travel to another country to consume services (e.g., tourism, education).

Mode 3: Commercial presence – Foreign companies establish a presence in another country to offer services (e.g., local branch).

Mode 4: Movement of natural persons – Individuals provide services in another country, either independently or as employees (e.g., consultants, healthcare workers).

Mode 3 services trade (commercial presence) reveals Asia and Europe are Indonesia's top two partners, albeit with distinct sectoral emphases. In terms of imports, **Chinese firms focus primarily on distribution services in Indonesia, while UK-based and other European firms concentrate on financial and insurance activities.** For Indonesia's service exports, Australia ranks as the leading destination, followed by Malaysia, South Korea, India, the UK, Hong Kong, Canada, Singapore, the Philippines, and Nigeria. This pattern highlights the diverse geography of Indonesia's services trade and underscores the potential for targeted policies to further engage OECD countries across various service sectors.

To fully capitalise on the benefits of OECD membership, Indonesia must strengthen its economic ties with member countries. This includes fostering trade relations, encouraging foreign direct investment from OECD economies, and promoting greater economic connectivity. Building these relationships will not only maximise the advantages of OECD membership but also diversify Indonesia's economic partnerships, ensuring broader opportunities for growth and development in an increasingly interconnected global economy.

Higher Standards, Greater Sustainability: Unlocking Indonesia's Opportunities

Box 2: Indonesia's Benefit from Joining OECD

Indonesia's Opportunities from Joining the OECD (General)

- By aligning with OECD guidelines, Indonesia can reduce regulatory barriers to investment. This will improve its investment climate and strengthen investor confidence.
- OECD membership signals Indonesia's commitment to long-term, market-driven growth. This will attract higher-value FDI and support sustainable economic development.
- The OECD's extensive research and knowledge base offers valuable insights to guide Indonesia's long-term development goals.
- Furthermore, membership would elevate Indonesia's global influence, positioning it as a key player in shaping international economic policies and trade discussions.

Indonesia's Opportunities from Joining the OECD (Sector-Specific)

- **Food Industry:** Agro-based products are vital to global food supply chains. Aligning with OECD standards would enhance product quality, sustainability, and food safety—facilitating greater acceptance in advanced markets, including the halal market, which Indonesia is seeking to expand.
- **Basic Metal Industry:** Adhering to OECD standards will support compliance with mechanisms like the Carbon Border Adjustment Mechanism (CBAM), ensuring long-term access to global markets while balancing industrial growth with sustainability goals.

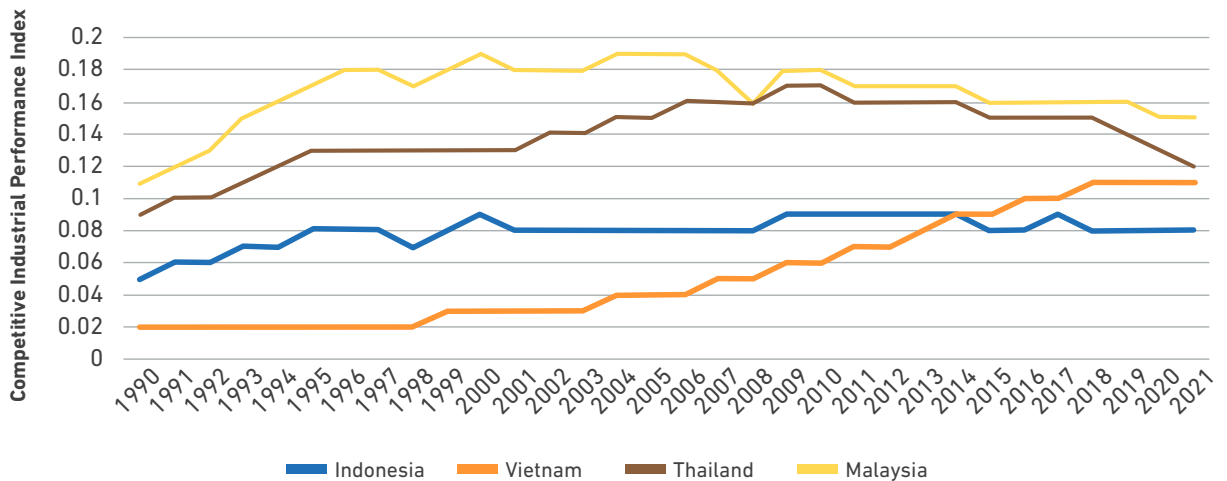
- **Chemical and Pharmaceutical Industry:** Higher sustainability standards and regulatory alignment will enhance the export competitiveness of this sector. Given Indonesia's dependence on pharmaceutical imports from OECD countries, collaboration through OECD frameworks can help strengthen domestic pharmaceutical manufacturing capabilities.
- **Textile and Apparel:** OECD markets account for 75% of Indonesia's textile and apparel exports. Membership could boost market access, attract investment from global brands, and accelerate the adoption of advanced technologies and sustainable production practices.
- **Automotive Industry:** Joining the OECD could help Indonesia integrate further into global value chains, particularly in the electric vehicle (EV) sector. Leveraging investment and technology from advanced OECD economies can support innovation and expand high-tech manufacturing capabilities.
- **Electronics Industry:** Aligning with OECD standards would facilitate the adoption of cutting-edge technologies from advanced OECD members such as the US, South Korea, Japan, and Germany, enhancing the competitiveness of Indonesia's electronics sector.
- **Tourism Services:** Membership would open opportunities for investment partnerships with OECD countries in infrastructure such as airports, seaports, and inter-island transportation. Collaboration in training and technology could elevate hospitality standards and position Indonesia to host high-profile global events.
- **Transport Services:** Alignment with OECD standards may require liberalisation of Indonesia's maritime, air, and cargo-handling services. This would increase efficiency, attract investment, and enhance Indonesia's role in global transport networks.
- **ICT Services:** Adopting OECD best practices would reduce regulatory barriers in telecommunications, including restrictions on foreign ownership. Tools like the OECD Digital Services Trade Restrictiveness Index (Digital STRI) can guide reforms related to data flows, licensing, and digital payments. OECD membership would also enable partnerships in strategic technology areas such as AI, fintech, cloud computing, and cybersecurity.
- **Education Services:** OECD membership would support education reforms through policy guidance, collaboration with leading institutions, and increased foreign investment. Aligning with OECD standards would promote student and faculty mobility, improve education quality, and make Indonesia a more attractive destination for international students—boosting innovation and long-term growth.
- **Coal and Gas:** Joining the OECD can help Indonesia manage the transition from fossil fuels by attracting green investments and international climate financing. Collaborating with OECD countries would support integration into clean energy supply chains, reducing reliance on fossil fuels while maintaining energy security.

- **Mining of Metal Ores:** OECD membership would offer a platform for policy dialogue and best practice sharing, strengthening sustainability in mining. Improved governance, environmental protection, and labour standards would support balanced growth while ensuring responsible resource use.
- **Energy Transition:** The OECD's expertise in regulatory frameworks, energy market design, and financing mechanisms can guide Indonesia's clean energy transition. Membership would unlock access to climate financing and green technology partnerships, boosting investor confidence and integrating Indonesia into global clean energy networks.

1. Revitalising Indonesia's Manufacturing Sector

Indonesia's manufacturing sector has historically played a crucial role in driving economic growth, contributing 21.3% to GDP and 16.3% to total employment in 2023. However, recent trends point to stagnation, with the sector falling behind regional ASEAN peers such as Malaysia, Thailand, and Vietnam. According to the Competitive Industrial Performance (CIP) Index by UNIDO, Indonesia's competitiveness has consistently lagged, with Vietnam surpassing it since 2014 (Figure 21). Policy inconsistency and uncertainty have been key challenges. As Hill & Pane (2018) argue, fragmented and ambivalent policies have created an unpredictable business environment, eroded investor confidence and hindered the sector's potential for industrial transformation.

Figure 19.
Competitive Industrial Performance Index Score

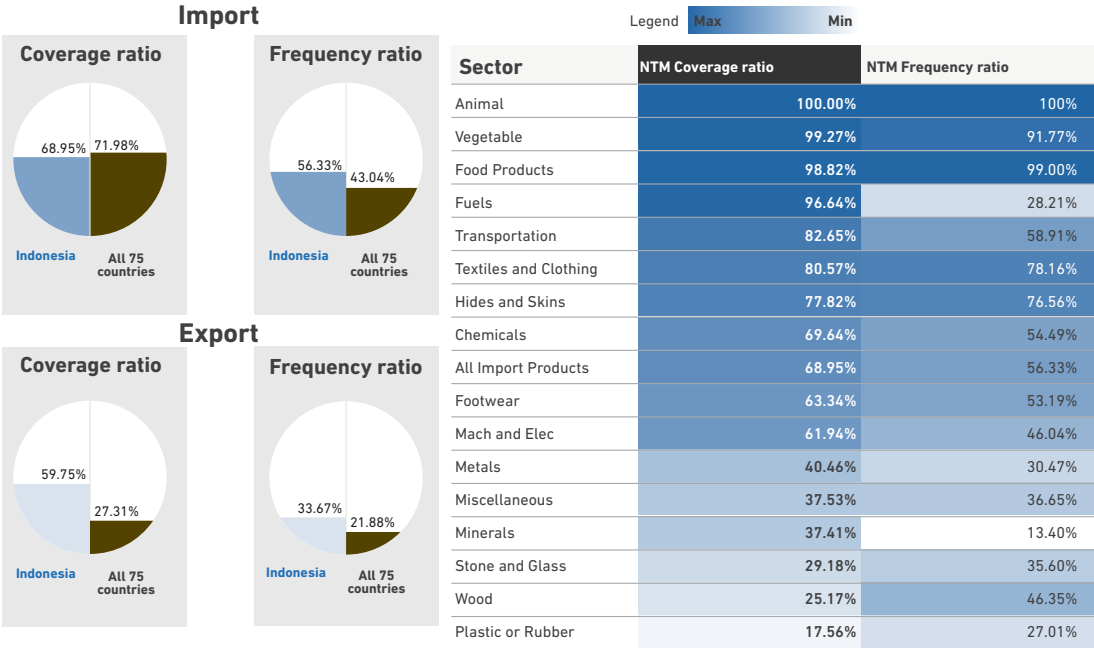


Source: UNIDO, analysed, 2025

One major challenge is Indonesia's high-cost economy, which is caused by the prevalence of Non-Tariff Measures (NTMs). Indonesia's import frequency ratio stands at 56%, higher than the global average of 43%, and 68% of its total import value is subject to NTMs (Figure 22). On the export side, 34% of products and 60% of export value face NTMs, significantly higher than global averages. These measures, while necessary in some cases for health

and safety, often raise production costs and restrict trade. Industries such as food products, textiles, chemicals, transport equipment, and electronics are particularly affected, limiting their ability to compete globally and undermining trade efficiency.

Figure 20.
Indonesia NTMs

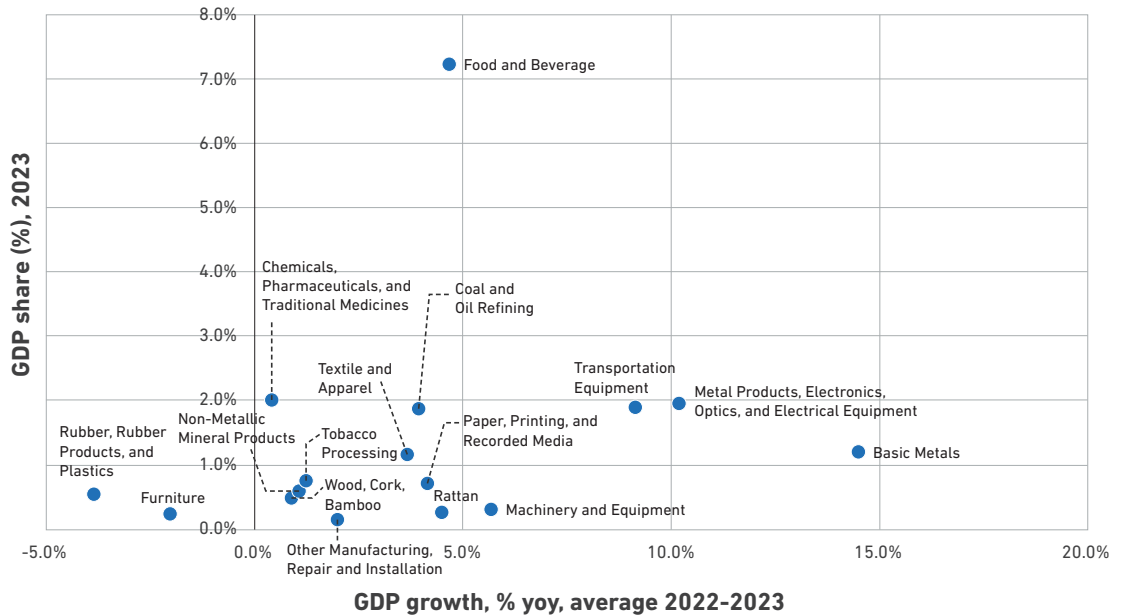


Source: WITS, 2025

Indonesia’s manufacturing sector is primarily driven by the food and beverage industry, which remains the largest contributor at 7.2% of GDP, while most other industries contribute 2% or less. This narrow focus indicates a heavy reliance on a few key sub-sectors, posing potential risks for resilience and long-term growth (Figure 23).

Nevertheless, some manufacturing segments show robust expansion. **Over the past two years, basic metals grew by 14.5%, electronics by 10.2%, and the transport industry by 9.2%, highlighting their potential to boost industrial development.** Meanwhile, traditional labour-intensive industries such as textiles and apparel, formerly major employment drivers, now contribute only 1.2% to GDP with a modest 3.7% growth rate. Sectors like rubber and furniture, historically competitive for Indonesia, have seen negative growth, raising concerns about their ability to remain competitive.

Figure 21.
Manufacturing Sectors in Indonesia, GDP Growth and Share



Source: Bank Indonesia, calculated, 2025

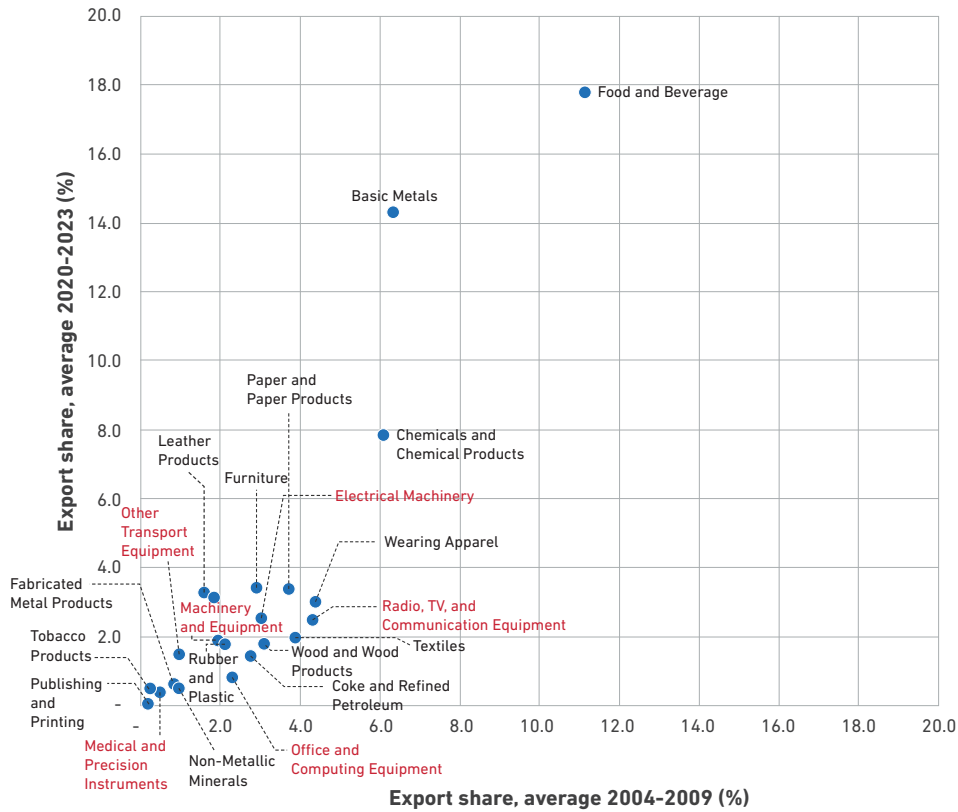
A. Food Industry

Indonesia's food industry has emerged as a key player in the manufacturing sector, particularly as a downstream processor of agro-based commodities. Its share of total manufacturing exports has grown from 11.1% (2004–2009) to 17.8% (2020–2023), driven by strong domestic demand and expanding export opportunities (Figure 24). The value chain between Indonesia and OECD countries is well-established, with Indonesia heavily reliant on imports of wheat, milk, and soy from OECD nations—products that rank among its top 20 imported goods. At the same time, Indonesia plays a crucial role in supplying OECD markets with coffee, tea, and spices, holding a 2.5% global market share in these products. Additionally, Indonesia remains the world's leading producer and exporter of crude palm oil (CPO), accounting for 54% of global exports, making it a critical input in food production worldwide.

