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Optimizing Strategic Economic Pillars for National Resilience: A Study on the Impact of Trump's 19% Tariff on Indonesia's Economic Stability

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ABSTRACT

As a global superpower, the United States plays a dominant role in international political and economic dynamics. The election of Donald Trump in 2017, under the "Make America Great Again" agenda, marked a shift toward protectionist trade policies, including higher import tariffs, in response to China's rapid economic rise, triggering the U.S.–China trade war. Although U.S. import tariffs were subsequently reduced from 32% to 19%, they continued to pose risks to economic stability in developing countries, including Indonesia. This study employs a mixed-methods approach combining qualitative analysis and quantitative tools—SWOT, Internal–External Factor Evaluation (IFE–EFE), and the Analytic Hierarchy Process (AHP) to examine the impact of the trade war on Indonesia's economic stability and to formulate a prioritised strategic policy mix. The results indicate that strengthening national economic resilience requires a balanced inward- and outward-looking strategy, including export-oriented industrial downstreaming supported by TKBI policies, export market diversification through RCEP and IEU–CEPA partnerships, enhanced utilisation of domestic products (P3DN), and the implementation of Local Currency Settlement (LCS). The findings suggest that enhancing economic resilience in developing countries facing protectionist trade shocks requires a coordinated policy mix integrating trade, industrial, monetary, and financial stability policies, while highlighting the strategic role of financial authorities in mitigating transmission risks from global trade disruptions to the domestic financial system.

Keywords: Trade Policy, Protectionism, International Trade Agreements, Tariffs, Strategic Trade

JEL Classification: F13

1 Introduction

After the collapse of the Soviet Union in 1991, the global system transitioned from bipolarity to a unipolar order dominated by the United States. However, since the early 21st century, the emergence of new powers. Particularly, China has driven a gradual shift toward a multipolar global order, with Asia increasingly positioned as a central arena of economic and geopolitical competition (Satriakhan & Prasetyono, 2022).

China's transformation into a major global economic power is the result of long-term strategic reforms initiated during the Deng Xiaoping era, which strengthened its industrial and technological capacity and were supported by stable economic growth of around 9% for several decades. This transformation was further reinforced by strategic initiatives such as Made in China 2025 and the Belt and Road Initiative (BRI), reflecting China's ambition to expand its influence beyond the economic sphere into the geopolitical arena (Absor et al., 2022; C, 2022).

This ambition is reflected in the large U.S. trade deficit with China, making China the largest contributor to the U.S. trade imbalance and prompting the Trump administration to implement strict protectionist measures through import tariff increases and accusations of intellectual property rights violations, thereby escalating trade tensions between the two countries (U.S. Census Bureau, 2025; Sutjiatmo & Tyasti, 2022).

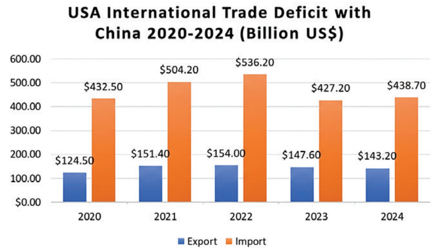

Figure 1. USA International Deficit with China 2020-2024 (Billion US$)

Source: BPS (2025)

China did not remain silent and retaliated by imposing import duties of 15-25% or US$34 billion on 128 US export commodities (Kamal & Fuad, 2022). This tension peaked when the US raised tariffs to 145% on all Chinese products, prompting China to impose a 125% tariff on US products (Cahyani, 2025).

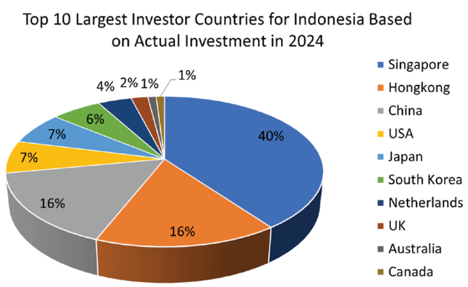

Figure 2. Top 10 Largest Investor Countries for Indonesia Based on Actual Investment in 2024 (%)

Figure 3. Indonesia International Trade Surplus with USA 2020-2024 (Billion US$)

Source: BPS (2025)

Trump's tariff policy not only targeted China but also had a systemic impact on global trade stability, including 25 of the United States' main trading partners, one of which is Indonesia, as reflected in the graph below of the Indonesia - United States trade balance for 2020-2024.

Based on the graphs above, the United States has recorded a persistent trade deficit with Indonesia over the past five years, with the largest deficit in 2022 at US$16,512.4 billion. Over this period, the U.S. trade deficit with Indonesia increased by approximately 67 percent, driven by high U.S. import volumes from Indonesia, particularly in key commodities such as textiles, knitwear, and footwear. This trade imbalance ranks Indonesia as the 15th-largest contributor to the U.S. trade deficit (CNBC Indonesia, 2025). Meanwhile, foreign direct investment data indicate that the United States remains a major investor in Indonesia, with total investment reaching US$3.696 billion, ranking just below China in third place (Badan Pusat Statistik, 2025).

The US trade deficit with its 25 partner countries poses a serious threat to economic stability, especially the sustainability of local industries. In an effort to maintain its status as a superpower, the Trump administration has implemented protectionist policies by imposing reciprocal tariffs. In Indonesia, even though tariffs on US products reached 64 percent, President Trump only imposed retaliatory tariffs of 32 percent. This policy has implications for the decline in the competitiveness of Indonesian exports in the US market, driven by a relative increase in product prices, which may encourage a shift in demand to other countries (Sutrisno, 2025).

In recent years, the global economy has been marked by increasing uncertainty following the United States' implementation of reciprocal tariffs under the "America First" policy, which has intensified trade tensions and disrupted global supply chains. While this policy aims to address trade imbalances, it has also increased the risk of retaliation and created challenges for countries such as Indonesia. In the long term, declining external demand, particularly from the United States, may weaken corporate financial performance, heighten credit risk, and threaten both macroprudential and microprudential financial stability, thereby increasing risks to the banking sector (CNBC Indonesia, 2025).