OECD membership is expected to bring certain opportunities for Indonesia's food industry:

- As agro-based products are essential to global food supply chains, aligning with OECD standards can help Indonesia enhance product quality, sustainability, and food safety, ensuring greater acceptance in advanced markets, including the halal market, which Indonesia aims to expand.
- Meanwhile, Indonesia still faces challenges in CPO exports, particularly regarding environmental sustainability regulations. The European Union's deforestation-free supply chain rule may disrupt Indonesia's palm oil exports and create compliance challenges for smallholder farmers. Strengthening cooperation with OECD countries, increasing investment in sustainable agro-processing, and adopting best practices in responsible agriculture can help Indonesia revitalise its food industry, improve supply chain efficiency, and secure long-term access to global markets.

Figure 22.
Manufacturing Export Share Development



Source: WITS, calculated, 2025

B. Basic metal industry

Indonesia’s basic metal industry has experienced rapid growth, largely driven by the government’s downstreaming policy, which requires value addition before raw materials are exported. This policy, particularly targeting nickel processing, has significantly boosted domestic production and export revenues. Over the past two years, the sector’s GDP growth reached 14.5%, reflecting strong industrial activity (Figure 23). Additionally, the export share of basic metals that include iron and steel, aluminium and ferronickel rose from 6.3% (2004–2009) to 14.3% (2020–2023), underscoring its growing role in Indonesia’s economy (Figure 24).

However, there are some challenges. This rapid expansion has sparked concerns over environmental issues as well as Indonesia’s reliance on nickel and its heavy dependence on China for exports and investment. Geopolitical risks and shifts in Chinese demand could pose economic vulnerabilities, highlighting the need for diversification. Joining OECD could offer opportunity for Indonesia to address these challenges:

- Indonesia could broaden its export markets, attract investment from other countries—including OECD nations—and strengthen environmental and labour regulations to ensure sustainable and resilient industry growth.

- Increased OECD and EU investments could also enhance Indonesia's ability to comply with Carbon Border Adjustment Mechanism (CBAM) regulations which will be implemented by 2026, securing long-term access to key global markets. The OECD accession may balance the growth of this industry with sustainability and market diversification.

C. Chemical and pharmaceutical

Indonesia's chemicals and chemical products sector has emerged as a key growth area in exports, increasing its share from 6.1% (2004–2009) to 7.9% (2020–2023). This expansion reflects rising production capacity and growing global demand for chemical-based products (Figure 24). The sector's economic significance is also evident in its GDP contribution, which reached 2% in 2023, with an average annual growth rate of 5.8% between 2010 and 2023. However, growth has slowed sharply in the past two years, dropping to just 0.4%, signalling challenges that need to be addressed. Industrial chemicals, particularly fertilisers, remain among Indonesia's key chemical exports, while the cosmetics industry has also experienced strong growth, driven by a rising middle class, digital influence, and the emergence of competitive local brands.

Indonesia's cosmetics sector and broader chemical industry could benefit significantly from OECD membership:

- Higher sustainability standards and regulatory alignment with OECD would enhance export competitiveness of Indonesia's chemical industry.
- Meanwhile, since Indonesia remains highly dependent on pharmaceutical imports from OECD countries, including the US, Germany, France, and Switzerland, strengthening pharmaceutical manufacturing through OECD collaborations presents an opportunity to develop a more robust domestic industry.

D. Textile and apparel

Indonesia's textile and apparel industry, a cornerstone of the country's exports in the early 1990s, has seen a dramatic decline in recent decades. In 1990, the sector contributed 18.3% of total exports, but by 2023, this share had plummeted to just 4.1%, with export values contracting sharply by -16.5% year-on-year. This decline highlights a significant loss of competitiveness, particularly concerning OECD markets, which account for over 75% of Indonesia's textile and apparel exports.

Several challenges have driven this decline. Rising labour costs have eroded Indonesia's ability to compete with lower-cost producers like Bangladesh and Vietnam, which now rank second and third globally in textile and apparel exports after China. Protectionist policies, intended to shield domestic producers, have inadvertently increased the cost of imported raw materials critical for production. Additionally, high logistics costs, slow adaptation to shifting global market trends, reduced global demand, and insufficient investment in technology and innovation have further constrained the sector's growth.

To revitalise its textile and apparel sector, Indonesia must transition from low-value production to focus on high-value, sustainable products that align with global market demands. Ensuring easier access to imported inputs is essential for boosting competitiveness. Joining the OECD could provide strategic benefits, including strengthened

market access in OECD countries, increased investment from global brands, and opportunities to adopt advanced technologies and sustainability standards. This alignment could position Indonesia's textile and apparel products as globally competitive, enabling them to reach premium markets while supporting long-term industry growth.

E. Automotive industry

Indonesia's transport vehicles industry has demonstrated notable growth, with the export share of motor vehicles increasing from 1.6% to 3.2% and other transport equipment from 0.9% to 1.5% when comparing the 2004–2009 average to the 2020–2023 average (Figure 24). In 2022, Indonesia exported \$6.38 billion in cars, ranking as the 24th largest car exporter globally, with key markets including the Philippines, Vietnam, Saudi Arabia, Thailand, and Mexico. The sector's GDP growth further underscores its expanding role in the economy, recording a 9.2% year-on-year increase in 2022–2023 (Figure 23).

Despite progress, Indonesia's exports continue to be concentrated in parts such as tires, rubber and plastic components, and wiring harnesses. There is a pressing need for greater involvement in high-value activities like engine manufacturing, advanced research and development (R&D), and innovative design. The global shift towards electric vehicles (EVs) presents a significant opportunity for Indonesia to enhance its transport vehicles industry. The government has implemented policies to accelerate EV adoption and foster a domestic industry, aiming to position Indonesia as a key player in the EV market.

Joining the OECD could significantly support Indonesia's ambitions in the transport vehicles sector:

- It would provide access to global best practices, policy frameworks, and international networks, boosting investor confidence and attracting FDI in advanced technologies and high-value-added activities. This would help Indonesia strengthen its role in global value chains, particularly in the growing electric vehicle (EV) industry.
- By diversifying investments from countries with expertise in high-tech EV development, Indonesia could leverage global brands and technologies to drive innovation and expand high-tech manufacturing.

F. Electronics

Indonesia's electronics sector has seen a significant decline in trade performance over the years, as evident from export data. Between the 2004–2009 and 2020–2023 periods, most categories within the sector experienced shrinking export shares (Figure 24). For example, the export share of machinery and equipment dropped from 2% to 1.9%, while office and computing equipment saw a sharper fall from 2.3% to 0.8%. Similarly, electrical machinery declined from 3% to 2.5%, and radio, TV, and communication equipment from 4.3% to 2.5%. Medical and precision instruments also slipped slightly, from 0.5% to 0.4%. The trend continued in recent years, with export value growth (2022–2023) showing contractions in machinery and equipment (-6.8%), office and computing equipment (-15.7%), and electrical machinery (-7.4%). However, some sub-sectors demonstrated resilience, with radio, TV, and communication equipment growing by 5.6%, and medical and precision instruments increasing by 3.2%.

Interestingly, while trade performance has declined, GDP data reveals relatively high growth in these sectors, driven primarily by domestic demand (Figure 23). This disparity suggests low global competitiveness and limited participation in global value chains. The electronics sector remains highly regulated, with policies like local content requirements aimed at reducing import dependency. However, such measures can backfire in a sector where production often involves sourcing components from multiple countries. For Indonesia to strengthen its electronics industry, strategic specialisation in competitive products is essential. By focusing on segments where Indonesia has a comparative advantage and integrating into global value chains linked to established global brands, the country can better serve growing global consumer demand.

Investment policy plays a critical role in this transformation. Indonesia must create an open and welcoming environment for foreign investors or missed opportunities to attract high-value investment. Embracing foreign direct investment is crucial for building capacity in technology-intensive and high-value-added segments of the electronics sector.

OECD membership offers a strategic pathway for Indonesia to revitalise its electronics industry:

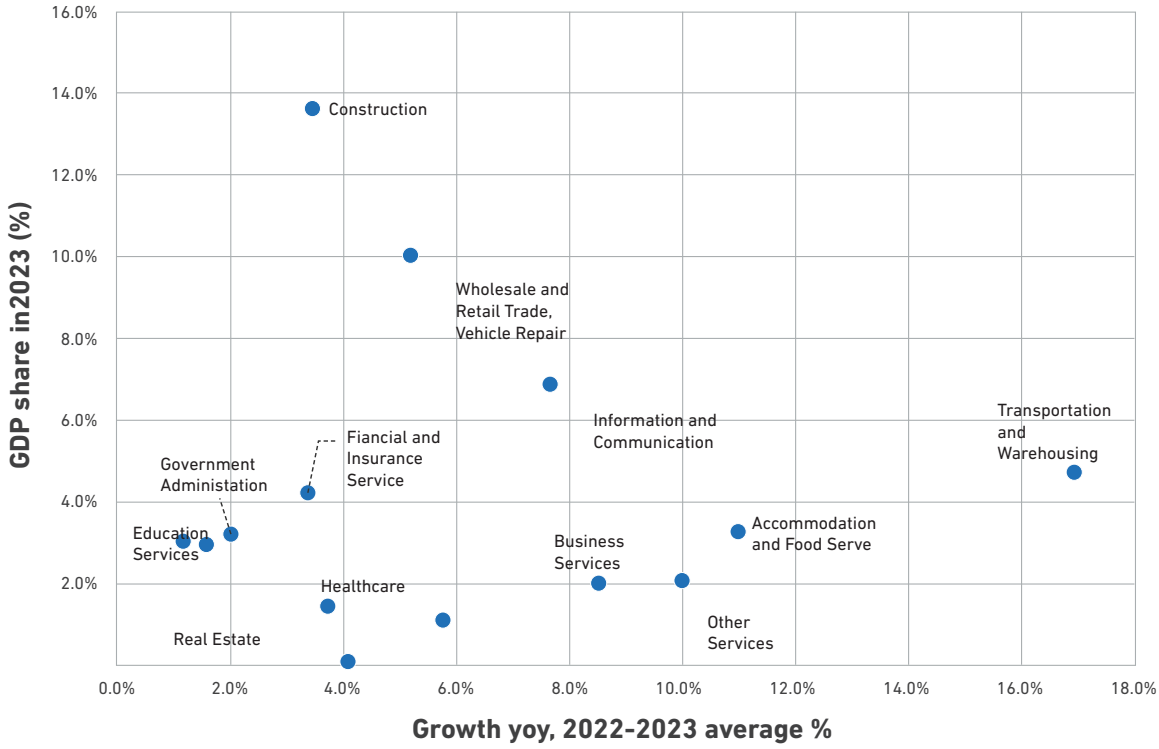
- OECD member countries, such as the US, South Korea, Japan, and Germany, are global leaders in electronics, excelling in innovation and advanced manufacturing.
- Aligning with OECD standards would allow Indonesia to adopt cutting-edge technologies, attract investment, and integrate more deeply into global value chains. Such alignment would not only improve the competitiveness of Indonesia's electronics sector but also support broader economic goals, driving sustainable growth and enhancing Indonesia's role in the global market.

7. Strengthening Indonesia's Services Sector

The services sector plays a pivotal role in Indonesia's economic development, contributing approximately 58% to the country's total value added and employing over half of the workforce. This sector underpins domestic economic activity, trade, and global market integration. Key contributors to GDP include construction, domestic trade, and ICT, reflecting infrastructure demand, vibrant commerce, and rapid digitalisation (Figure 25). Fast-growing sub-sectors like transportation, accommodation, and tourism highlight the rising reliance on mobility and service-based activities for economic recovery and growth. The increasing "servicification" of industries further emphasises the sector's importance, as services like research, logistics, and design enhance competitiveness in global value chains. Digital platforms have amplified these trends, driving innovation, expanding creative industries, and unlocking global opportunities for growth and entrepreneurship.

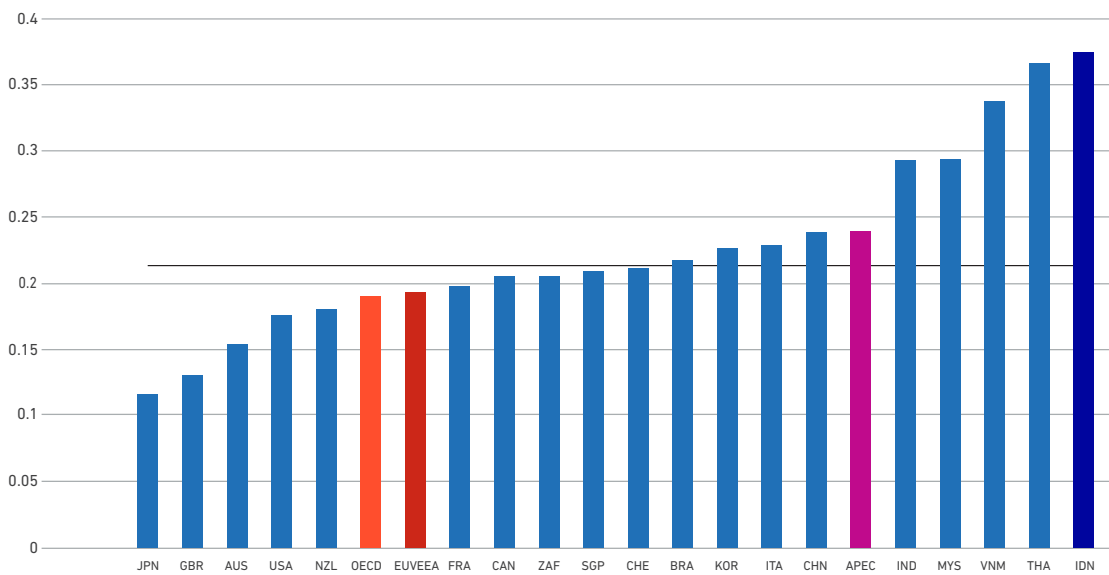
Despite its significance, Indonesia's services sector faces competitiveness challenges due to restrictive regulations. The country's average Services Trade Restrictiveness Index (STRI) score of 0.37 is higher than APEC (0.24) and OECD (0.19) averages, signalling substantial barriers in key areas like legal, accounting, financial, and digital-related services (Figure 26). While some sectors, such as architecture services, are relatively open, others—like maritime transport, distribution, and courier services—remain highly restrictive, limiting market access and increasing trade costs.

Figure 23.
Services Sectors in Indonesia



Source: Bank Indonesia, calculated, 2025

Figure 24.
Barriers to Services Trade



Source: Services Trade in Indonesia, OECD, 2024

The OECD has recommended reform packages to reduce Indonesia's STRI scores and enhance services trade liberalisation (Table 1A and 1B). These reforms focus on eliminating barriers, streamlining regulations, and aligning policies with international standards. The OECD highlights that such reforms could significantly **reduce the STRI for various services sectors, reduce trade costs, improve supply chain efficiency, boost manufacturing productivity, and increase economic competitiveness** by leveraging services as intermediate inputs.

Table 1.
List of Reform Scenarios by OECD

List of reform scenarios by OECD: horizontal measures

- Remove requirement that managers must be national
- Ease restrictions on acquisition and use of land and real estate by foreigners
- Lift performance requirements
- Lift commercial presence requirements
- Remove labour market tests or similar economic considerations for intra-corporate transferees, contractual and independent services suppliers
- Ease preferences for local suppliers in public procurement

List of reform scenarios by OECD: sector-specific measures

Maritime transport

- Remove foreign equity restrictions
- Remove limits to the proportion of shares that can be acquired by foreign investors in publicly-controlled firms
- Ease the measure that requires operation through joint ventures only
- Remove restrictions to own and/or register vessels under national flags
- Improve access to cabotage for foreign vessels
- Lift statutory monopoly on port services
- Lift local presence requirements
- Remove exclusive rights for port concessions to operate the port infrastructure

Air transport

- Remove foreign equity restrictions
- Remove limits to the proportion of shares that can be acquired by foreign investors in publicly-controlled firms
- Remove restrictions on legal form
- Lift exemption for publicly-controlled firms from the application of the general competition law
- Improve competitive allocation and exchange of airport slots
- Remove price regulations on domestic routes

Logistics cargo-handling

- Remove limits to the proportion of shares that can be acquired by foreign investors in publicly-controlled firms (air, ports, road, and rail)
- Ease measure that requires operation through joint ventures only
- Lift exemption for publicly-controlled firms from the application of the general competition law (cargo-handling at airports, ports, road and rail)
- Remove price regulation
- Improve accounting separation and limit cross-subsidisation

Telecommunications

- Remove limits to the proportion of shares that can be acquired by foreign investors in publicly-controlled firms
- Ease conditions on subsequent transfer of capital and investments
- Monitor and adjust ex ante competition rules in mobile segment

Legal services

- Remove foreign equity restrictions to practice international law
- Remove equity restrictions applying to unlicensed individuals or firms in international law
- Remove prohibitions on hiring locally-licensed lawyers
- Remove nationality or citizenship requirements to practice international law

Source: Services Trade in Indonesia, OECD (2024)

Below are some elaborations of opportunities of several services sectors in Indonesia.

A. Tourism services

Indonesia's tourism services sector remains a critical economic driver, contributing 3.3% to GDP in 2023 with an 11% growth rate, while creating millions of jobs and generating export earnings as the only services sector to maintain a trade surplus. Despite the Indonesia Tourism 2020–2024 Roadmap, which aims to diversify beyond Bali, the country still lags behind ASEAN neighbours like Thailand, Malaysia, Singapore, and now Vietnam in attracting international visitors, largely due to inadequate infrastructure and inconsistent sustainability and health standards.

- Investments in airports, seaports, and inter-island ferries—potentially through partnerships with OECD countries—could significantly improve access.
- Aligning with OECD standards would build traveller confidence, especially among long-haul visitors. Implementing ecotourism initiatives and sustainable practices is also crucial for preserving Indonesia's natural beauty and ensuring the long-term viability of heritage sites like Borobudur.
- Collaborations with OECD members on workforce training and technology adoption would elevate hospitality standards, positioning Indonesia to attract high-profile global events.
- Finally, diversifying target markets beyond regional neighbours can boost economic resilience. By focusing on Europe, North America, and the Middle East, along with niche segments—such as adventure, cultural, or pensioners' tourism—Indonesia can broaden its visitor base.

B. Transport services

The transport services sector is a crucial pillar of Indonesia's economy, supporting a wide range of industries, including manufacturing, trade, and tourism. In 2023, transport services contributed 4.7% to Indonesia's GDP, with an impressive growth rate of 16.9% (2022–2023 average), highlighting its expanding role in the economy. However, despite its strong domestic contribution, Indonesia continues to face a significant trade deficit in

transport services, largely due to high reliance on foreign transportation providers for trade, travel, and logistics.

The OECD recommends that Indonesia further liberalise its transport services sector to meet rising demand and improve service quality. Key areas for reform include maritime transport, air transport, and cargo-handling logistics, where restrictions on foreign investment and service providers limit competition, innovation, and efficiency. Exclusive rights for port concessions and price regulations also contribute to inefficiencies. Removing these barriers could attract FDI, enabling better services, supporting economic activities, and potentially boosting exports, which could help reduce Indonesia's transport services trade deficit.

C. ICT services

Indonesia's Information and Communication Technology (ICT) sector has become a significant contributor to the nation's economy. In 2023, the sector accounted for approximately 6.9% of the GDP, reflecting a growth rate of 11.0% (average 2022–2023). This upward trajectory is driven by rapid digitalisation, increased internet penetration, and substantial investments from both domestic and international stakeholders.

Despite this progress, the ICT sector faces challenges, including a trade deficit where demand outpaces domestic supply. The telecommunications sector remains highly regulated, with foreign ownership limits that restrict competition and investment. These constraints, along with Indonesia's absence from global conventions such as the UN Convention on the Use of Electronic Communications in International Contracts, hinder digital integration. Additional restrictions—such as capital requirements for foreign banks offering internet banking and ownership caps on non-bank payment service providers—further limit growth in digital financial services.

- **Indonesia's accession to the OECD can accelerate the development of its digital economy by addressing regulatory barriers that limit foreign ownership in telecommunication sectors.**
- **By adopting OECD best practices, Indonesia can create a more competitive, efficient, and globally connected digital ecosystem.**
- Tools like the OECD Digital Services Trade Restrictiveness Index (Digital STRI) provide a clear roadmap to identify and reform barriers, including those related to cross-border data flows, licensing procedures, and e-payment services.
- OECD membership would also facilitate knowledge sharing and partnerships in strategic technology sectors like AI, fintech, cloud computing, and cybersecurity.

D. Education services

Indonesia's education sector plays a crucial role in improving human capital and driving long-term economic development. In 2023, the sector contributed 3.1% to GDP, with an average annual growth rate of 1.2% (2022–2023). However, despite the government's commitment to allocating 20% of the national budget to education, the country continues to face significant challenges in educational attainment and quality. A large portion of Indonesia's workforce has only secondary education, limiting its ability to compete in a rapidly evolving global economy. International assessments, such as the 2022 Programme for International Student Assessment (PISA), highlight gaps in Indonesia's education system.

Indonesian 15-year-olds scored 366 in mathematics, 359 in reading, and 383 in science, all well below OECD averages of 489, 487, and 489, respectively (OECD, 2024b).

Indonesia's low tertiary education participation affects Indonesia's ability to develop a highly skilled workforce, hindering competitiveness in research and development (R&D), technology-driven industries, and services exports. According to OECD Education at a Glance (2023), 57.3% of Indonesians aged 25–64 have not completed upper secondary education, making Indonesia the third-lowest among OECD and partner countries. Furthermore, only 13.1% of this age group has attained tertiary education, the lowest among 47 surveyed countries. With global shifts towards digitalisation, remote work, and knowledge-based economies, Indonesia must strengthen its education system to support the expansion of high-value service industries such as finance, ICT, creative industries, and R&D.

While Malaysia managed to be a leading regional hub for international education by liberalising its education sector, Indonesia's restrictive education policies limit the entry of foreign universities and collaboration with international institutions. This reduces Indonesia's attractiveness as a study destination. A notable shift occurred under the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), which enabled Monash University to establish a campus in Indonesia—the country's first foreign university branch. Expanding such partnerships with other OECD countries could significantly improve education quality by increasing competition, introducing global best practices, and enhancing research collaboration.

- Joining the OECD could offer Indonesia a valuable opportunity to enhance its education sector through policy guidance and foreign investment in higher education.
- Joining the OECD could also offer Indonesia greater opportunity for global collaboration, enabling foreign universities from other OECD countries to establish branches in Indonesia.
- By aligning with OECD standards, Indonesia can foster academic mobility, attract international students, and raise education quality.

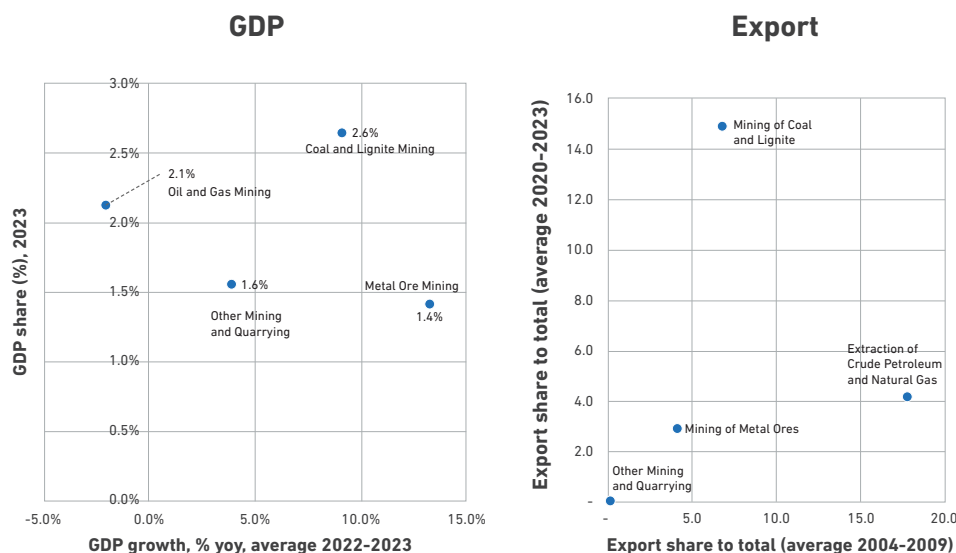
5. Extractive sectors

Indonesia's mining and quarrying sector remains a key pillar of the economy, contributing 7.7% of GDP in 2023. This includes coal, gas, nickel, and copper, positioning Indonesia as a major player in global commodity markets. Coal remains dominant, accounting for 2.6% of GDP with 9.1% growth over the past two years. Metal ore mining, particularly nickel, has emerged as one of the fastest-growing sub-sectors, contributing 1.4% of GDP and expanding by 13.3% in the same period. Driven by global demand for critical minerals in the energy transition, Indonesia has become the world's top nickel producer, with output surging from 358,000 tons in 2017 to 2.2 million tons in 2023 (Reuters, 2025).

- Indonesia's fossil fuel trade has seen significant shifts, with coal exports rising sharply to 14.9% (2020–2023 average) of total exports, which has been fuelled by soaring global coal prices, nearly tripling over the period and peaking in 2022 (World Bank, Pink Sheet). As the world's second-largest coal exporter after Australia, Indonesia's key markets include India (21%), China (20.2%), Japan (13.8%), and ASEAN countries (26%). **However,**

expected coal demand will plateau in 2027. This highlights the urgent need for economic diversification and an accelerated transition to clean energy to reduce Indonesia's reliance on coal exports (IEA, 2024).

Figure 25.
Mining & Quarrying



Source: Bank Indonesia, analysed, 2025

Source: WITS, analysed, 2025

- Indonesia's natural gas exports have been marked by a sharp decline in both volume and reserves—highlighting the growing urgency to develop alternative, cleaner energy revenue streams.** Since 2010, gas exports have nearly halved to 21,463 million standard cubic meters in 2023, while proven reserves have dropped from 3,068 billion to just 788 billion cubic meters. Trade patterns have also shifted, with Singapore (27.4%) and China (25.7%) overtaking Japan as Indonesia's main gas export markets.
- As the world's 7th largest metal ore exporter and 3rd largest copper ore exporter (8.9% market share in 2023), Indonesia plays a key role in global supply chains.** However, its planned 2025 copper concentrate export ban may disrupt markets, prompting importers to seek alternatives. Copper, essential for electronics, EVs, and green energy, is deemed critical by the EU—though not by the US—underscoring the potential global impact of Indonesia's policy shift.
- Indonesia's nickel export ban, aimed at promoting domestic processing, has reshaped the industry by limiting raw mineral exports.** Nickel, a critical mineral for lithium-ion batteries in electric vehicles, is highly valued by the US, EU, and Japan. However, Indonesia's nickel industry is now heavily reliant on China for processing and refining, raising concerns about market concentration and geopolitical risks. While the ban has spurred domestic investment, it has also strained relations with trading partners and posed sustainability challenges. Looking ahead, Indonesia's nickel sector will play a crucial role in the global EV supply chain, but must address environmental, labour, and geopolitical issues to ensure long-term success.

The challenges faced by extractive sectors due to a shift in global demand has required Indonesia to accelerate its energy transition agenda or adopt sustainability aspects in its extractive sectors. OECD membership would provide Indonesia with access to policy dialogue, best practices, and technical expertise to enhance sustainable mining and resource management. It could also improve governance, attract diverse international investments, and promote balanced, sustainable growth in the mining sector.

6. Indonesia's energy transition

Despite its abundant renewable energy potential, Indonesia remains heavily dependent on fossil fuels. Coal accounts for around 43% of the country's primary energy use and 67.5% of electricity generation, while renewables contribute less than 14%. This underutilisation persists despite vast solar, wind, geothermal, and hydropower resources. The government targets a 23% renewable energy share by 2025 and net-zero emissions by 2060, but progress has been hampered by infrastructure gaps, inconsistent policies, and continued economic reliance on coal—still supported by substantial subsidies. While initiatives like the biodiesel mandate and Presidential Regulation No. 112/2022 aim to boost renewables, implementation remains slow (IESR, 2024).

Indonesia has one of the world's largest untapped renewable energy potentials—3,684 GW from solar, wind, hydro, and geothermal sources—but has only utilised a fraction. Key opportunities include geothermal (40% of global reserves), fast-deploying solar, and biomass from agricultural waste. Emerging technologies like hydrogen and tidal power also offer promise. The Just Energy Transition Partnership (JETP) is set to support coal phase-out and mobilise international investment. With rising global demand for green energy, Indonesia is well-positioned to attract funding, technology, and expertise to accelerate its clean energy transition.

To accelerate its renewable energy transition, Indonesia needs comprehensive policy reforms. This includes a clear carbon tax to incentivise clean energy, streamlined permitting to attract private investment, enhanced smart grid and regional connectivity for efficient power distribution, and revised local content requirements to encourage foreign investment in renewable technologies.

OECD membership could offer Indonesia substantial advantages in its renewable energy transition by providing access to global best practices in policy design, energy market regulation, and financing mechanisms. It could also unlock opportunities for international climate financing and green technology partnerships. Aligning with OECD standards would help improve governance, attract investment, and better integrate Indonesia into global clean energy supply chains.

THE IMPORTANCE OF REGULATORY REFORMS

To align its regulatory framework with OECD standards, Indonesia must identify gaps between its current regulations and OECD instruments and implement legislative changes to address these gaps. This study assesses these gaps through a horizontal review of OECD guidelines applicable across all sectors, and a sector-specific review focusing on particular industries.

Horizontal Assessment

- **Trade:** Indonesia aligns with only 9 out of 12 OECD trade-related instruments, leaving critical gaps in areas like anti-bribery measures, export credit arrangements, and support for low-income countries.
- **Investment:** Despite efforts to simplify regulations, both foreign and domestic investors face a complex regulatory landscape with overlapping and contradictory rules.
- **Corporate Governance:** Indonesia requires reports from business entities similar to the Responsible Business Conduct (RBC) Guidelines, but not all relevant elements are reflected in current laws.
- **Market Competition:** The dominance of state-owned enterprises (SOEs) and the exclusive focus on synergy among them creates market access barriers, contrary to OECD principles of market openness.
- **Environmental Aspects:** While Indonesian environmental laws generally reflect OECD principles, more detailed, sector-specific instruments are needed for full alignment.

Sector-Specific Assessment

- **Agriculture:** Indonesia's agricultural regulations focus mainly on farm cultivation, overlooking broader sustainability goals like poverty alleviation and gender equality. There is no clear framework for stakeholder engagement or collaboration with international organisations, and sustainable financing remains optional.
- **Extractive Sector:** Indonesian regulations in this sector do not align with OECD guidelines, especially on avoiding conflict contributions, managing minerals from high-risk areas, and implementing due diligence in supply chains. There is also minimal involvement of stakeholders and no established cooperation with international bodies like the OECD or UN.
- **Renewable Energy:** While Indonesia has a presidential regulation for renewable energy development, no comprehensive legal framework exists. The Omnibus Law emphasises cross-sector integration, but lacks specific regulations for implementing climate change mitigation across sectors.
- **Infrastructure:** Regulations address sustainability only in environmental and community impact assessments, with no rules for private sector involvement in unsolicited projects or anti-bribery measures in PPPs. The dominance of SOEs creates an imbalance, limiting private sector participation.
- **Manufacturing:** Regulations lack due diligence frameworks, stakeholder engagement,

and integration of international standards. Local content rules may create trade barriers, and there is no transparent reporting mechanism for actions restricting steel trade.