In response to these global dynamics, Indonesia requires a comprehensive mix of strategic economic policies that are both inward-looking, to strengthen domestic resilience, and outward-looking, to expand and diversify international markets. Accordingly, this study examines the effective implementation of these strategic pillars and the OJK's role as the financial sector authority in safeguarding economic and financial system stability.

2 Literature Review

2.1 International Trade Theory

International Trade Theory is a set of economic concepts that explain the mechanisms of interaction between countries in cross-border trade activities and their impact on the global economy. The three main theories best known in this study include:

2.1.1 Absolute Advantage Theory

The theory of international trade was first proposed by Adam Smith in The Wealth of Nations, which states that a country has an absolute advantage if it can produce goods at a lower cost than other countries. Through specialisation, trade between countries results in efficiency and mutual benefits (Dwi, 2023).

2.1.2 Comparative Advantage Theory

This theory, developed by David Ricardo in 1971 , states that international trade can occur even if a country does not have an absolute advantage. Unlike Adam Smith's theory of absolute advantage, Ricardo argued that a country can profit by focusing production on goods that are relatively more efficient (Sofyan, 2022).

2.1.3 Heckscher-Ohlin (H-O) Theory

Heckscher-Ohlin developed a theory of international trade that emphasises differences in the proportions of production factors, namely labour, capital, and land, as the main causes of productivity differences between countries. Known as the Proportional Factor Theory, this theory states that countries will export goods whose production uses abundant factors of production. For example, labour-intensive countries tend to export labour-intensive goods, while capital-intensive countries export capital-intensive goods (Aulia et al., 2025).

2.2 Dependency Theory

Dependency theory emerged in the late 1950s as a critique of the ECLA program and Orthodox Marxism, arguing that the prosperity of developed countries is sustained through exploitative and dependent relations with the third world. Rather than fostering development, this structure entrenches underdevelopment, widens social inequality, and reinforces authoritarian regimes by involving local elites and multinational corporations (Utama, 2021).

2.3 Hedging Theory in International Relations

Hedging refers to a strategy used by states, particularly secondary powers, to mitigate risks stemming from uncertainty in the behavior of major partners by simultaneously pursuing economic cooperation and strengthening competitive diplomatic and military capabilities thereby avoiding clear alignment or open confrontation (Koga, 2018). This study employs hedging theory to examine Indonesia's foreign policy toward the United States and China, showing that Indonesia maintains economic engagement with both powers while preserving strategic flexibility through diplomatic and defense enhancement. Amid increasing Chinese investment and a relatively declining U.S. presence, Indonesia's neutral stance reflects a hedging strategy that balances economic interests with national resilience amid great power rivalry.

2.4 Previous Studies

Rachel et al., (2025) find that rising U.S. import tariffs weaken Indonesia's textile exports by increasing production costs and prices, thereby reducing competitiveness, employment, and industry sustainability, and acting as an external shock to trade-dependent sectors. Similarly, Andrena (2025) shows that shifting U.S.-China economic dynamics marked by declining U.S. influence and expanding Chinese engagement have constrained Indonesia's market access and investment attractiveness amid growing U.S. protectionism, prompting Indonesia to adopt a hedging strategy that maintains economic ties with China while preserving strategic relations with the United States to sustain policy flexibility and economic resilience.

Al Rasyid et al., (2025) demonstrated that higher U.S. tariffs during the Trump administration reduced the competitiveness of Indonesian exports and posed risks to national economic performance. The study emphasises the need for strengthened diplomacy, enhanced regional cooperation, export market diversification through FTAs/

CEPAs, and improvements in export product quality and competitiveness.

Using CGE-based quantitative simulations, Ismail et al., (2025) found that U.S. protectionist tariffs negatively affected Indonesia's economy by reducing export competitiveness, weakening FDI inflows, and suppressing labour-intensive sectors, while contributing to slower economic growth and investment relocation.

Overall, prior studies (Rachel et al., 2025; Andrena, 2025; Al Rasyid et al., 2025; Ismail et al., 2025) consistently show that U.S. protectionist tariffs adversely affect Indonesia's exports, employment, and economic performance, prompting policy responses centered on economic diplomacy, hedging strategies, and export diversification. However, the literature remains fragmented, relying largely on qualitative descriptions or macro-level modelling, and lacks an integrated analytical framework that systematically prioritises national policy strategies through structured multi-criteria decision-making and empirical input from business actors. To address this gap, the present study employs a mixed-methods design combining qualitative interviews with quantitative analyses using SWOT, IFE–EFE, and AHP to formulate and prioritise comprehensive national policy strategies.

3 Methodology

This study adopts a mixed-methods approach, integrating qualitative and quantitative techniques to analyse Indonesia's response to the 19% U.S. tariff pressure and broader global geopolitical–economic dynamics. The qualitative approach examines policy contexts and strategic dynamics using primary and secondary data, while the quantitative approach assesses strategic positioning and policy priorities through SWOT analysis, the Internal Factor Evaluation (IFE) and External Factor Evaluation (EFE) matrices, and the Analytic Hierarchy Process (AHP). The AHP is employed as an advanced quantification tool to prioritise strategies derived from the SWOT, IFE, and EFE analyses and is methodologically positioned after the IFE–EFE strategic assessment as a multicriteria decision-making prioritisation instrument. AHP is selected for its ability to transform expert judgments into numerical weights and to ensure the validity of the results through consistency testing.

Consistent with the AHP literature, the method can be validly applied with a limited number of respondents, typically 5 to 9 experts. Accordingly, this study involves seven expert respondents, selected through purposive sampling based on the relevance of their expertise and a minimum of five years of professional experience in macroeconomics, international trade, industry, and public policy. The AHP hierarchy comprises goals, criteria, and strategic alternatives and is operationalised through pairwise comparisons using the Saaty scale (1–9). The study uses primary data from in-depth interviews and AHP questionnaires, as well as secondary data from official publications issued by Bank Indonesia, Statistics Indonesia (BPS), the U.S. Census Bureau, the Danareksa Research Institute, the Kementerian Energi dan Sumberdaya Mineral (Ministry of Energy and Mineral Resources) and relevant academic literature.