- **Digitalisation:** While frameworks for digital transactions and data protection exist, enforcement is lacking, and the regulations do not fully align with OECD standards for consumer protection and transparency. Additionally, there is limited support for alternative data use and collaboration between banks and fintechs, especially for MSMEs and underserved regions.

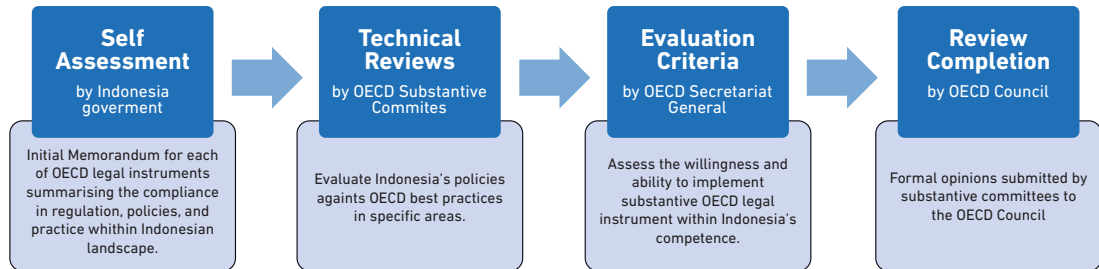
Regulatory Gap Analysis Between Indonesia and OECD's Legal Instrument

On 20 February 2024, the OECD Council agreed to open discussions on Indonesia's accession to the OECD. This was followed by the adoption of a formal roadmap on 29 March 2024, published as document C(2024)66/FINAL (hereinafter referred to as "**Roadmap**"), which outlines the steps, requirements, and evaluations Indonesia must undertake. The roadmap serves as a guide to help Indonesia align with OECD standards and practices, with the ultimate goal of the Council deciding whether to invite Indonesia to join as a full member of the organisation.

The OECD has made it clear in its accession roadmap that joining the organisation means fully committing to a set of shared values, goals, and priorities. These principles have guided the OECD for over 60 years and were most recently reaffirmed in its 60th Anniversary Vision Statement [C/MIN(2021)16/FINAL]. As part of the accession process, candidate countries like Indonesia are expected to show that they share and apply these values in practice. The roadmap makes it clear that aligning with the OECD's core values is not optional—it's a key condition for membership. Countries must demonstrate that they are genuinely like-minded, not just in words but through real action. This will be closely assessed throughout the process and will be a deciding factor when the OECD determines whether to invite a country to join. In short, the OECD expects all members to fully adopt and reflect its standards in their national laws and policies. While the OECD allows new members to request exceptions (called "reservations") to certain legal rules, these are only considered if they are consistent with how existing members operate.

The Roadmap outlines the accession process, which begins with a self-assessment by the Indonesian government, followed by technical reviews carried out by the relevant OECD committees and later by the OECD Secretariat-General. These technical reviews are designed to evaluate Indonesia's policies and practices against OECD standards and best practices in each area. They also assess Indonesia's willingness and ability to adopt and implement key OECD legal instruments within its jurisdiction. Once the technical reviews are completed, the committees will submit formal opinions to the OECD Council to help inform the next steps in the accession process.

Figure 26.
Indonesia's Accession Process to OECD



It is important for Indonesia, as a candidate for OECD membership, to ensure that its regulatory framework and its implementation are aligned with the standards set out in OECD legal instruments and consistent with OECD best practices. This involves identifying gaps between Indonesia's current regulations and OECD standards, followed by recommending legislative changes and key reforms to address those gaps. In this study, the regulatory gap assessment is divided into two parts: (i) a horizontal assessment, which examines OECD instruments and practices that apply across all sectors and compares them with similar regulations in Indonesia; and (ii) a sectoral assessment, which focuses on specific OECD instruments and practices relevant to particular sectors and evaluates how these align with Indonesia's current regulations.

While the Indonesian government is currently conducting a comprehensive regulatory impact assessment to identify all potential regulatory reforms required for OECD accession, this study adopts a more targeted approach. It focuses specifically on regulations that significantly affect investment, trade, and the overall business environment in Indonesia. The study also considers foreseeable challenges, the feasibility of implementation, and the estimated timeframe for enacting the proposed regulatory reforms.

The OECD instruments and Indonesian regulations analysed for this section of the study are limited to the instruments and regulations related to the horizontal and sectoral areas, as discussed in the following subsections. Other than analysis of OECD instruments and Indonesian regulation, interviews with relevant government stakeholders (Key Informant Interview method) have been conducted to provide a more contextualised report in this study.

Horizontal Area Gap Assessment

This section will focus on the gap assessment between the Indonesian regulatory framework and OECD's legal instruments and best practices in several policy areas that apply to all sectors. These horizontal policy areas are (i) trade, (ii) investment, (iii) corporate governance, (iv) market competition, and (v) environment.

1. Trade

Law Number 7 of 2014 on Trade ("Law 7/2014") serves as the legal framework governing trade policy in Indonesia. It covers both trade in goods and trade in services. However, regulations concerning certain service sectors are primarily governed by separate rules issued by the Ministry of Trade and other relevant sectoral ministries. For example, maritime

transport and logistics are mainly regulated by the Ministry of Transportation, while manufacturing activities fall under the jurisdiction of the Ministry of Industry. As a result, coordination between ministries plays a crucial role in the formulation and implementation of trade policy.

Regarding OECD legal instruments, Indonesia has conducted a self-assessment on 12 trade-related OECD instruments. According to the Ministry of Trade, Indonesia is fully aligned with 9 of the 12 instruments and partially aligned with the remaining 3. The trade-related instruments with full alignment are as follows:

- Recommendation of the Council on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones (OECD/LEGAL/454)
- Recommendation of the Council on SME Financing (OECD/LEGAL/0493)
- Declaration on Enhancing SMEs and Entrepreneurship Policies for Greater Resilience and Successful Green and Digital Transitions (OECD/LEGAL/0497)
- Declaration on Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth (OECD/LEGAL/0439)
- Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs (OECD/LEGAL/0328)
- Recommendation of the Council on Competitive Neutrality (OECD/LEGAL/0462)
- Recommendation of the Council on SME and Entrepreneurship Policy (OECD/LEGAL/0473)
- The Bologna Charter on SME Policies (OECD/LEGAL/0306)
- Declaration on Trade Policy (OECD/LEGAL/0187)

The OECD emphasises the crucial role of trade policy in promoting sustained and non-inflationary global economic growth, as outlined in the Declaration on Trade Policy (OECD/LEGAL/0187). Additionally, the Recommendation of the Council on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones (OECD/LEGAL/0454) highlights the importance of domestic inter-agency cooperation. This includes reporting suspected illegal activities to the relevant public authorities, sharing information between agencies, and establishing cooperation mechanisms such as joint investigations. In this regard, Indonesia has actively engaged in international collaborations to combat illegal trade through various trade agreements. Ministries and institutions also contribute to raising awareness among competent authorities and private sector stakeholders about the operations within Foreign-Trade Zones (FTZs).

With regard to shipping, the OECD, through the Recommendation of the Council concerning Common Principles of Shipping Policy for Member countries (OECD/LEGAL/0231), emphasises the importance of free and fair competition in international shipping, while also recognising the unique nature of cabotage. It is important to note that Indonesia's cabotage principles are safeguarded in the trade and investment agreements Indonesia has entered into. Many of these agreements were negotiated from the outset, allowing Indonesia to secure such exceptions. However, as the OECD is an established organisation, Indonesia may need to engage in further discussions with the OECD to determine whether such reservations or exceptions for this sector can be applied.

Table 2.
Gap Between Indonesia's Trade Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges to Reform
<p>1. Although Law 7/2014 includes provisions on international trade cooperation, it does not explicitly address the benefits of trade with developing countries, as highlighted in OECD instruments.</p>	<p>1. Reforming Law 7/2014 to explicitly include the benefits of trade with developing countries may face resistance, given entrenched protectionist views and a strong focus on prioritising national interests.</p>
<p>2. The governance of trade in services in Indonesia is spread across multiple sectoral regulations and ministries, leading to gaps in coordination and integration. These gaps are a key concern, as OECD standards emphasise the need for coherent policy implementation.</p>	<p>2. Addressing coordination gaps across ministries will require significant structural and bureaucratic adjustments, which could be impeded by sectoral autonomy and overlapping mandates.</p>
<p>3. Indonesia's self-assessment shows full alignment with only 9 out of the 12 OECD trade-related instruments, leaving gaps in critical areas such as anti-bribery measures, export credit arrangements, and support for low-income countries, all of which are essential for OECD accession.</p>	<p>3. Achieving full compliance with the remaining OECD trade-related instruments, particularly in sensitive areas such as anti-bribery measures and export credit for low-income countries, presents both technical and political challenges. These include the need for legal reforms and international negotiations.</p>
	<p>4. Maritime transportation services in Indonesia currently limit foreign ownership capital for international maritime transport on general goods and special goods. Liberalisation of this limitation will involve many stakeholders.</p>

2. Investment

Law Number 25 of 2007 on Investment currently serves as the legal framework for investment in Indonesia, introducing policies designed to safeguard national security. Indonesia has conducted a self-assessment of OECD legal instruments related to investment, including, but not limited to, the following:

- Recommendation of the Council on Foreign Direct Investment Qualities for Sustainable Development (OECD/LEGAL/0476)
- Recommendation of the Council on Guidelines for Recipient Country Investment Policies relating to National Security (OECD/LEGAL/0372)
- Recommendation of the Council on Member Country Exceptions to National Treatment and National Treatment related Measures concerning the Services Sector (OECD/LEGAL/0247)

In regard to Recommendation of the Council on the OECD Benchmark Definition of Foreign Direct Investment (OECD/LEGAL/0363), the OECD encouraged its members to adapt the

statistical measures and methodology to be in line with the OECD Benchmark Definition 4th Edition (BMD4), which provides operational guidance on how FDI data should be compiled to meet internationally agreed standards and for data collection on foreign direct investment to have a single point of reference.

Table 3.
Gap Between Indonesia's Investment Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges to Reform
<ol style="list-style-type: none"> 1. Indonesia maintains a number of reservations to national treatment in international forums and agreements, particularly in relation to investment and trade in services, including the financial and digital sectors. These reservations stem from various domestic regulations and policies issued by sectoral ministries. 2. Despite ongoing efforts to simplify business regulations, both foreign and domestic investors continue to face a complex regulatory landscape, marked by overlapping and sometimes contradictory rules across different sectors and levels of government. 3. Foreign countries are prohibited from occupying certain positions within Indonesian legal entities, with exceptions generally limited to roles on the Board of Directors and/or the Board of Commissioners. 4. FDI data collection in Indonesia is carried out by two institutions—Bank Indonesia and the Ministry of Investment and Downstream Industry (BKPM). However, this process lacks a single point of reference and does not follow BMD4. 	<ol style="list-style-type: none"> 1. Shifts in policy due to political changes may create an unstable environment for long-term investments, potentially affecting investor confidence. 2. Further improvements are needed to streamline the Online Single Submission (OSS) business licensing system, as practical challenges remain—such as slow response times, lack of integration between agencies, and inconsistent service quality. 3. Strengthening the role of the Ministry of Investment and Downstream Industry is essential to overseeing regulations and policies related to national treatment and Most-Favoured Nation (MFN) principles. Currently, the Ministry functions mainly as a coordinator among sectoral ministries that issue policies and regulations for specific areas and business sectors. 4. Local content requirements in certain sectors may conflict with the principle of national treatment. The government, however, views these measures as necessary to support domestic growth and industrial development. 5. The government should establish a single point of reference for FDI statistics and ensure that Indonesia's data collection methodology aligns with BMD4. This may prove challenging, as BKPM and Bank Indonesia currently use different approaches and methodologies. 6. The passing of Law No. 3 of 2025, which amends Law No. 34 of 2004 on the Indonesian National Armed Forces, introduces significant changes to the military's role, particularly in non-defence sectors. This has raised concerns over the potential erosion of civilian control, risks of institutional overlap, and reduced accountability. 7. Danantara, officially known as Daya Anagata Nusantara, is Indonesia's newly established sovereign wealth fund (SWF), created to consolidate SOEs and manage a diverse portfolio of national assets. While it offers opportunities for economic growth, there are concerns about governance risks and the concentration of economic power.

3. Corporate Governance

In terms of OECD legal instruments related to corporate governance, Indonesia is partially complied with the two major documents, namely:

- The decision of the Council on the Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD/LEGAL/0307)
- Recommendation of the Council on the OECD Due Diligence Guidance for Responsible Business Conduct (OECD/LEGAL/0443)

Indonesia requires business entities to submit reports containing elements that are similar in nature to the Responsible Business Conduct (RBC) Guidelines. However, not all aspects of the two instruments mentioned above are fully reflected in the current laws and regulations.

Table 4.
Gap Between Indonesia’s Corporate Governance Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges to Reform
<p>1. Indonesia does not require all business entities to carry out due diligence in their operations, and not all are subject to mandatory sustainability-related measures.</p>	<p>1. Not all business entities in Indonesia are formalised, with small and micro enterprises largely operated by individuals. The process of formalisation itself remains a significant challenge.</p>
<p>2. Indonesia is still in the process of developing regulations that address the relationship between business activities and their impact on human rights.</p>	<p>2. The implementation of RBC Due Diligence should be coordinated under a single supervising institution to ensure consistency and oversight.</p> <p>3. RBC Due Diligence should be embedded in formal regulation to establish it as a nationwide obligation for all business entities. However, the process of regulation-making may take considerable time.</p> <p>4. The dissemination and promotion of RBC Due Diligence to business actors across the country will require active and continuous support from all ministries, regional governments at both provincial and regency levels, as well as business associations.</p>

In addition to the above instruments, the RBC Guidelines for conducting due diligence are further detailed in sector-specific instruments, including the following:

- Recommendation of the Council on the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (OECD/LEGAL/0437)
- Recommendation of the Council on the Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector (OECD/LEGAL/0427)

- Recommendation of the Council on Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD/LEGAL/0386)

These instruments will be further discussed in its following sector in this report.

4. Market Competition

OECD instruments often highlight the importance of preventing anti-competitive practices and stress that all market participants should be granted equal rights and opportunities to compete. Indonesia reflects its commitment to fair market practices through the enforcement of Law Number 5 of 1999 on the Prohibition of Monopolistic Practices and Unfair Business Competition. Relevant OECD instruments include:

- Recommendation of the Council on the Application of Value Added Tax/Goods and Services Tax to the International Trade in Services and Intangibles (OECD/LEGAL/0430); and
- Recommendation of the Council on Consumer Policy Decision Making (OECD/LEGAL/0403).

Table 5.
Gap Between Indonesia’s Market Competition Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges in Reform
1. In Indonesia, different requirements are applied to foreign entities participating in international tenders for government procurement.	1. Revision of the law on the prohibition of monopolistic practices and unfair business competition is necessary, as several of its provisions are outdated and no longer reflect current market dynamics.
2. State dominance through SOEs, along with the exclusive application of the principle of synergy between SOEs, has the potential to create barriers to market access for non-SOE business actors. This runs counter to the principle of market openness promoted in OECD legal instruments.	2. Efforts to reform special treatment and exclusive synergy mechanisms among SOEs may face resistance from within the SOEs themselves and the Ministry of SOEs, both of which have benefited from flexible procurement rules and preferential partnerships.
3. Although Indonesian law formally acknowledges the principles of fair competition and fairness in procurement, the preferential treatment of SOEs and the differentiated requirements for foreign entities in international tenders highlight a gap between domestic practices and international standards as outlined in the OECD Guidelines for Multinational Enterprises.	3. Aligning with the principles of market openness outlined in OECD legal instruments may be viewed as conflicting with Indonesia’s constitutional mandate. This presents a challenge in designing reforms that strike a balance between upholding economic sovereignty and fulfilling international commitments.