4 Results and Discussion

4.1 SWOT Matrix

Category	Factors	Explanation
Strength (S)	S1. Indonesia's geostrategic position in international trade routes	Facilitating logistics access and attracts industrial relocation
	S2. Availability of natural resources (nickel, coal, etc.) to support downstreaming	Strengthening capital for the growth of value-added industries
	S3. Government regulations and commitment to P3DN	Providing structural support for domestic products
	S4. Active implementation of Local Currency Settlement (LCS) by Bank Indonesia	Reducing the risk of exchange rate fluctuations and dollar dependence
Weakness (W)	W1. High dependence on raw material exports	Weakening long-term competitiveness
	W2. Low local content in strategic projects	Hampering the multiplier effect of the national industry
	W3. Downstream dependence on foreign investment (especially from China)	Reducing economic sovereignty
	W4. Local supply chain readiness is not yet optimal	Obstacles to import substitution
Opportunity (O)	O1. Access to new markets through RCEP and IE-CEPA	Diversification of exports and strengthening of bargaining position
	O2. Export market potential for downstream products (EV batteries, stainless steel)	Increasing export value and state revenue
	O3. Global dedollarisation trends open up opportunities for LCS expansion	Supporting macro stability and transaction efficiency
	O4. National commitment to import substitution and P3DN programs	Opportunities for growth in domestic-based national industries
Threat (T)	T1. Exchange rate fluctuations due to the dominance of the US dollar	Risks to the current account deficit
	T2. Global competition in the nickel market and downstreaming	Threat to export sustainability
	T3. Export dependence on traditional partners (US/China)	Risks when trade conflicts escalate
	T4. Environmental and social challenges due to unsustainable downstreaming	Potential for social resistance and environmental damage

4.2 IFE and EFE Matrix

Internal Factors	Weight	Rating (1–4)	Weighted Score	External Factors	Weight	Rating (1–4)	Weighted Score
S1. Geostrategic position	0.2	2	0.40	O1.RCEP &IE- CEPA	0.20	2	0.40
S2. Natural Resources for Downstreaming	0.20	3	0.6	O2. Downstream export market	0.10	3	0.30
S3. P3DN Commitment	0.08	3	0.24	O3. Dedollarisation & LCS	0.15	2	0.30
S4. Active LCS (BI)	0.07	2	0.14	O4. Import substitution opportunities	0.15	2	0.30
W1. Raw material dependency	0.08	2	0.16	T1. Exchange rate fluctuations	0.1	2	0.2
W2. Low local content	0.06	2	0.12	T2. Nickel market competition	0.1	2	0.20
W3. Downstreaming dominated by foreign companies	0.07	2	0.14	T3. Export dependency	0.1	2	0.20
W4. Supply chain readiness	0.08	2	0.16	T4. Downstream environmental risk	0.10	2	0.2
Total IFE	1.0		1.96	Total EFE	1.00		2.1

IFE Criteria (Ratings 1-4) reflect the internal condition:
1 = major weakness
2 = minor weakness
3 = minor strength
4 = major strength
Weighted score = weight × rating
Total score classification:
Score ≤ 2.50 → weak internal capability
Score > 2.50 → strong internal capability
EFE Criteria (Ratings 1–4) reflect the external condition:
1 = major threat
2 = minor threat
3 = minor opportunity
4 = major opportunity
Weighted score = weight × rating

According to the IFE classification, a total score of 2.50 or lower indicates weak internal capabilities. The IFE score of 1.96, which falls within this range, indicates that management of internal factors remains suboptimal. This indicates that significant internal potential has not yet been fully utilised, particularly in relation to industrial independence and the strengthening of the domestic supply chain.

In line with the EFE criteria, higher scores indicate a stronger ability to respond to external opportunities. The EFE score of 2.10, which remains below the average benchmark of 2.50, suggests that although the external environment provides considerable opportunities, Indonesia has not yet been able to capture and respond to them effectively.

4.3 AHP Matrix

The AHP technique aims to determine priority strategies for strengthening the national economy amid tariff pressures and globalisation.

AHP Criteria (Level 2)

Criteria	Explanation
K1. Industrial Resilience	Increasing manufacturing capacity & import substitution
K2. Investment Resilience	Reducing foreign dominance and strengthening state-owned enterprises
K3. Global Connectivity	Market diversification and FTAs (RCEP, IE-CEPA)
K4. Monetary Stability	Reducing currency volatility risk (LCS)
K5. Domestic Demand	Increasing local content and government spending (P3DN)

Alternative AHP Strategy (Level 3)

Alternatives	Component
A1. Import Substitution & Domestic Supply Chain	Increasing domestic production
A2. Market Diversification through RCEP & IE-CEPA	Expanding export markets
A3. Downstreaming of Natural Resource-Based Industries	Add value to local commodities
A4. Implementing LCS & Strengthening the Rupiah	Stabilising transactions & reducing dependence on the USD
A5. Strengthening P3DN & Reforming TKDN	Revitalising local industries and government spending

Summary of Criteria Weightings

Criteria	Weight	Strategic Significance
K1. Industry	0.4017	Main focus: improving the resilience of local industries (import substitution, etc.)
K3. Connectivity	0.2442	International market connectivity is also a major concern
K2 & K5. Investment & Domestic	0.1373	Equally important is the focus on state-owned enterprises and government spending
K4. Monetary	0.0794	Monetary stability is important, but not a top Priority

Priority Strategy Ranking

Rank	Strategy	Score	Policy Implications
1	A1. Import Substitution & Supply	0.3152	Key strategy to strengthen the national industry
2	A3. Downstreaming of Natural Resource- Based Industries	0.2257	Adding value to local commodities for export
3	A2. Market Diversification (RCEP & IE-CEPA)	0.2130	Global connectivity strategy is quite strong
4	A5. Strengthening P3DN & TKDN Reform	0.1695	Needing to be promoted more aggressively
5	A4. Implementation of LCS & Strengthening of the Rupiah	0.0766	Requiring attention, but not a top priority

Consistency Test

$\lambda\_ = 5.0331$

Consistency Ratio (CR) = 0.0074

Consistency Index (CI) = 0.0083

Matrix Consistent (CR<0.10)

National Priority Strategy Ranking (Global Score) Analytical Conclusion:

1. Import substitution and strengthening the domestic supply chain are the most prioritised strategies, as they consistently support nearly all criteria, particularly industrial resilience (which has the highest weighting).
2. Downstreaming strengthens local added value and balances between industry and global markets.
3. Diversification of export markets (FTAs) is relevant to connectivity and economic stability.
4. P3DN and TKDN need to be promoted in an integrated manner with government procurement policies.
5. LCS and monetary stabilisation, while important, are not the main drivers overall.

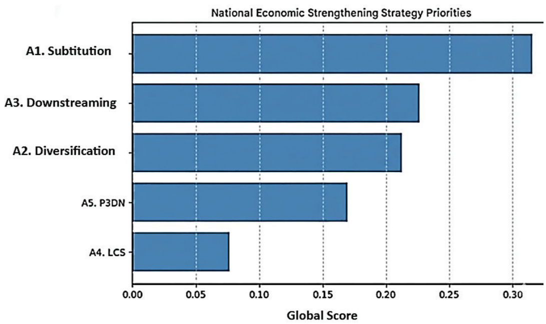

Figure 4. National Economic Strengthening Strategy Priorities

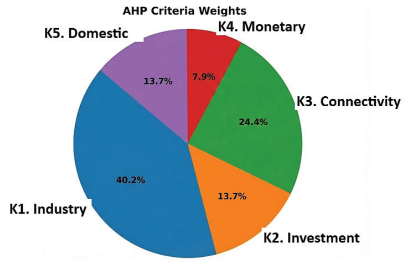

Figure 5. AHP Criteria Weights

Source: Processed data by Google Colab

The results of the AHP consistency test show excellent results: CR value < 0.10, so the criteria comparison matrix is declared consistent. This means that the pairwise assessment used is logical, consistent, and suitable for making AHP-based strategic decisions. This also reinforces the validity of the strategic priority results: that A1 (import substitution & strengthening of local industry) should indeed be the main focus of policy.

5 Discussion

5.1 Summary of SWOT and IFE-EFE Criteria Weights

The results of the SWOT and IFE–EFE analysis are largely consistent with the existing literature. The relatively low IFE score (1.96) aligns with the findings of Rachel et al., (2025) and Ismail et al., (2025), which emphasise declining export competitiveness, limited industrial upgrading, and weakened foreign direct investment inflows as major internal constraints faced by Indonesia in responding to U.S. protectionist tariff policies. These internal weaknesses reflect structural challenges, including dependence on raw material exports, low domestic value-added content, and limited industrial resilience, as documented in previous studies. Similarly, the moderate EFE score (2.10) supports the arguments of Al Rasyid et al., (2025) and Andrena (2025), who highlight the presence of significant external opportunities arising from export market diversification, regional trade agreements (FTA/CEPA), and shifting global economic dynamics amid U.S.–China competition.

However, the findings also indicate that Indonesia has not yet fully capitalised on these external opportunities, consistent with the literature that emphasises policy and implementation gaps in trade diplomacy and industrial strategy. While prior studies predominantly focus on sectoral impacts, macroeconomic effects, or strategic responses in qualitative terms, this study extends the literature by translating these insights into a structured strategic positioning framework. Indonesia's placement in the "Grow and Build" quadrant of the IE matrix suggests that aggressive, proactive strategies are required to strengthen internal capabilities to effectively respond to external opportunities. This integrated approach provides a more operational and policy-oriented perspective that complements and advances existing empirical findings. This difference lies in the analytical approach: the present study moves beyond descriptive and macroeconomic analyses by systematically prioritising policy strategies through an integrated SWOT–IFE–EFE–AHP framework.

5.2 Summary of AHP Strategic Interpretation

Based on the analytical conclusion of the national priority strategy ranking (global score), the priority strategies for strengthening the national industry are import substitution and strengthening the domestic supply chain, as they support almost all criteria, especially industrial resilience. Downstreaming is also important for increasing local added value and balancing the industry with the global market. Diversification of export markets through FTAs supports economic connectivity and stability, while P3DN and TKDN policies need to be integrated with government procurement. Although important, LCS and monetary stabilisation are not the main drivers overall.

5.2.1 Priority Strategy 1 (A1)

Increasing domestic production, strengthening import substitution, and building domestic supply chains are the most effective strategic steps to strengthen national economic resilience. The recommended policy focus includes:

1. Facilitating and incentivising the relocation of labour-intensive industries from abroad, particularly from China.
2. Strengthening domestic and regional supply chains to reduce global dependence.
3. Stimulating upstream-downstream investment in national strategic sectors.

This is important because this strategy aligns with the highest-weighted criterion, namely "Industrial Resilience," which serves as the main foundation for strengthening long-term economic capacity.

5.2.2 Priority Strategy 2 (A3)

Downstreaming based on natural resources ranks second. This strategy adds value to local commodities, strengthens Indonesia's position in the global value chain, and directly impacts job creation and value-added exports.

5.2.3 Priority Strategy 3 (A2)

Market diversification through international trade cooperation (such as RCEP and IEU-CEPA) remains important, especially as market access expands and global connectivity strengthens. However, its weight is slightly lower because connectivity is considered a secondary priority compared to internal strengthening.

5.2.4 Lower-Ranked Strategies (A4 & A5)

1. Strategy A5 (P3DN) remains strategically valuable, but requires stronger integration with substitution and downstreaming to optimise its impact.
2. Strategy A4 (LCS and strengthening the rupiah) has the lowest weight because monetary stability is not a top priority amid tariff pressures and structural economic resilience.

5.3 Follow-up Strategy: Four Priority Policy Directions

For Indonesia, tariff policy carries significant strategic implications amid intensifying geopolitical competition between the United States and China. Indonesia must balance its strategic interests by maintaining defense cooperation with the United States, particularly in defense procurement and joint military exercises (Inkiriwang, 2020), while managing its deep economic interdependence with China. Based on the synthesis of the analyses, four main strategies are identified as concrete policy follow-ups.