5. Environmental Aspects

As the OECD places significant emphasis on environmental issues, many of its instruments highlight the importance of environmental considerations—even those issued by committees focused on other topics. Several key OECD instruments have been partially reflected in Indonesia’s overarching environmental policies, such as Law Number 32 of 2009 on Environmental Protection and Management and Government Regulation Number 22 of 2021 on the Implementation of Environmental Protection and Management (“GR 22/2021”). The relevant instruments include:

- Declaration on a Resilient and Healthy Environment for All (OECD/LEGAL/0468);
- Declaration on Environmental Policy (OECD/LEGAL/0134); and
- Recommendation of the Council on Guiding Principles concerning International Economic Aspects of Environmental Policies (OECD/LEGAL/0102).

It should be noted that, while Indonesian environmental laws and regulations generally reflect OECD principles, more detailed and aspect-specific instruments have yet to be fully aligned.

Table 6.
Gap Between Indonesia’s Environmental Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges in Reformation
<ol style="list-style-type: none"> 1. The integration of environmental considerations into economic policies—particularly in terms of mechanisms to achieve environmental objectives in a cost-effective manner—has not been specifically regulated. 2. While sector-specific policies for pollution prevention and waste reduction have been introduced at the national level, their effective implementation at the regional level remains limited. 3. Incentives aimed at encouraging Indonesian companies to comply with environmental policies have yet to prove sufficiently attractive to drive meaningful implementation. 	<ol style="list-style-type: none"> 1. Economic growth often takes precedence over environmental objectives, resulting in limited alignment between economic and environmental policies. Coordination among the various government agencies responsible for these areas remains a significant challenge. 2. The development of cost-effective mechanisms to support environmental goals requires reliable data and clear metrics to assess environmental impact—resources that may currently be insufficient. 3. Many companies tend to prioritise short-term profitability over long-term sustainability, which reduces their motivation to adopt environmentally responsible practices. 4. The participation and preparedness of businesses to implement environmental policies—particularly through engagement with business associations—needs to be strengthened.

Sectoral Gap Assessment

1. Agriculture

The OECD emphasises that all actors along the supply chain play a role in fostering a sustainable agricultural business cycle. Recommendation of the Council on the OECD-FAO Guidance for Responsible Agricultural Supply Chains (OECD/LEGAL/0428) outlines a five-step framework for risk-based due diligence across agricultural supply chains. However, this approach—which views agriculture as an end-to-end process involving farmers, supporting industries, processing sectors, and financial institutions—has not yet been adopted in Indonesia.

In contrast, Indonesia’s Law Number 22 of 2019 on Sustainable Agricultural Cultivation Systems, as amended by the Omnibus Law, primarily focuses on the cultivation process. Its main objectives are to meet domestic demand, increase agricultural exports, improve farmers’ income and living standards, and promote business growth and employment opportunities. Complementary legislation includes Law Number 18 of 2012 on Food and Government Regulation Number 17 of 2015 on Food Security and Nutrition, which together form the foundation for ensuring food safety and quality in the country.

Table 7.
Gap Between Indonesia’s Agriculture Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges in Reformation
1. Regulations of agriculture in Indonesia is still heavily focused on farm cultivation, with the Ministry of Agriculture as the responsible institution.	1. In terms of food security, coordination among various government stakeholders will be required, not just the Ministry of Agriculture.
2. Existing Indonesian regulations do not include poverty alleviation and gender equality as part of sustainable development efforts.	2. Indonesian farmers may face difficulties in conducting such due diligence, as the majority of farmers in Indonesia are either individuals or part of farmer cooperatives. Unlike large companies running agricultural-related businesses, these farmers are classified as micro and small business operators.
3. There are currently no mechanisms to disseminate guidance, engage stakeholders, or cooperate with the OECD and international organisations.	3. Another significant challenge Indonesian farmers may encounter in adhering to the OECD guidelines is the lack of assistance, both technical and financial, in implementing future policies.
4. The focus on equality and sustainability also needs to be explicitly reflected in national policies.	
5. Sustainable financing for agriculture-related sectors is not mandatory. Indonesia still predominantly adopts conventional financing mechanisms. Sustainable financing is recognised as one of the financing options. This issue applies to almost all sectors, including energy transition.	4. Sustainable financing does not offer sufficiently appealing incentives to either financiers or businesses, resulting in limited implementation.

2. Energy

The OECD's legal framework divides energy into two main types: extractive (non-renewable) and renewable. Its principles aim to support energy systems that are secure, sustainable, and affordable. Relevant to extractive sectors are the Recommendation of the Council on Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD/LEGAL/0386) as well as the Recommendation of the Council on the Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector (OECD/LEGAL/0427). These two recommendations highlight the importance of avoiding contributions to conflict, managing minerals from conflict areas, or comprehensive risk-based supply chain policies. The guidelines also stress the importance of regulations that prevent human rights violations and help avoid contributing to conflicts.

Meanwhile, in regard to energy transition, OECD Development Assistance Committee (DAC) Declaration on a new approach to align development cooperation with the goals of the Paris Agreement on Climate Change (OECD/LEGAL/0466) focus more on climate change themes. It emphasises the need to align the OECD's principles with the Paris Agreement, promoting the transition to cleaner energy. The declaration also highlights the importance of integrating climate change considerations with other key areas, such as digitalisation, investment, and sustainability.

Table 8.
Gap Between Indonesia's Energy Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges in Reformation
Extractive	
<ol style="list-style-type: none"> 1. Indonesian regulations contain no explicit provisions on the importance of avoiding contributions to conflict, managing minerals from conflict areas, or comprehensive risk-based supply chain policies. 2. Stakeholders such as professional associations, financial institutions, or civil society organisations are not directly involved in such matters. 3. There is no reference to cooperation with the OECD, UN, or international development organisations to support the implementation of OECD Instrument Number OECD/LEGAL/0386. 4. MEMR 25/2018 does not, nor does any other Indonesian mining regulation, includes explicit provisions related to human rights violations or the systematic integration of international standards. 	<ol style="list-style-type: none"> 1. In practice, the sustainability aspects of mining activities are only covered in the planning documents submitted by businesses to obtain a mining business licence. 2. Existing provisions, such as community development plans, tend to focus on administrative compliance rather than active participation or meaningful engagement. 3. Indonesia needs to include clear provisions on these matters, systematically integrate international standards, and require multinational companies to conduct business in line with global responsibility principles. 4. The adoption of a risk-based due diligence framework that supports active stakeholder engagement in decision-making is also urgently needed.

5. Multinational companies' obligations to be accountable to international standards have not been explicitly regulated, including national frameworks that support due diligence and stakeholder engagement.

5. The promotion and direct adoption of OECD guidelines should be a priority to improve sustainable business governance in Indonesia.

Energy Transition

1. Although the Omnibus Law in Indonesia aims to address the importance of cross-sector integration, particularly by referring to climate change and sustainability, there are currently no regulations or policies that specifically discuss the implementation of climate change mitigation in cross-sectoral integration.

2. While there is already a presidential regulation as a base regulatory framework for encouraging renewable energy development, no overarching policies (in the form of a law) have been passed regarding renewable energy itself.

1. The entire electricity supply ecosystem in Indonesia is solely managed by the state-owned electricity enterprise (Perusahaan Listrik Negara, "PLN") and its subsidiaries, with the involvement of independent power producers limited to generating and selling electricity to PLN.

2. The "polluter pays" principle may not be sufficient to drive a transition from non-renewable to renewable energy sources.

3. Infrastructure

There are at least two regulations in Indonesia that are related to the OECD legal instruments on the Recommendation of the Council on Principles for Private Sector Participation in Infrastructure (OECD/LEGAL/0349). The first is Presidential Regulation Number 38 of 2015 on Public-Private Partnership (PPP) for Infrastructure Procurement, and the second is Minister of National Development Planning/Head of Bappenas Regulation Number 7 of 2023 on the Implementation of PPP for Infrastructure Provision. Both regulations govern collaboration between the government and private sectors in Indonesia for infrastructure projects.

Table 9.
Gap Between Indonesia's Infrastructure Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges in Reformation
<ol style="list-style-type: none"> 1. Indonesia's infrastructure regulations do not specify the inclusion and consideration of sustainability in their own chapter in the Pre-Feasibility Study (<i>Pra studi Kelayakan</i>) and/or Feasibility Study (<i>Studi Kelayakan</i>). Sustainability issues are mostly addressed in parts related to environmental licences and studies on the impact and perception from local communities. 2. There is a lack of regulations in the construction sector regarding private participation in unsolicited projects. 3. There are no specific regulations on anti-bribery and anti-corruption for PPP implementation. Any bribery or corruption related to PPP will be subject to existing laws and regulations related to anti-bribery and corruption eradication. 4. In PPP regulations, there are no administrative or criminal sanctions specifically stipulated for stakeholders responsible for project supervision in PPP. 5. There is an imbalance between the roles of SOEs and the private sector in infrastructure development, which results in limited opportunities for the private sector. 	<ol style="list-style-type: none"> 1. Reformation efforts may face challenges within governmental institutions due to entrenched bureaucratic cultures and a lack of coordination among ministries and agencies. 2. With increasing fiscal demands in other sectors, particularly defence and social assistance, there is a challenge that infrastructure budgets could be reduced or redirected.

4. Manufacturing

Indonesia has begun to adopt sustainability principles in its industries. This includes Minister of Industry Regulation Number 40 of 2022 on Green Industry Standards for Fabric Finishing and Fabric Printing Textile Industries ("MIR 40/2022") and Regulation of the National Standardisation Agency No. 1 of 2023 ("BSN 1/2023"), which establish environmentally friendly technical standards in the textile sector. These two regulations are not fully aligned with the following OECD legal instruments:

- Recommendation of the Council on the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (OECD/LEGAL/0437);
- Decision of the Council Adopting the Code of Liberalisation of Current Invisible Operations (OECD/LEGAL/0001);

Table 10.
Gap Between Indonesia’s Manufacturing Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges in Reformation
<p>1. Existing regulations are not yet fully aligned with OECD guidelines due to the lack of due diligence frameworks, stakeholder engagement, and integration of international standards in supply chains and export activities.</p>	<p>1. Adjusting national regulations to align with OECD guidelines will require complex institutional reforms, including the establishment of a comprehensive due diligence framework and the integration of international standards that may face resistance from local industry players.</p>
<p>2. Local content rules in procurement have the potential to create trade barriers that are inconsistent with the OECD’s principles of transparency and non-discrimination.</p>	<p>2. Reforms to local content policies that are currently used to support domestic industries could potentially face resistance from various stakeholders as they are perceived to reduce protection of domestic products.</p>
<p>3. There is a lack of involvement of industry associations, trade unions, and NGOs in the development and monitoring of standards.</p>	<p>3. Lack of coordination between ministries and agencies, as well as lack of active participation from industry associations, labour unions, and NGOs, may hinder the reform process and effective monitoring of sustainability standards.</p>
<p>4. There is no transparent reporting mechanism for actions that could potentially restrict the steel trade.</p> <p>5. Sustainable financing for agriculture-related sectors is not mandatory. Indonesia still predominantly adopts conventional financing mechanisms. Sustainable financing is recognised as one of the financing options. This issue applies to almost all sectors, including energy transition.</p>	

5. Sustainability Aspects

The OECD promotes principles of sustainability, which are embedded in nearly every sectoral instrument, covering areas such as labour, human rights, the environment, information disclosure, consumer protection, governance, and anti-bribery and corruption. The OECD also emphasises the importance of an integrated regulatory framework that includes due diligence across the various aspects mentioned above. Although Indonesian regulations generally incorporate sustainability principles, with a focus not only on economic growth but also on inclusive social and environmental balance, several gaps have been identified in the Indonesian regulatory landscape when compared to OECD instruments.

Table 11.
Gap Between Indonesia's Sustainability Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges in Reformation
1. Indonesian regulations do not address an integrated framework to govern due diligence in key areas such as labour, human rights, the environment, information disclosure, consumer protection, governance, and anti-bribery and corruption.	1. Existing regulations are scattered across various sectoral regulations under different ministries, making it difficult for companies to adopt a comprehensive approach to managing negative business impacts.
2. Regulations focus more on post-audit or annual reporting obligations without requiring proactive identification of risks before business activities begin.	2. Coordination across ministries, local governments, and other stakeholders regarding the implementation of sustainable investment policies is still limited, and civil society, labour unions, and academics have not been fully involved in the decision-making process.
3. Indonesian regulations have not explicitly integrated private sector engagement in investment policy reform.	3. Indonesia needs to comprehensively include private sector engagement in investment policy reform, which is currently not fully integrated into existing regulations.
4. There is no specific policy to measure the impact of large investment projects on sustainable development goals, nor policies to ensure gender equality and the protection of human rights.	
5. Sustainability financing is optional, as Indonesia mostly adopts conventional mechanisms, and sustainability reporting is mandatory only for limited business players in the financial sector and public companies.	

6. Digitalisation

Indonesia has developed key regulations to support its digital economy, including Law Number 11 of 2008 on Electronic Information and Transactions ("**Law 11/2008**") and Government Regulation Number 80 of 2019 on Trade Through Electronic Systems ("**GR 80/2019**"), which align with OECD principles on legal certainty, consumer protection, and transparency. Innovations like LPBBTI, QRIS, and Digital Banks promote financial inclusion, while Law Number 27 of 2022 on personal data protection ("**Law 27/2022**") reflects efforts to safeguard digital rights. However, gaps remain in fully aligning with OECD standards, particularly in ensuring consistent consumer protection, data privacy, and responsible financial innovation across sectors. The instruments include:

- Recommendation of the Council on Blockchain and Other Distributed Ledger Technologies (OECD/LEGAL/0470);
- Recommendation of the Council on Digital Security of Critical Activities (OECD/LEGAL/0456); and
- Recommendation of the Council on Digital Security Risk Management (OECD/LEGAL/0479).

Table 12.
Gap Between Indonesia’s Digitalisation Regulations and OECD Legal Instruments

Gap Assessment	Foreseeable Challenges in Reformation
<ol style="list-style-type: none"> 1. Lack of law enforcement, due to the absence of an established institution tasked with enforcing personal data protection. 2. Although Indonesia has established legal frameworks such as Law 11/2008, GR 80/2019, and Law 27/2022 to support digital transactions and personal data protection, their implementation does not yet fully reflect OECD standards on digital consumer protection and transparency, particularly in the context of e-commerce and data processing. 3. Digital financial innovations such as LPBBTI, QRIS, and Digital Banks demonstrate progress in financial inclusion; however, existing regulations do not comprehensively encourage the use of alternative data or active collaboration between banks and fintechs as promoted by the OECD, especially to serve MSMEs and underserved regions. 	<ol style="list-style-type: none"> 1. There is a significant digital divide between urban and rural areas, limiting the reach and effectiveness of government services, digital education, and economic opportunities. 2. Aligning Indonesia’s digital and data governance with OECD standards will require strengthening institutional capacity, harmonising fragmented regulations, and enhancing enforcement mechanisms, which may face delays due to overlapping authorities and limited resources. 3. Promoting the use of alternative data and fostering collaboration between traditional financial institutions and fintechs may face resistance due to concerns over data privacy, low public trust, and the absence of robust frameworks for ethical data usage and consumer consent.

Potential Regulatory Reforms

Based on the assessment outlined above, it is evident that the Indonesian government requires regulatory reform across a wide range of sectors. While some existing regulations may be broadly aligned with OECD standards, a more detailed and technical review of relevant laws and policies is necessary. This will require further engagement between the OECD and the Indonesian government, particularly involving the respective ministries and institutions.

However, it is important to note that Indonesia’s legislative process is heavily influenced by political will. As such, the feasibility and implementation of the proposed reforms outlined in this study may shift over time, depending on the prevailing political priorities. For instance, the Omnibus Law on Job Creation (Law Number 11 of 2020) was enacted in less than six months, despite its complexity and the extensive coordination required across multiple ministries and stakeholders. This law consolidated provisions from 79 existing laws across 11 sectors. In contrast, the Draft Bill on Renewable Energy, which has been included in the national legislative programme since 2021, remains unenacted. This contrast illustrates the challenges in prioritising and advancing regulatory reforms, especially in areas that demand sustained political commitment to long-term sustainability goals.