5.3.1 Downstreaming Exports and Sustainable Financial Taxonomy: Accelerating National Economic Independence

Indonesia is the world's largest nickel producer, holding approximately 52% of global reserves and accounting for 37.04% of global production in 2021 (Kementerian Energi dan Sumberdaya Mineral, 2020; U.S. Geological Survey, 2022). Major export destinations include China, Japan, Norway, the Netherlands, and South Korea (BPS). Driven by the rapid growth of electric vehicle production and global net-zero emission targets, nickel demand is projected to increase significantly, with exports expected to exceed 6.2 million tons annually by 2040 (Syafira et al., 2023).

To address the long-standing issue of raw nickel exports with limited value added, the Indonesian government imposed a ban on nickel ore exports effective January 1, 2020, mandating domestic processing (Widiatedja, 2021). Downstreaming is expected to enhance commodity value added, export competitiveness, employment, price stability, and Indonesia's strategic position in global supply chains (Khaldun, 2024; Akhmadi, 2024). Since 2010, the government has promoted downstreaming across key sectors and plans to prioritise eight strategic industries, targeting investment of USD 545.4 billion by 2035 (Danareksa Research Institute, 2023).

Nickel downstreaming has attracted substantial foreign investment, particularly from China, which accounts for approximately 90% of smelter projects, including major industrial estates such as Morowali and Weda Bay. These investments have significantly increased downstream export value from USD 4 billion in 2017 to USD 33.81 billion in 2022 (Sutrisno, 2023) and contributed to human resource development and technology transfer (Simatupang & Wulandari, 2024). However, downstreaming has also generated environmental and social challenges, including pollution, land conflicts, energy-intensive production, and limited national foreign exchange gains, with Indonesia capturing only 20–30% of downstreaming revenues (Yusman et al., 2024; CNN Indonesia, 2023).

In this context, the Financial Services Authority (OJK) plays a strategic role through the Indonesian Sustainable Finance Taxonomy (TKBI), which aligns financial sector activities with the Sustainable Development Goals (SDGs) and the 2060 net-zero emission target. TKBI classifies economic activities into green, transitional, or non-compliant categories, thereby reducing greenwashing risks and enhancing the credibility of sustainable investment (OJK, 2024). Nickel has been designated a critical mineral for energy transition and the EV battery industry (MEMR Decree No. 296/2023), making TKBI particularly relevant to downstreaming activities.

TKBI functions as a control mechanism by requiring nickel downstreaming projects to meet Technical Screening Criteria, including energy efficiency, emission mitigation, waste management, and social safeguards. Consequently, only projects that meet sustainability standards are eligible for green financing. Nevertheless, TKBI implementation faces challenges, including potential credibility risks from high-emission technologies, inconsistencies with international taxonomies, limited industry compliance, and increasing global demand for low-carbon supply chains, which may affect Indonesia's competitiveness. Through TKBI, OJK can direct financial institutions to channel green financing via banking and capital market instruments, such as green bonds, green sukuk, and ESG funds. By 2025, climate action and SDG financing needs are estimated to reach IDR 14,000 trillion, far exceeding state budget capacity, underscoring the importance of private-sector and financial-market participation. Indonesia's green bond issuance has contributed to financing renewable energy, energy efficiency, waste management, and sustainable infrastructure projects, supported by regulatory certainty under POJK 18/2023.

Overall, TKBI serves a dual role as both an opportunity and a constraint for nickel downstreaming. It enables investment to be redirected toward sustainable practices while compelling industry actors to align their economic objectives with environmental and social governance standards. By acting as a credibility filter for green financing, TKBI strengthens investor confidence, supports national economic sovereignty, and positions nickel downstreaming not only as a value-added export strategy but also as a key driver of Indonesia's transition toward net-zero emissions and the achievement of the SDGs.

5.3.2 Cross-Continental Strategy: Indonesia's Trade Maneuvers in the Face of Global Tariff Escalation

Based on the IFE–EFE and SWOT analyses quantified using the Analytic Hierarchy Process (AHP), this study identifies Strategy A2 as the priority policy orientation, emphasising selective protectionism toward the United States alongside export market diversification through multilateral trade agreements, particularly RCEP and IEU-CEPA. This strategic direction is consistent with expert insights obtained from in-depth interviews with academics from the Faculty of Economics and Business at Jenderal Soedirman University.

Within this framework, the Financial Services Authority (OJK) plays a strategic role in supporting trade integration and economic resilience by strengthening export financing and maintaining financial system stability. Regulatory instruments such as POJK No. 9/POJK.05/2022 enhance governance and supervision of export financing institutions, while POJK No. 8/POJK.05/2024 encourages innovation in export-related insurance products to mitigate risks such as credit and political risks (Otoritas Jasa Keuangan, 2022; Otoritas Jasa Keuangan, 2024).

However, export-oriented capital market instruments remain limited, creating opportunities for OJK to promote financing innovation—such as global supply chain bonds and sustainability-linked export loans—and to strengthen export risk protection in line with its mandate to support sustainable economic growth and global competitiveness (Riadi, 2025).

1. RCEP (Regional Comprehensive Economic Partnership)
   The Regional Comprehensive Economic Partnership (RCEP) represents a key multilateral platform for Indonesia's export market diversification within the Asia-Pacific region. As the largest trade agreement outside the WTO, RCEP

promotes tariff reduction, trade liberalisation, and streamlined export procedures, thereby reducing transaction costs and enhancing firms' participation in regional value chains (Kementerian Keuangan, 2022). Despite remaining limitations in environmental, labor, and digital trade regulation, RCEP strengthens ASEAN's integration into the global economy and enhances the attractiveness of the region for foreign investment (Maulana, 2021; Bank Indonesia Institute, 2024).

For Indonesia, RCEP functions not merely as a trade liberalization instrument, but as a strategic mechanism to reduce export concentration risk, expand access to Asia-Pacific markets, and reinforce its regional economic influence (Kementerian Koordinator Bidang Perekonomian, 2024).

2. IEU-CEPA (Indonesia-European Comprehensive Economic Partnership)

   In addition to RCEP, Indonesia pursues export market diversification through the Indonesia–European Comprehensive Economic Partnership Agreement (IEU-CEPA) with the European Free Trade Association (EFTA), comprising Iceland, Liechtenstein, Norway, and Switzerland. Established in 1960, EFTA has developed an extensive global trade network through 29 free trade agreements covering 40 partner countries, positioning it as a credible long-term trade and investment partner (European Free Trade Association, 2020). EFTA represents a growing export destination for Indonesia, ranking 15th in 2020 with exports valued at US$2.4 billion, while bilateral trade has expanded at an average rate of 9% per year, with Indonesian exports growing by 11% annually (European Free Trade Association, 2019). Negotiations for IEU-CEPA began in 2007, with the agreement signed in 2018 and implemented in November 2021. The agreement consists of 12 chapters covering trade in goods and services, investment, intellectual property rights, government procurement, competition policy, sustainable trade, and dispute settlement (Ardi & Sebayang, 2022).

   Under IEU-CEPA, Indonesia committed to tariff reductions on 8,565 tariff lines (86.46%), representing 98.81% of import value from EFTA, while Indonesian exports receive 0% tariffs for a wide range of resource-based and manufactured products, including palm oil derivatives, minerals, textiles, footwear, and machinery (Kementerian Keuangan, 2021). Beyond tariff liberalisation, IEU-CEPA expands market access for palm oil and its derivatives through tariff-rate quotas (TRQs), including a 5% annual quota increase in Switzerland, and provides Mode 4 labor mobility provisions that facilitate access for Indonesian professionals and service suppliers in EFTA countries.

   This multi-country configuration positions IEU-CEPA not merely as a trade liberalisation instrument, but as a strategic gateway for Indonesia's integration into European value chains, supporting export diversification, industrial upgrading, and human capital development. Compared to bilateral agreements such as IA-CEPA, whose gains are concentrated in a single partner market, IEU-CEPA offers Indonesia a structurally stronger and more diversified platform to penetrate high-income European markets, align with higher regulatory and sustainability standards, and leverage EFTA's extensive global trade network (Kementerian Perdagangan, 2020).

5.3.3 The Role of OJK in Strengthening P3DN through Sustainable Financial Instruments

Overall, data for 2025 show an increasing trend in the use of domestic products through the P3DN program and better implementation of TKDN. However, the level of use of Domestic Products (PDN) in government procurement of goods/services has only reached 41%, reflecting the high dependence on imported products. This condition has implications for the country's limited ability to optimise revenue from the taxation sector, Non-Tax State Revenue (PNBP), royalties, and dividends.

Therefore, the use of Expendable Products (PBJ) should be maximised to 100% to allocate them to PDN. The realisation of 41% is still far from the strategic target of 52.48% as stipulated in the Ministry of Industry's Strategic Plan for 2020-2024 (Riadi, 2024).

The Program for Increasing the Use of Domestic Products (P3DN) is seen as having a strategic role in strengthening the national economic structure through the multiplier effect arising from increased domestic consumption. Theoretically, this mechanism aligns with the Keynesian Multiplier Effect, whereby an increase in national expenditure drives higher income and consumption, which in turn triggers new economic activity in related sectors (Kementerian Koordinator Bidang Perekonomian, 2021).

Empirical evidence shows that every Rp1 spent on domestic products can generate a return of up to Rp2.2 for the national economy, confirming the role of P3DN in encouraging domestic investment. This increase is reflected in the realisation of investments in Special Economic Zones, amounting to Rp117 trillion, and in strategic industrial zones, amounting to Rp299.7 trillion. P3DN functions not only as an instrument to reduce import dependency but also as a catalyst for sustainable growth through investment, job creation, and the strengthening of the national industry's competitiveness (Kementerian Koordinator Bidang Perekonomian, 2024).

Based on the results of the SWOT, IFE–EFE, and AHP analyses, this study identifies that Indonesia's high dependence on imported goods remains a fundamental challenge to national industrial development. The analysis also underscores the urgency of strengthening the P3DN policy as a strategic approach to enhancing industrial self-reliance, particularly through optimising the potential for import substitution to sustainably reinforce the domestic industrial structure. These findings are consistent with insights from academics at Jenderal Soedirman University, who note that import substitution through the implementation of the Domestic Component Level has been applied in the Tangerang footwear industrial area, where international shoe brands such as Nike, Adidas, Puma, Converse, Reebok, New Balance, and Airwalk are manufactured using primary raw materials sourced from the domestic market.

The research findings further emphasise the importance of structural reform in Indonesia's industrial sector. In addition, this study identifies opportunities to integrate the P3DN policy with national digital platforms, including Gojek, Tokopedia, Traveloka, and Ruang Guru, which could expand market access for domestic products, enhance economic inclusion, and strengthen industrial competitiveness, in support of national economic self-reliance and resilience.

OJK can expand the use of sustainable financial instruments by implementing Sustainability Bonds and Sustainability Sukuk, as regulated by Financial Services Authority Regulation Number 18/POJK.04/2023 concerning the Issuance and Requirements of Debt Securities and/or Sukuk Based on Sustainability. These instruments can be integrated with the P3DN policy by establishing the Domestic Component Level (TKDN) as a Key Performance Indicator (KPI). Companies that successfully achieve the TKDN target are entitled to incentives, such as reduced bond coupon rates or loan interest rates, as well as an increase in their sustainability reputation in the eyes of investors.

This scheme aligns with the concepts of Socially Responsible Debt Securities (EBUS Sosial) and Sustainable Debt Securities (EBUS Keberlanjutan), thereby not only supporting green financing but also strengthening import substitution and national industrial resilience.

In addition, the obligation to prepare sustainability reports can be expanded to include P3DN indicators, so that companies are more transparent in reporting the proportion of local products used in their production chains. This mechanism not only increases accountability but also encourages businesses to favor domestic products, thereby strengthening national competitiveness and economic independence. The provisions regarding sustainability reporting obligations are regulated in Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, which states that if the Sustainability Report is submitted separately from the Annual Report, then the report must be submitted to the OJK every year no later than April 30 of the following year.

5.3.4 Reducing the Hegemony of the US Dollar through the Implementation of LCS

Indonesian Economic and Trade Statistics data shows that more than 90% or the equivalent of USD 269 billion of Indonesia's total trade in goods and services, which reached USD 298 billion in 2020, used the US dollar. In fact, Indonesia's trade in goods and services is carried out primarily with countries in the Asia and Middle East regions, accounting for 72%. Conversely, trade between Indonesia and the US is relatively small, accounting for only 9% of total trade (Bank Indonesia Institute, 2023).