Table 13.
Indonesia's Potential Regulatory Reforms for OECD Accession

Sector	Policy/Actions to be taken by Govt of INA	Feasibility Assessment	Predicted Timeline
Consumer Protection	Revision of Law Number 8/1999 on Consumer Protection to include specific aspects as required by OECD instruments, such as child consumer protection	Medium	1–2 years
Investment	Remove protectionism barriers applied to foreign direct investment, such as minimum capital requirement of IDR 10 billion.	Difficult	2–3 years
Corporate Governance	Introduce the aspects contained in the RBC Guidelines to business entities and business practice and to enact those obligations in the formal regulation.	Difficult	2–4 years
Market Competition	Update laws on the prohibition of monopolistic practices and unfair business competition as the current regulations are no longer relevant to the times.	Medium	1–2 years
Agriculture	Thoroughly reform agricultural regulations and establish coordination across relevant ministries and agencies to align policies with the OECD's end-to-end perspective on the agricultural industry.	Difficult	3–5 years
Energy	Develop a special umbrella regulation on renewable energy to complement the existing energy transition policy and align it with OECD instruments.	Difficult	2–3 years
Sustainability	Policy updates and more concrete implementation are needed to ensure investments in Indonesia are in line with global sustainable development standards. Greater transparency through public reporting and effective government oversight are also important to ensure optimal implementation of these principles.	Difficult	4–5 years
Shipping	Review and consider revising existing cabotage regulations to align with OECD principles promoting free and fair competition in international shipping.	Medium	2–5 years

Indication	
Easy	Indicates a quick process of policy or regulatory making. For instance: policy or regulation at Ministry level.
Medium	Indicates a normal process of policy or regulatory making. In addition, the Government might have started the process or is aware of the need or urgency of this matter.
Difficult	Indicates a more complicated process of policy or regulatory making where many stakeholders will be involved. In addition, the Government might currently apply a regulation/policy not aligned with the proposed changes and/or is not aware of the matter.

Notes for Table 13:

- **Consumer Protection**

The revision of the Consumer Protection Law requires public consultation, alignment with OECD instruments, and legislative discussion. As the law is already in place and only needs to be partially revised, implementation is relatively quick and of moderate difficulty.

- **Investment**

Removing protectionist barriers to foreign investment, such as minimum capital requirements, requires a complex revision of laws and regulations and a change in policy stance. It also requires cross-ministerial coordination and political-economic impact assessments, resulting in a longer implementation time.

- **Corporate Governance**

Integrating RBC principles into company regulations requires drafting new regulations, consulting with businesses, and harmonising with other regulations. This process is complex and takes time as it involves deep changes in business practices.

- **Market Competition**

Updating competition-related regulations can be done more quickly as many rules already exist but only need to be adjusted. However, it still requires a legislative process and harmonisation with international practices.

- **Agriculture**

Agricultural sector reform requires a comprehensive review of existing policies, cross-agency coordination, and adoption of the OECD's end-to-end approach. The complexity and large number of stakeholders make the implementation of this policy take longer.

- **Energy**

The development of new regulations for renewable energy to complement existing energy transition policies requires a legislative process and technical adjustments to international standards. Inter-agency coordination and infrastructure adjustments also take time.

- **Sustainability**

Implementing sustainable development principles according to global standards requires changes to reporting systems, institutional capacity building and close monitoring. As it involves long-term systemic changes, it takes the longest time.

- **Shipping**

Revision of the cabotage policy and adjustment of shipping regulations to OECD standards require economic studies, consultation with industry players, and evaluation of the impact on maritime sovereignty. Medium complexity but dependent on political and economic dynamics.

THE ECONOMIC IMPLICATIONS

In 2028, under the scenario of joining OECD, Indonesia is expected to receive an investment inflow of USD 87.70 billion. The majority of investment (27%) is projected to come from the rest of the world, amounting to USD 24.08 billion, followed by OECD countries with USD 22.58 billion. Moreover, based on estimation from CGE modelling, joining the OECD will bring certain benefits for Indonesia. These benefits are expected to be noticeable in both macroeconomic indicators and sector specifics as follows:

Impact on Macroeconomic Indicators

- **Investment:** The results of the CGE modelling indicate that if Indonesia joins the OECD, investment will increase by 1.22 percentage points above the baseline in the short run (2028–2030) and by 1.78 percentage points in the medium run (2031–2035). However, in the long run (2036–2045), investment is projected to decline to 0.38 percentage points below the baseline.
- **Rate of return:** Expected rate of return will decline gradually from the short run to the long run. Investors tend to expect a higher rate of return when the risk from investing in Indonesia is high (risk premium). However, since regulatory reforms related to OECD accession will create a better investment climate, investors' confidence will be higher while lowering their perception on the risk. This increase in investor confidence and lower risk premium in the end will lower the expected rate of return.
- **Trade:** In the short run and medium run, exports will decrease while imports rise due to increased FDI following OECD accession. However, this pattern reverses in the long run, indicating an increase in domestic production capacity and trade performance.
- **Real wages:** Within the OECD accession scenario, real wages remain consistently higher than the baseline from the short run to the long run. This is due to the growing labour demand as investments surge.
- **Inflation:** Accession to OECD will drive inflation above the baseline in the short to medium run due to rising consumption and production. Meanwhile, investment slowdown in the long-run leads to deflation below the baseline scenario.
- **Financial account:** Indonesia's OECD accession increases foreign-owned assets and income outflows in the short to medium run. In the long run, FDI outflows reduce foreign ownership and income repatriation

Sectoral Impacts

- **Short run:** the construction and utility sectors will have a significant growth, rising above baseline scenario, due to increased foreign investment. Meanwhile, sectors with high exposure to trade such as agriculture and manufacturing will shrink due to labour and capital shifts, as well as import substitution.
- **Medium run:** tradable sectors like agriculture and manufacturing will start to grow following the outcomes of the initially growing construction sector. At this point, the growth of the construction sector will decelerate.
- **Long run:** growth in the agriculture and manufacturing sectors will be greater than the

baseline scenario while the construction sector eventually shrinks.

- **Services sector:** The services sectors will undergo steady growth in the short and medium run due to its complementary nature to other sectors. Its growth will decelerate in the long run but remains above the baseline scenario.

CGE Model Calibration

The CGE model is based on the GDyn-FS model, which is a long-run recursive CGE model that illustrates how multiple economic actors interact and respond when specific shocks occur. These economic actors include a representative household that consumes goods and offers factors of production to firms, a representative firm for each industry, and a government that taxes and uses the revenue (Gretton, 2021). The main highlight of the GDyn-FS model is the investment decisions of representative firms. It assumes that firms invest based on their (adaptive) expected rate of return and the actual rate of return they are experiencing. If the actual return is higher than the target, firms will invest more until the return decreases to the target, assuming diminishing returns. This aspect of the GDyn-FS model is useful in this project, since there is a dynamic transition path that can be used to guide the government. Secondly, this transition is due to an adaptive expectation that smoothens the transition, which can mimic the real world more than a static, instantaneous transition in a typical model.

The idea is that joining the OECD would make Indonesia's investment climate more similar to that of other OECD members and more predictable for many investors. This familiarity and less risky investment climate would reduce the risk premia in investing in Indonesia, which prevents the Indonesian interest rate from converging with the average interest rate of OECD members. With lower risk premia, investors would tolerate a lower return when investing in Indonesia after joining OECD compared to the status quo.

The increased demand for capital goods will increase Indonesia's overall capital stock. This capital stock will be distributed to sectors that bear the highest return of capital, and this distribution will not be equal among all sectors, depending on the parameters and variables set out by the GTAP database. Some sectors may shrink because when more productive sectors receive more capital, they can pay higher wages to attract workers, which must come from other parts of the economy. We expect higher exports from the expanding sectors and higher imports from the shrinking sectors.

New capital goods may come from the domestic market, but we expect many capital goods will come from foreigners. It is hard to pin down which countries end up exporting capital because the GTAP model uses a "global trust" to distribute trade in finance. That is, all countries' excess savings will be absorbed by this global trust institution, which then distributes those savings to importing countries. This distribution will depend on the state of the economy after the shock. More precisely, since Indonesia will shift its international trade, countries related to Indonesia will also be affected. Some may expand due to Indonesian demand, while others may shrink amid Indonesia's competitive exports. However, trade balance numbers can be used to calculate back-of-the-envelope, such as which countries export capital and which import them. Moreover, identifying the country of origin for investment can be done outside the CGE model. In this way, we will break down the "global trust" from the CGE analysis to reflect how the "global trust" in the real world looks like using analysis from historical data.

- **Assumptions**

The CGE model in this study operates under the following assumptions:

- **Full employment:** Under this assumption, there is no unemployment. Every individual of working age is employed. The number of jobs created is assumed to align with population growth. A consequence of this assumption is that it becomes impossible to quantify the number of jobs created or the level of unemployment that might result from Indonesia's accession to the OECD. Nevertheless, we can still calculate the potential wage changes that could occur due to Indonesia's membership in the OECD.
- **Perfect labour mobility between sectors:** Under this assumption, we cannot assess the wage differences across sectors when Indonesia joins the OECD. This is because labour is assumed to move freely and without friction between sectors. As a result, wages in all sectors would equalise in the long run, leading to no disparities in compensation across sectors. The mobility of labour ensures that workers shift to sectors offering higher wages, driving wage convergence across the entire economy.
- **Short-run capital adjustment:** Capital does not immediately converge to its steady-state level in the short run under this assumption. Instead, adjustments occur gradually over time, occurring annually through a recursive adjustment process. As a result, other economic variables will adjust in response to changes in capital. This assumption implies that capital accumulation will not instantaneously reach its steady-state level following Indonesia's accession to the OECD. Rather, there will be an initial increase (or "jump") in capital, followed by a more gradual rise as the economy adapts to the new conditions and adjustments unfold.

- **Shocks**

With an established structure for the model, adjustment of the work will come from the assumption of the exogenous shock. The straightforward shock comes from the reduction of the required rate of return (the long-run target rate), which reflects the depth of the financial market in Indonesia. The magnitude of the increase in depth, however, must be calibrated. We will source the shock from a desk study as discussed in our benchmark.

Moreover, we could introduce other potential sources of positive (or negative) shocks from joining the OECD other than the investment climate. These possible shocks will come from the result of our benchmark as well as the results of the RIA study.

Lastly, adjustments on parameters will be conducted so that we can replace the GTAP database's default parameter that reflects the Indonesian economy. One major parameter is the adjustment cost, which dictates how fast the Indonesian economy adjusts to the new long-run rate of return.

1. Aggregation

We list the current sets of regions, factors of production, and industries.

Table 14.
Region Set for CGE

No.	Code	Content	Trade Balance (in Million USD)				
			2028	2030	2035	2040	2045
1.	oec	OECD	22,586.9	38,443.66	66,923.87	24,866.49	-67,293.3
2.	row	Rest of the World	24,082.09	36,439.09	44,723.39	-3,388.7	-81,643.2
3.	chn	China	10,394.05	15,866.09	27,327.35	14,673.72	-23,791.1
4.	rcp	The rest of SouthEast Asia	2,043.78	3,196.79	4,896.92	1,935.9	-3,416.65
5.	jpn	Japan	5,324.86	8,546.7	13,836.22	3,836.02	-15,499.6
6.	idn	Indonesia	-87,704.6	-14,147.9	-22,863.0	-55,481.5	305,242.1
7.	ind	India	4,805.33	8,827.62	20,095.95	5,992.7	-41,584.1
8.	usa	USA	8,901.55	13,158.69	20,431.95	1,117.13	-31,572.7
9.	ame	Rest of the America	5,689.27	10,546.18	19,840.54	3,183.54	-29,560.3
10.	eur	EU 27 countries not in the OECD	925.76	1,508.41	1,940.12	666.2	-1,344.71
11.	gbr	United Kingdom	2,950.79	4,944.52	8,611.79	2,596.8	-9,538.88

This regional aggregation is created as an exercise and can be changed to some degree. For example, it may be a good idea to separate the UK and combine Australia with RCEP, or create an OECD region. It is always useful to have big important economies like China, Japan, India and the US as distinct regions.

Table 14 also presents the trade balance values under the shock scenario, which reflect projected investment inflows into Indonesia following OECD accession. Trade deficit means that a country imports more than it exports and this gap must be financed often through capital inflows such as FDI. It means that a deficit in trade balance could illustrate the amount of investment inflows to a country. In 2028, Indonesia is expected to receive an investment inflow of USD 87.70 billion, equivalent to 0.03% of its GDP in that year. Positive values from other countries indicate capital outflows from their territories into Indonesia. The majority of investment (27%) is projected to come from the rest of the world, amounting to USD 24.08 billion, followed by OECD countries (25%) with USD 22.58 billion.

The larger investment inflow from the US compared to Japan reflects the differing strategic priorities of the two countries and how these align with Indonesia's evolving economic landscape under OECD accession. While both countries show similar focus on sectors such as renewable energy, automotive, and high-tech manufacturing, the United States has expanded its interest into Indonesia's growing services sector and digital economy (US Department of State, 2023). As outlined in the previous sections, these sectors will be liberalised by Indonesia as part of its commitments to join the OECD.

Interestingly, Indonesia's trade balance is projected to record a surplus starting in 2041, signalling the country's emergence as a net investor in other economies. By 2045, around 26.7% of Indonesia's outward investment is expected to be directed towards the rest of the world, followed by 22% to other OECD countries. This shift reflects the strengthening of Indonesia's economy following its accession to the OECD, enabling it to accumulate capital and sustain its own economic growth.

Table 15.
Industry Set for CGE

No	Code	Description
1.	GrainsCrops	Grains, crops and seeds
2.	MeatLstk	Livestock and meat products
3.	Extraction	Mining, fishery and forestry
4.	ProcFood	Processed food including vegetable oil and sugar
5.	TextWapp	Textiles, garments, wearing apparel
6.	LightMnfc	Light manufacturing
7.	HeavyMnfc	Heavy manufacturing
8.	Util_Cons	Construction, electricity, water, and gas
9.	TransComm	Transportation, communication, accommodation
10.	Finbus	Financial and business services
11.	OthServices	Other services (government, education, healthcare)

The industry set is created as an exercise. It is possible to separate some industries. The logic behind the current set is that we would like to have sets of characteristics of industries. These are land intensive industries (agriculture, mainly), natural resources intensive industries (Extraction), capital goods producers (mainly construction and dwelling), capital services industry (Finbus), and important manufacturing industries.

Table 16.
Factor of Production Set for CGE

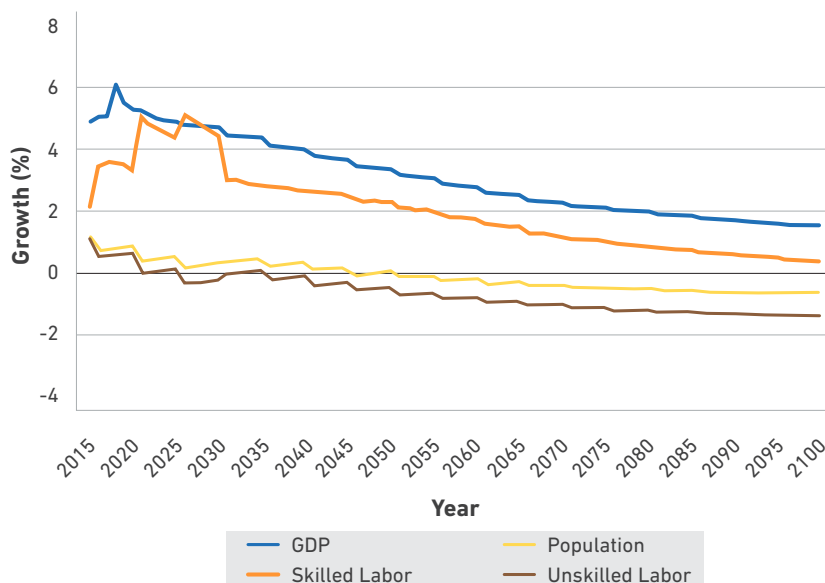
No	Code	Description
1.	Land	Stock of land
2.	UnSkLab	Stock of unskilled labour
3.	SkLab	Stock of skilled labour
4.	Capital	Stock of capital
5.	NatRes	Stock of natural resources

Factor of production is a factor of endowment. Unskilled labour and skilled labour increase over time depending on the growth of population, while capital changes based on investment condition. Land is heavily used by GrainsCrops and MeatLstk industries while natural resources is heavily used by the Extraction industry.