On the other hand, the dominance of the US dollar in transaction settlements remains striking, accounting for 94 percent of exports and 80 percent of imports. This figure reflects a high level of dependence on foreign currencies. If there is significant volatility in the exchange rates of ASEAN countries against the US dollar, the stability and smooth running of Indonesia's trade activities in this region are very likely to be substantially disrupted (Bank Indonesia Institute, 2023).

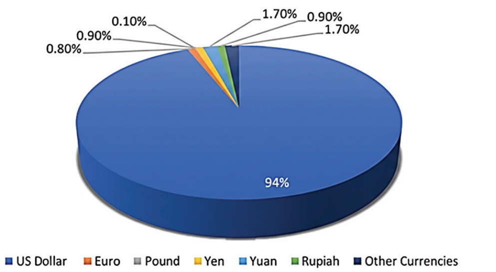

Figure 6. Top 10 Largest Investor Countries for Indonesia Based on Actual Investment in 2024 (%)

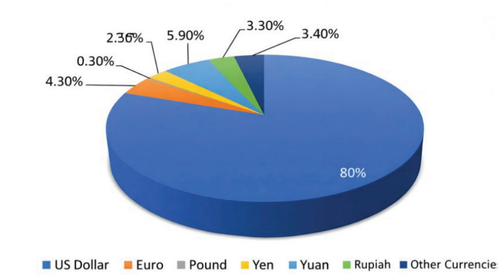

Figure 7. Indonesia International Trade Surplus with USA 2020-2024 (Billion US$)

Source: BI (2023)

This high reliance on the USD could increase the Indonesian economy's vulnerability to global shocks (Rasdiyanti & Suyono, 2022). In recent years, the trend toward currency diversification in foreign exchange reserves or their use as a means of payment for international transactions has been growing across the world. Local Currency Settlement is the settlement of bilateral transactions between two countries using local currencies in international economic transactions (Bank Indonesia Institute, 2024).

The implementation of the Local Currency Settlement (LCS) scheme is basically capable of mitigating the impact of exchange rate fluctuations, which have been a challenge in international trade. If implemented on a massive, structured scale, LCS could reduce the dominance of the US dollar in the global financial system, which could indirectly become a concern for developed countries such as the United States under a protectionist leader like Donald Trump. Although its development will take a long time, given that Indonesia is a small, open economy and many countries still rely on currencies considered safe havens, the long-term opportunities for LCS remain promising. The long-term opportunities are highly strategic. The LCS is not merely a technical tool but also a symbol of monetary sovereignty and a step forward towards a more balanced global financial architecture.

In fact, bilateral transactions within the LCS framework offer several advantages. First, the movement of Asian currencies such as the ringgit, baht, yen, and renminbi against the rupiah tends to be stable and in the same direction, with a correlation above 0.82. This benefits domestic businesses that depend on raw materials from these countries. Second, the LCS reduces the risk of US dollar volatility and allows for direct conversion, enabling imports to be paid for in rupiah, making transactions more efficient and reducing exchange rate risk (Bank Indonesia Institute, 2023).

Another strategic benefit of implementing LCS is addressing the imbalance of local currencies in direct investment flows, both inbound and outbound. The high dependence on the US dollar has created exchange rate risks and inefficient conversion costs. By encouraging transactions using local currencies with key partner countries, particularly in the ASEAN region, Indonesia not only strengthens monetary sovereignty but also creates a more stable and inclusive regional financial ecosystem. (Bank Indonesia Institute, 2024). The consistent dominance of foreign direct investment flows from ASEAN countries, namely Singapore to Indonesia, is evident in its achievement of becoming the number one investor country, contributing more than USD 20 billion in 2024 (BPS, 2025).

This achievement reflects the significant potential for efficiency if transactions are conducted without dependence on a third country's currency. In this context, the implementation of Local Currency Settlement (LCS) is believed to strengthen the resilience of the domestic financial market while encouraging stronger trade and investment relations with partner countries (Bank Indonesia, 2022). To date, Indonesia has implemented the LCS framework with Thailand and Malaysia for the ASEAN region. Outside the ASEAN region, Indonesia has implemented the LCS framework with Japan and China. At the commitment stage, Bank Indonesia has signed Letters of Intent (LoI) on LCS with the Philippines, Singapore, the Bank of Korea, and India. The LCS frameworks currently in place with Thailand, Malaysia, Japan, and China will be developed into LCT (Bank Indonesia, 2024).

The OJK's role in this context is to supervise and ensure that the financial systems and mechanisms supporting LCS implementation operate smoothly, safely, and stably. OJK serves to maintain the stability and credibility of Indonesia's financial services sector, enabling it to manage external impacts, including those from protectionist tariff policies and the monetary policies of developed countries such as the United States. Through this supervision, OJK helps encourage the transition to local currencies in international transactions, strengthen monetary sovereignty, and reduce the financial sector's vulnerability to global turmoil driven by the dominance of the US dollar. In short, the LCS policy framework is a technical and strategic instrument that is monitored and operationally supported by the OJK in order to reduce the negative impact of US protectionist policies, maintain the stability of the rupiah exchange rate, and strengthen Indonesia's financial system in the face of global risks triggered by the dominance of the US dollar (OJK International Information Hub, 2025).

6 Conclusion and Policy Recommendations

6.1 Conclusion

Based on the SWOT analysis, Indonesia exhibits strong internal strengths, particularly its geostrategic position, abundant natural resources supporting downstream industrial development, and policy support, such as the Program for Increasing the Use of Domestic Products (P3DN) and the Local Currency Settlement (LCS) scheme implemented by Bank Indonesia. The IFE–EFE analysis places Indonesia in Quadrant I ("Grow and Build") of the IE matrix, indicating the need for aggressive and proactive strategies to strengthen domestic capabilities while responding adaptively and sustainably to external challenges.

The imposition of a 19% reciprocal tariff by the United States, approved by President Prabowo Subianto, presents short-term export opportunities for Indonesia. However, policy orientation should not focus solely on immediate gains, as tariff reductions are accompanied by significant commitments, including the obligation to purchase 50 Boeing 777 aircraft, USD 15 billion in energy commodities, and USD 4.5 billion in agricultural products. These requirements pose risks to fiscal stability, foreign exchange reserves, and dependence on foreign financing.