2. Baseline

The GTAP database used in this report is the GTAP database version 10A, which has a 2014 base year. Therefore, we run a baseline scenario from 2014 to 2045. In this report, we used projected population and GDP growth as exogenous variables. Consequently, this means the rest of the economic variables (e.g., productivity, export, import, sectoral growth) will adjust to the projected GDP and population. The moving variables are growth of skilled labour, growth of unskilled labour, population growth, and GDP growth, all sourced from the CEPII database. The baseline from CEPII is illustrated in figure 27.

Figure 27.
Indonesia's Baseline Assumptions



Source: CEPII Database, analysed

The CEPII database provides the forecast of the global economy of 170 countries from the year of 1980 up to 2100. The database is generated from the Macroeconometrics model for the Global Economy 3.1 (MaGE 3.1) which uses a three-factor production function (labour, capital, and energy) and two technological advances (Fontagné et.al, 2022). It offers five scenarios based on different paths on how the world overcomes climate change and CO2 mitigation (Fouré, 2016). From the five scenarios, the CGE modelling refers to the “Middle of the Road” scenario where the typical world development trend continues with additional progress towards reducing fossil fuel usage.

As noted, Indonesia’s GDP and population growth rate is projected by the CEPII to decrease.

The choice of the baseline is not as important technically in the sense that any shock applied will project the difference between the shocked GDP vs its baseline. Therefore, the choice of baseline is, to some extent, flexible. For example, we can use a constant 5% growth for Indonesia and 2.7% for the rest of the world. or to use Bappenas’ long term expected growth rate of 7% average. Additionally, the projection of CEPII does not consider the Covid-19 health crisis.

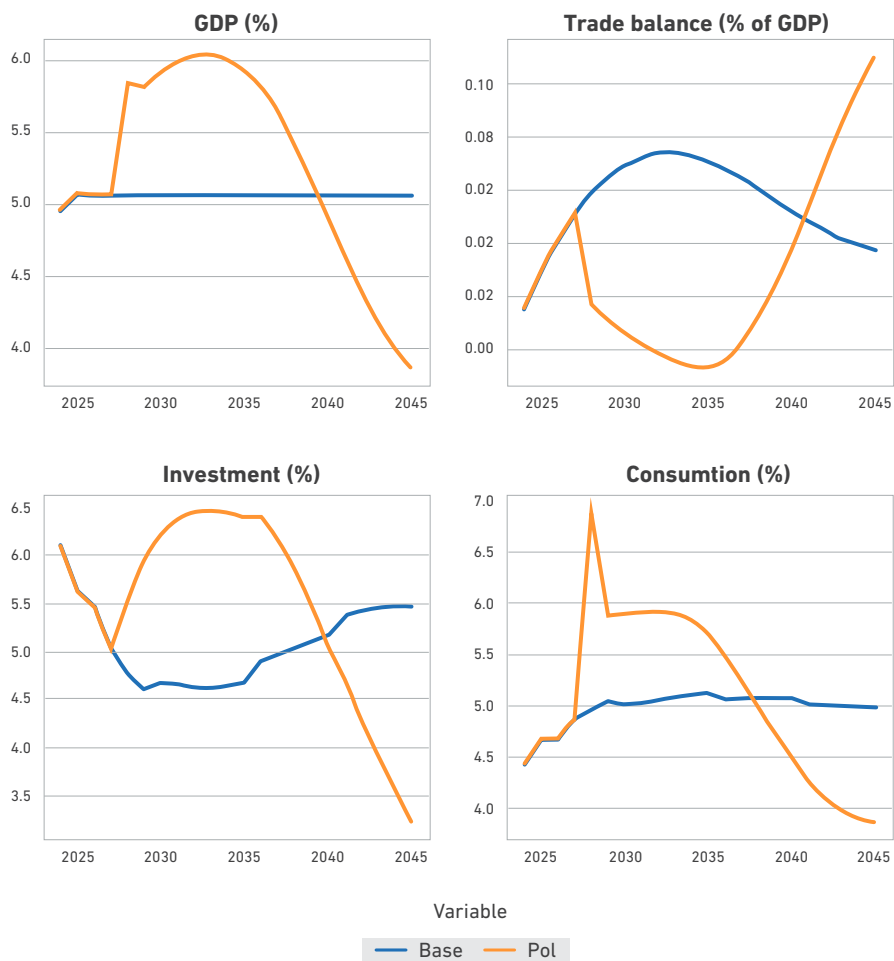
This study finds that the more realistic baseline for Indonesia is a 5% growth, and ended up using the IMF World Economic Outlook (WEO) database as a baseline growth from 2015–2029. This study extends the average of the last 5 years of WEO growth data as the projection from 2029 to 2045. This choice of baseline is illustrated in Figure 28.

In addition to GDP and population growth, the baseline scenario considers the growth of skilled labour and unskilled labour. The skilled labour indicator is represented by the number of people with tertiary education, while the unskilled labour is the difference of total population and the quantity of skilled labour. The forecast in Indonesia shows that skilled labour growth fluctuates between 2015 and 2030 and eventually decreases. Meanwhile, the growth of unskilled labour parallels population growth.

CGE Results

The OECD shock was run in 2028, assuming that accession in 2027 and the full implementation of regulatory reform begins in 2028. Figure 28 shows the baseline vs joining OECD.

Figure 28.
Projection of Baseline Scenario vs. OECD Accession on Macro Indicators, 2024–2045



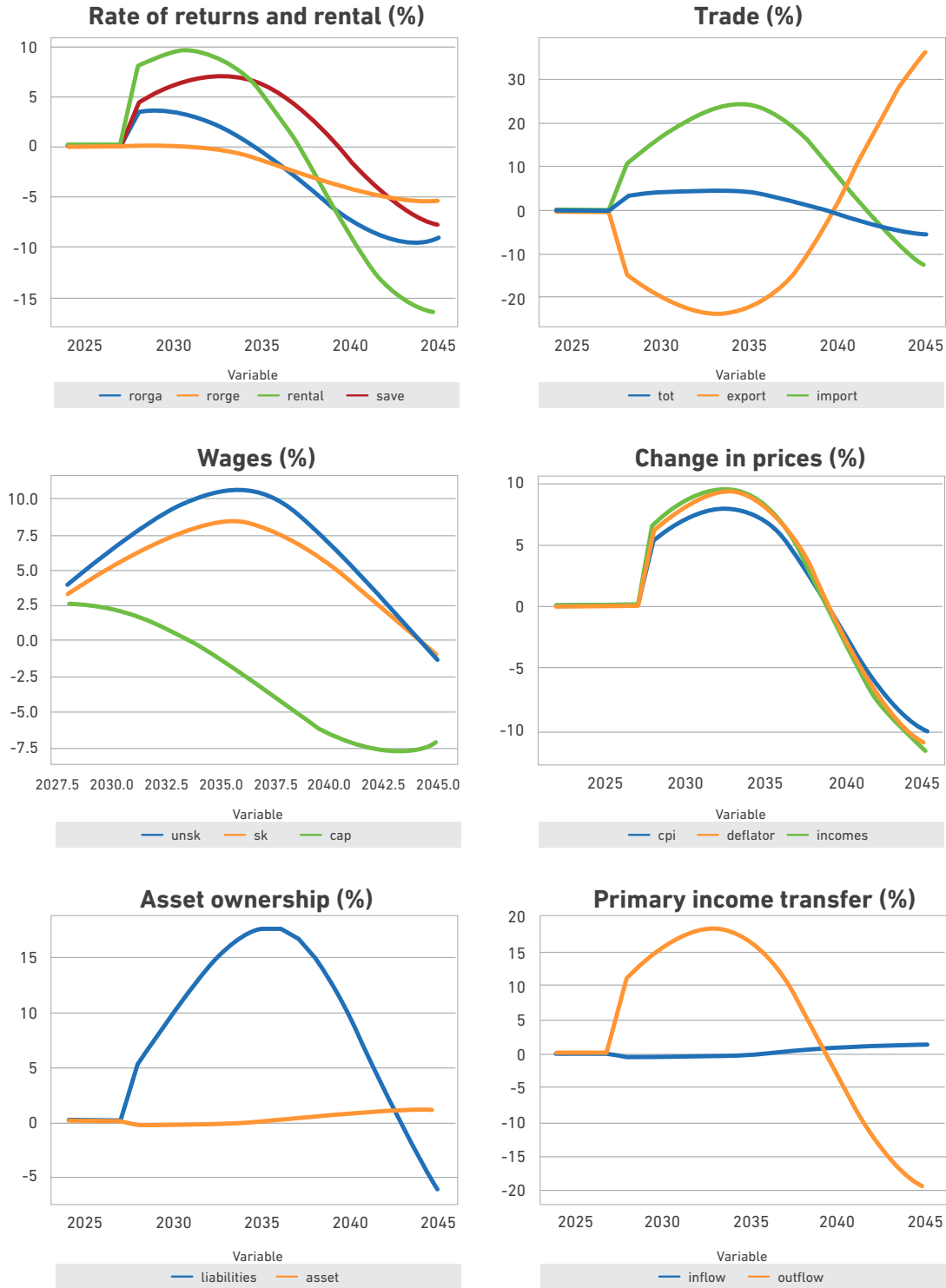
Baseline vs Policy , selected indicator 2024-2025
 Source: Author Projection

The results of the CGE modelling indicate that if Indonesia joins the OECD, investment growth rate per year is anticipated be 1.22 percentage points above the baseline in the short run (2028–2030) and by 1.78 percentage points above the baseline in the medium run (2031–2035). However, in the long run (2036–2045), investment growth rate per year is projected to be 0.38 percentage points below the baseline. This pattern reflects the initial surge in investor confidence and capital inflows following accession, which stimulate economic activity. Over time, as the economy adjusts and the effects of the initial shock dissipate, investment growth stabilises and may slow due to diminishing marginal returns and market saturation.

Since this increased investment will serve as a key driver to stimulate domestic consumption and, ultimately, overall GDP growth. Consumption growth rate per year is projected to be 6.66 percentage points higher than the baseline in the short run and 1.75 percentage points higher in the medium run. Similarly, GDP growth rate itself is projected to be 0.78 percentage points higher than the baseline in the short run, and 0.92 percentage points higher in the medium run.

The trade account is a key indicator of the success of economic reforms. **Following Indonesia's accession to the OECD, a sharp reduction in the trade surplus is observed in the short run (2028–2030) and medium run (2031–2036).** During these periods, trade contributes 0.05 percentage points less to GDP than the baseline in the short run and 0.07 percentage points less in the medium run. This decline is driven by a surge in investment, which increases demand for imports beyond the domestic economy's production capacity. However, in the long run (2036–2045), the trade account is expected to recover. Maintaining an open trade regime will be essential to support this adjustment process. (See Figure 28b).

Figure 29.
Projection of Baseline Scenario vs. OECD Accession on Other Selected Indicators, 2024–2045



Deviation from the baseline on selected indicators, 2028-2045
 Source: Author Projection

Note to Figure 29(a): rorge is the expected rate of return while rorga is actual rate of return.

Figure 29 shows the movement of selected variables. The lines represent a deviation from baseline. That is, a positive number indicates a higher number compared to the baseline.

- Figure 29a illustrates how the rate of return deviates from the baseline when Indonesia joins the OECD. The expected rate of return declines gradually compared to the baseline even in the short run (2028–2030) because OECD membership and regulatory reforms will create a more predictable, conducive, and low-risk investment climate. This increases investor confidence, leading them to expect lower returns. However, the actual rate of return will rise up to the average of 3.27% above the baseline in the short run (2028–2030). This is due to a surge in investment demand from firms, while investment inflows may not immediately catch up. This increase in the actual rate of return will drive up rental rates—the interest paid by borrowers—and savings rates—the interest paid to lenders—compared to the baseline.
- Figure 29b illustrates the impact of Indonesia’s OECD accession on trade, as shown through changes in terms of trade (ToT), exports, and imports. In the short run (2028–2030), exports fall by an average of 23.54% below the baseline, while imports rise by 13.79% above the baseline. This is driven by increased FDI following accession, which boosts construction activity and raises demand for intermediate inputs. As domestic production shifts to meet this demand, less output is available for export, and the shortfall is met through higher imports. This trend of declining exports and rising imports continues into the medium run (2031–2035). However, in the long run (by 2045), the pattern reverses: exports are projected to rise to 36.27% above the baseline, while imports decline to 12.77% below the baseline, reflecting increased domestic production capacity and improved trade performance.
- Figure 29c shows that real wages are expected to rise under the OECD accession scenario, driven by increased demand for labour and capital goods. From the short run (2028–2030) through to the long run (2036–2045), wages remain consistently higher than the baseline as labour demand grows alongside the investment surge. In contrast, returns on capital gradually decline over the same period due to an expanding capital supply, leading to greater competition in the capital market. This, combined with stable policies and market conditions, is expected to result in lower interest rates set by financial institutions.
- Figure 29d illustrates the impact of Indonesia’s OECD accession on inflation. In the short run (2028–2030) and medium run (2031–2035), rising consumption and production driven by the investment boom will push inflation above the baseline. However, as investment inflows taper off in the long run (2036–2045), demand pressures ease, resulting in a deflationary trend below the baseline.
- Indonesia’s accession to OECD will also affect its financial account, shown in Figure 29e. Liabilities represent foreign-owned assets in Indonesia, while assets refers to Indonesia’s holdings abroad. An increase in liabilities compared to the baseline indicates higher FDI inflows into Indonesia following OECD accession and regulatory reforms. In the short (2028–2030) and medium run (2031–2035), FDI is expected to rise above baseline, while Indonesia’s assets abroad remain unchanged. However, in the long run, foreign ownership in Indonesia will gradually decline, to 6.25% below the baseline in 2045, as FDI outflows increase.

- This financial account will also affect how primary income transfers. Figure 29f shows that when Indonesia joins the OECD and FDI inflows increase in the short run and medium run, the income generated from these investments will also be repatriated to investors' home countries, leading to a rise in income outflows. However, as capital outflows decline in the long run compared to the baseline, income outflows are also expected to decrease.

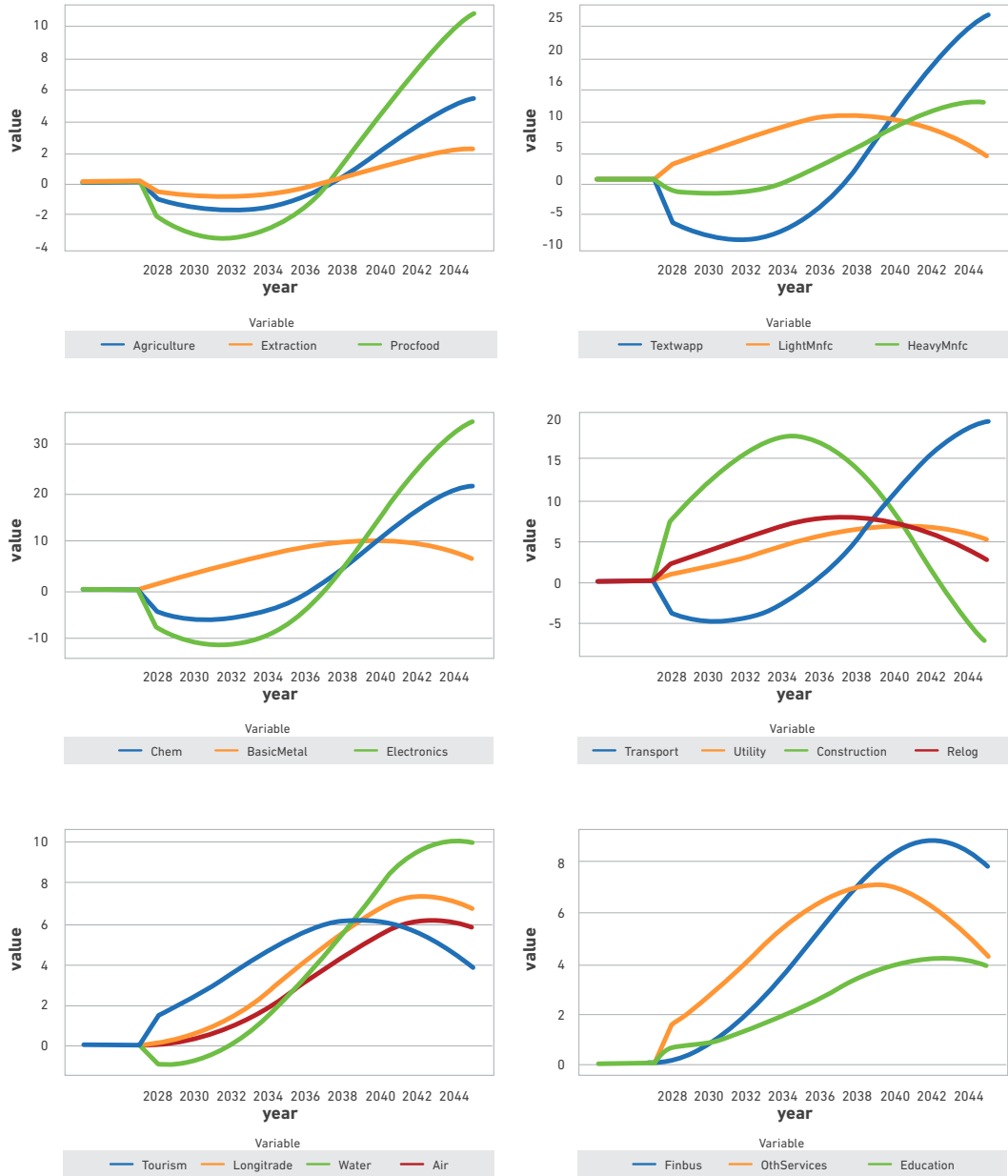
Table 17.
Overview of Macroeconomic Impact Projections Under OECD Accession

Macroeconomic indicators	Short run (2028–2030)	Medium run (2031–2035)	Long run (2036–2045)
Expected rate of return	✓		
Actual rate of return	✓	✓	
Rental rate	✓	✓	
Savings rate	✓	✓	
Trade balance	✓	✓	
Exports			✓
Imports	✓	✓	
Unskilled labour wage	✓	✓	✓
Skilled labour wage	✓	✓	✓
Returns to capital	✓		
Consumer price index (inflation)	✓	✓	
GDP deflator	✓	✓	
Income	✓	✓	
Assets			
Liabilities	✓	✓	
Inflow of income transfers			✓
Outflow of income transfers	✓	✓	

Note to Table 17: Indicators with checkmarks have growth above the baseline scenario, whereas indicators without checkmarks have growth below the baseline.

Sectoral Impacts

Figure 30.
Projection of Sectoral Growth Rates Under OECD Accession vs Baseline Scenario, 2024-2045



Deviation from the baseline on selected industry growth, 2028-2045
 Source: Author Simulation

Note to Figure 30: Y-axes are not standardized and graphs should not be compared directly.

Figure 30 shows the sectoral dynamics of the OECD accession. Since the shock of Indonesia's accession to OECD is assumed to take place from 2028, the graphs start from 2028. The lines represent how sectoral GDP growth deviates from the baseline scenario. Positive value means that a sector grows faster relative to its baseline. Conversely, negative value means that a sector growth is slower than its baseline scenario. It is also important to note that each graph or panel in figure 30 has different Y-axis scales. Therefore, comparing graphs from different panels is not advised.

Overall, the simulation of Indonesia's OECD accession shows different impacts by sector. In the short run (2028–2030) and medium run (2031–2035), the construction sector will be higher compared to the baseline scenario, while sectors related to agriculture and manufacturing will be lower. This is due to the impact of increased foreign investment, which drives construction sector demand. This aligns with the investment growth, which indicates that it has a more direct contribution to the construction sector. The construction sector mainly produces capital goods such as buildings, roads, or other infrastructures. On the other hand, the agriculture and manufacturing sectors shrink because of shifts of capital and labour to the construction sector and the domestic demand of both sectors are satisfied by imports. In the long run (2036–2045), the growth of the construction sector will be lower than the baseline while agriculture and manufacturing sector growth will be higher. Unlike construction, agriculture, and manufacturing sectors, services sectors tend to steadily grow over the short run and the long run.

More investment in the construction sector will attract more capital inflow and labour inflow through higher wages, reflecting increasing demand. The increasing demand in the construction sector shifts the demand in other sectors. This is indicated by the decline in competing sectors such as agriculture, processed foods, textiles, chemical, electronics, and heavy manufacturing in the short run (2028–2030) and in the medium run (2031–2035). Among these sectors, the textile industry experiences the most decline, with its sectoral GDP falling 15.81% below the baseline in 2033. Meanwhile other competing sectors undergo a similar pattern with less decline, ranging from 1.58% to 5.58% below the baseline for each of those sectors aside from textiles in the same year.

Eventually, the construction sector shrinks in the long run to the point where its growth is 3.36% below the baseline growth in 2043. At this point, the competing sectors' growth already exceeds their baseline growth. Among the competing sectors, the textile sector's growth reached 37.84% above the baseline in 2045. Heavy manufacturing sector also has notable growth of 21.68% above the baseline in the same year. This pattern is followed by the ability of these sectors to offer higher wages so that employment shifts to these sectors.

Meanwhile, services sectors, such as tourism, financial and business services, education, and transportation services, are higher than the baseline in all periods. Unlike the sectors that compete with construction, services sectors are unaffected by the shift of capital and labour demand. This is due to their complementary nature with the construction sector. For example, more construction will induce the demand of the financial services sector for more funding options. Financial services sector undergoes steady growth in the short run, reaching 5.53% above the baseline in 2035. Additionally, services sectors are also non-tradable in nature. Therefore, the domestic production of services is not substituted with imported products.

The rapid growth of the services sectors are expected over the medium run. This is indicated by the growing agriculture, processed foods, textiles, chemical, electronics, and heavy manufacturing sectors. The construction sector is also still in high growth despite its diminishing rate. This condition opens up demand for services such as financing and transportation services with increased overall spending due to higher incomes. In the long run, the growth of the services sector will also decelerate along with the bust of the construction sector.

Table 18.
Overview of Sectoral Impact Projections

Macroeconomic indicators	Short run (2028–2030)	Medium run (2031–2035)	Long run (2036–2045)
Agriculture			✓
Extraction			✓
Processed Foods			✓
Textiles			✓
Light Manufacturing	✓	✓	✓
Heavy Manufacturing			✓
Chemical			
Basic Metal	✓	✓	✓
Electronics			✓
Transportation			✓
Utility	✓	✓	✓
Construction	✓	✓	
Retail & logistics	✓	✓	✓
Tourism	✓	✓	✓
Logistics and Trade	✓	✓	✓
Water Transportation Services	✓	✓	✓
Air Transportation Services	✓	✓	✓
Financial and Business	✓	✓	✓
Education	✓	✓	✓
Other Services	✓	✓	✓

Note to Table 18: Sectors with checkmarks have growth above the baseline scenario, whereas the sectors without checkmarks have growth below the baseline.

Caveats

The simulation in this report is not meant to predict what will actually happen under OECD accession and must be read with caution. There are at least two important caveats to this simulation:

- The CGE used in this simulation is a model, not a full representation of the world. In the model, savings can only be used to invest in firms (no other types of asset market) and monetary authorities do not exist. This caveat is important because monetary authorities are quite active and the size of speculative asset markets are non-trivial.
- This simulation makes the usual *ceteris paribus* assumption, which will not be true. The simulation is conducted over a long period of time, and in the real world all else will not remain equal. There must be some interventions or phenomena during those times in the real world.

However, the simulation is still useful as a benchmark for the “what if” questions about the potential direction and relative magnitude of the effects of OECD accession. Deviations in the real world can be added to the analysis as long as the principle held in this model is well understood. The Indonesian government must be careful when reacting to the changes resulting from OECD accession. For example, Indonesia once tried to ban imports of steel amid a surge of imports following the construction boom fuelled by Indonesia’s infrastructure boom in the 2015s during Jokowi’s first term. The government reacted by enacting various types of trade barriers, which eventually increased prices of construction inputs, reducing the efficiency of investment.

CONCLUSION AND POLICY RECOMMENDATIONS

Indonesia remains a major FDI destination in ASEAN, second only to Singapore, and has maintained strong inflows compared to other OECD countries. However, since 2011, its FDI inflows have stagnated. Foreign investment is heavily concentrated in the manufacturing sector, while the services sector remains dominated by domestic investors. Even within manufacturing, FDI is primarily directed towards commodity-based industries, with capital- and technology-intensive sectors receiving less attention.

In terms of trade, although Indonesia's total trade volume has increased, its share of global trade remains modest, lagging behind other ASEAN countries. While exports to China, India, and the United States have grown, trade with Japan has remained relatively stagnant, and engagement with OECD countries is still limited. Additionally, Indonesia's exports are increasingly commodity-driven rather than manufacturing-based. Its participation in global value chains also remains limited compared to China and other ASEAN countries, highlighting the need for stronger integration into high-value production networks.

This has affected Indonesia's GDP and industrial competitiveness. Over the last two decades, while its GDP has maintained steady growth, it has lagged behind some of its more dynamic ASEAN neighbours, particularly Vietnam. Moreover, its competitive industrial performance index score has remained stagnant, whereas other ASEAN countries such as Malaysia, Thailand, and Vietnam have shown steady growth.

Becoming an OECD member offers significant advantages for Indonesia. Membership would provide access to best practices, policy recommendations, and peer reviews, enabling the country to strengthen its economic framework and governance standards. Additionally, OECD membership would enhance Indonesia's attractiveness to foreign investors, signalling a commitment to international economic openness and regulatory improvements. The OECD's extensive research and knowledge base would also offer valuable insights to support Indonesia's long-term development goals. Furthermore, membership would elevate Indonesia's global influence, positioning it as a key player in shaping international economic policies and trade discussions.

Moreover, joining the OECD presents significant opportunities across a range of sectors, including manufacturing, services, extractives, and the renewable energy transition. Within manufacturing, key industries likely to benefit include the food and agro-industry, basic metals, chemicals and pharmaceuticals, textiles and apparel, automotive, and electronics. In the services sector, tourism, transportation, ICT, and education are expected to experience positive impacts. In the extractive industries, coal, gas, and metal ore mining could also see improvements. Enhanced policy alignment and international cooperation through OECD membership would further bolster Indonesia's sectoral development and economic resilience.

CGE modelling suggests that if Indonesia joins the OECD, investment growth rate per year will be 1.22 percentage points above the baseline in the short run (2028–2030) and by 1.78 percentage points in the medium run (2031–2035). However, in the long run (2036–2045),

investment growth rate is projected to be to 0.38 percentage points below the baseline. This pattern reflects the initial surge in investor confidence and capital inflows following accession, which stimulate economic activity. Over time, as the economy adjusts and the effects of the initial shock dissipate, investment growth stabilises and may slow due to diminishing marginal returns and market saturation.

Following Indonesia’s accession to the OECD, a sharp reduction in the trade surplus is observed in the short run (2028–2030) and medium run (2031–2036). During these periods, trade contributes 0.05 percentage points less to GDP than the baseline in the short run and 0.07 percentage points less in the medium run. This decline is driven by a surge in investment, which increases demand for imports beyond the domestic economy’s production capacity. However, in the long run (2036–2045), the trade account is expected to recover. Maintaining an open trade regime will be essential to support this adjustment process.

Furthermore, several manufacturing and service sectors will greatly benefit from Indonesia’s accession to the OECD. However, while some of these benefits will be realised in the short and medium run, others will only be felt in the long run.

Table 19.
Sectors Benefiting from Indonesia Joining OECD

Trend compared to baseline	Sectors
Lower in short and medium run, higher in long run	Agriculture, Extraction, Processed Foods, Textiles, Heavy Manufacturing, Chemicals, Electronics, Transportation
Higher in short and medium run, lower in long run	Construction
Higher across all periods	Light Manufacturing, Basic Metals, Utilities, Retail and Logistics, Tourism, Trade, Water Transportation Services, Air Transportation Services, Financial Services, Education, Other Services

To ensure this economic projection is realised under OECD accession, this study offers two types of recommendations: reforms to facilitate a smooth accession process and reforms to enhance market access and optimise the benefits of OECD membership.

Recommendation to Smooth OECD Accession:

In order to enable a more seamless accession to OECD, Indonesia needs to emphasise key regulatory reforms in the following areas:

First, the Indonesian government is recommended to amend the consumer protection law (Law No. 8/1999). Despite accommodating several provisions in OECD legal instruments, there are new aspects that need to be included to address consumer protection demands. These aspects include child consumer protection and consumer protection in e-commerce.

Second, the current Indonesian shipping law might present challenges to the free and fair competition basis, as suggested by the OECD instrument, particularly in terms of foreign investment ownership on certain maritime business sectors. The Indonesian government is recommended to re-evaluate the regulation in respective sector to facilitate the policies alignment in OECD legal instruments.

Third, Indonesia may need to revisit policies that contradict the international investment principles as stated in OECD instruments. Considering existing practices, the Indonesian government is recommended to assess whether Indonesia is able to improve its current foreign investment climate to best accommodate the recommendations outlined in the OECD legal instruments. This includes the relaxation of the entry requirements for foreign direct investment.

Fourth, while Indonesia's existing regulations have addressed certain due diligence aspects stipulated in OECD instruments, the Indonesian government is recommended to incorporate a holistic process for due diligence via a dedicated regulation that applies across sectors. This is important to help ensure that business actors implement end-to-end due diligence practices, for example in the agriculture sector.

Fifth, to enhance market competitiveness, Indonesia is recommended to update the law on the prohibition of monopoly practices and unhealthy competition (Law No. 5/1999). The prevailing regulation also raises concerns, particularly regarding SOE predominant roles, including the authority to implement monopoly practices on natural resources in addition to prioritising SOE in the procurement of goods and/or services. To adhere to OECD standards, Indonesia should revisit the regulatory framework by enabling a freer and more merit-based market and gradually dismantling its SOE-centric market approach.

Sixth, the OECD legal instrument approaches the agriculture sector as an end-to-end industry. Since Indonesia's agricultural sector is heavily regulated, it is important for Indonesia to align with OECD's perspective and encourage cross-sector collaborations.

Seventh, despite the establishment of an umbrella regulation covering the energy transition, Indonesia has yet to implement another umbrella regulation covering renewable energy and climate integration. Indonesia is recommended to address this issue since OECD strongly emphasises transition from coal use.

Recommendations to Increase Market Access for Trade and Investment

First, Indonesia is recommended to focus on reducing non-tariff measures (NTMs), which significantly affect trade and industrial competitiveness. Economic analysis in this study reveals that 68% of Indonesia's total imports are subject to NTMs. Reviewing selected NTMs, where appropriate, may help lower trade-related compliance costs without compromising legitimate policy objectives. In particular, streamlining NTMs in sectors closely connected to export and supply chain integration would contribute to a more predictable business environment.

Second, CGE analysis indicates that most service sectors are expected to grow beyond the baseline in the short to medium run. To escalate this potential, Indonesia may consider making its services sector more open to investment. Specifically, exploring ways to gradually enhance openness—for example, by revisiting existing restrictions in maritime services—could support improved logistics and reduced costs over time.

Third, Indonesia is recommended to address its restrictive FDI policies. Economic analysis in this study finds that Indonesia remains more restrictive towards FDI compared to other ASEAN countries. One way to improve FDI attractiveness is by reviewing the minimum capital requirements for PT PMA (foreign-owned companies) and easing entry conditions on foreign workers in key positions within Indonesian legal entities.

Fourth, Indonesia is recommended to create a business environment that fosters efficiency rather than burdening industries with policies that raise operational costs. A key area for reform is Local Content Requirements (LCRs), which are widely applied across manufacturing sectors and impact the country's renewable energy commitments. Addressing this issue is essential to ensure cost-effective access to intermediate goods, which in turn could support competitiveness in export-oriented industries. Ultimately, this will contribute to positioning Indonesia as a more attractive investment destination.

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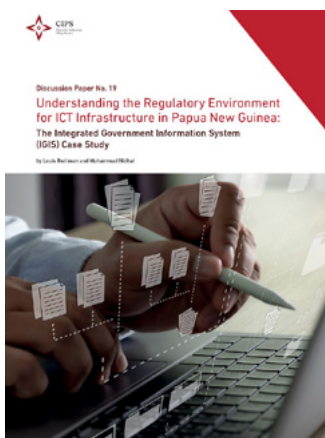
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