Therefore, the government must exercise caution in trade negotiations that may increase exposure to exchange rate volatility. Each strategic purchase commitment should be carefully evaluated to prevent negative socio-economic impacts, such as job losses or rising poverty. For state-owned enterprises, particularly Garuda Indonesia, aircraft procurement decisions must be grounded in sound financial analysis to avoid budget inefficiencies and additional fiscal burdens.

In the medium to long term, policy priorities should focus on strengthening Indonesia's bargaining position through market diversification, export deregulation, and the utilisation of multilateral agreements such as RCEP and IE-CEPA. Accelerating the implementation of LCS is also essential to reduce dependence on the US dollar and maintain exchange rate stability. Furthermore, to address economic dependence on China and the risk of dumping, Indonesia needs to reinforce industrial downstreaming, enforce strict AMDAL standards, limit the use of foreign labor, and promote economic independence by strengthening state-owned enterprises and developing strategic downstream industries.

6.2 Policy Brief: Financial Services Authority (OJK) Policy Recommendations for Maintaining Financial System Stability in the Face of Global Tariff Policy Impacts

Global economic turmoil, particularly protectionist tariff policies such as those implemented by the United States, poses complex transmission risks to Indonesia's financial system. The findings of this study indicate that tariff shocks are transmitted through the trade sector, leading to exchange rate volatility, subsequent capital flow pressures, and heightened risks in the banking sector and capital markets. Therefore, a series of strategic and integrated policy responses from the Financial Services Authority (OJK) is required to maintain financial system resilience in both the short and long term.

Based on the identified transmission channels, OJK's policy recommendations are structured around five main pillars, each directly addressing a specific risk identified in the analysis.

1. Strengthening Foreign Exchange and Banking Liquidity Management.
   Given the finding that exchange rate volatility constitutes the primary and most immediate transmission channel of global tariff shocks, OJK should instruct banks to strengthen exchange rate risk management by requiring hedging and stress testing against exchange rate fluctuations. Banks with high exposure to vulnerable export-oriented sectors, such as textiles, footwear, and steel, should maintain adequate foreign-exchange liquidity reserves. In addition, hedging derivative instruments should be encouraged to stabilise the financial conditions of corporations and banks.
2. Sectoral Credit Risk Supervision.
   The analysis finds that trade disruptions and exchange rate pressures adversely affect the cash flows of export-oriented firms, increasing the risk of non-performing loans (NPLs). In response, OJK eeds to tighten supervision of NPL ratios in export sectors most affected by tariff policies. Banks should be encouraged to conduct early and proactive loan restructuring for debtors showing signs of cash flow disturbances to prevent NPL escalation.
3. Capital Market Stabilisation.
   The findings further indicate that heightened exchange rate volatility increases the likelihood of short-term capital outflows, potentially triggering market instability. Accordingly, OJK must coordinate closely with the Indonesia Stock Exchange (IDX) and the Indonesian Central Securities Depository (KSEI). Preventive mechanisms, such as circuit breakers and stock price stabilisation policies, should be in place to mitigate panic selling. In addition, deepening the domestic financial market through the issuance of rupiah-denominated corporate bonds is essential to reduce dependence on U.S. dollar–based financing.
4. Inter-Institutional Policy Synergy.
   Given that the identified risks operate across monetary, financial, and fiscal transmission channels, effective coordination with Bank Indonesia (BI) and the Ministry of Finance (Kemenkeu) is crucial. Together with BI, OJK should support the expansion of Local Currency Settlement (LCS) to reduce U.S. dollar dominance in bilateral transactions. With Kemenkeu, fiscal and financial policy synchronisation is necessary to ensure that downstreaming and import substitution incentives can be accessed by business actors without increasing systemic risk (Rachel et al., 2025; Andrena, 2025)
5. Systemic Strengthening and Financial Education.
   The study highlights the need for early detection mechanisms to prevent the accumulation of systemic risks arising from external trade shocks. Therefore, OJK should develop a dedicated early warning system (EWS) to monitor the financial sector impacts of global tariff policies. In addition, OJK plays an important role in enhancing financial literacy among exporters and private sector

actors, particularly regarding exchange rate risk management and alternative financing options from the domestic capital market.

To ensure consistency with Indonesia's broader development strategy, these recommendations are integrated with national policy priorities. In supporting industrial downstreaming, OJK should encourage national banks to channel productive credit while closely supervising fund allocation to prevent deterioration in asset quality. In advancing market diversification under RCEP and IEU-CEPA, the OJK can promote capital market instruments, such as global supply chain bonds, and strengthen export insurance mechanisms. To support P3DN, OJK should enhance financial inclusion by expanding bank and fintech lending to MSMEs/IKMs through guarantee schemes, while maintaining strong consumer protection. In relation to LCS, OJK is responsible for strengthening supervision of foreign exchange banks and improving their readiness in managing exchange rate risks, in coordination with BI.

Reflecting the different time horizons of the identified risks, policy recommendations are categorised by implementation timeframe.

1. Short term: Address immediate risks arising from exchange rate volatility, capital flow pressures, and sectoral NPL escalation through enhanced foreign exchange supervision, credit risk monitoring, and capital flow management.
2. Medium term: Mitigate structural vulnerabilities related to foreign currency dependence by deepening the domestic financial market through the development of rupiah-denominated bond instruments and hedging derivatives.
3. Long term: Strengthen overall financial system resilience by integrating OJK policies with national priorities—such as LCS, industrial downstreaming, P3DN, and market diversification—supported by sustained coordination with BI and the Ministry of Finance.

Disclosure

Conflict of Interest

The authors declare that there is no conflict of interest related to the publication of this paper.

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Data Availability

The data supporting the findings of this study are derived from publicly accessible and officially recognised sources, including Statistics Indonesia (BPS), Bank Indonesia (BI), the Financial Services Authority (OJK), the U.S. Census Bureau, Danareksa Research Institute, and the Ministry of Energy and Mineral Resources. All data are open access and can be obtained directly from the respective institutions. Additional information is available from the corresponding author upon reasonable request.

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