US-ASEAN
BUSINESS COUNCIL, INC.

CRITICAL CATALYSTS TO COMPETITIVENESS

PRIORITY BARRIERS FOR THE U.S PRIVATE SECTOR AND HIGH-IMPACT REFORMS TO BOOST INDONESIA'S BUSINESS ENVIRONMENT AND ADVANCE THE U.S.–INDONESIA ECONOMIC TIES

US-ASEAN BUSINESS COUNCIL,MAY 2025

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Critical Catalysts to Competitiveness: Priority Barriers and High-Impact Reforms to Boost Indonesia's Business Environment and Advance the U.S.–Indonesia Economic Ties

Executive Summary

Although the U.S may not be Indonesia's largest trading partner by volume, both governments share an interest in seizing current trade reconfiguration efforts to diversify global trade relationships and strengthen supply chain resilience. More importantly, Indonesia is using this momentum to boost its economic competitiveness. This effort needs not only swift but also targeted reforms which can create the biggest impact to the US-Indonesia business relationship.

Responding to U.S. Tariffs by Boosting Competitiveness

President Trump's reciprocal tariffs policy imposed a 32 percent import tax on Indonesian goods which would go into effect in early July. While trade with the U.S. accounts for less than 2% of Indonesia's gross domestic product, the United States is Indonesia's second largest trade partner and fourth largest investment partner. The U.S offers access to high-quality investment, advanced innovation, and integrated supply chains – all of which are critical for Indonesia's goal to widen and deepen its footprint globally.

Prabowo's "thousand friends zero enemies" policy sets Indonesia to diversify economic partnerships – a strategy embraced by many ASEAN countries. While China steadily expands trade with Indonesia, growing at an average annual rate of 17.5% over the past 5 years, US-Indonesia trade has only grown by 3.95% annually. Nevertheless, Indonesia is working to shift this trajectory through various avenues such as the comprehensive strategic partnership, Indo-Pacific Economic Framework, and its ongoing reciprocal tariffs negotiation with the U.S.

In response to the new U.S tariff policy, Indonesia successfully secured a place at the negotiation table in Washington D.C., alongside Cambodia, Malaysia, Philippines, Singapore and Vietnam. Coordinating Minister for Economic Affairs Airlangga Hartarto was among the early negotiators who presented a robust package which focused on trade deficit reduction, addressing non-tariff measures, and boosting deregulation efforts. While the US is negotiating with more than 50 of the 60 countries, the Probowo Administration views this as both a challenge and opportunity to achieve a deal with targeted, high-impact deliverables within the agreed 60-day negotiation timeframe.

Key Regulatory Barriers and High- Impact Reforms

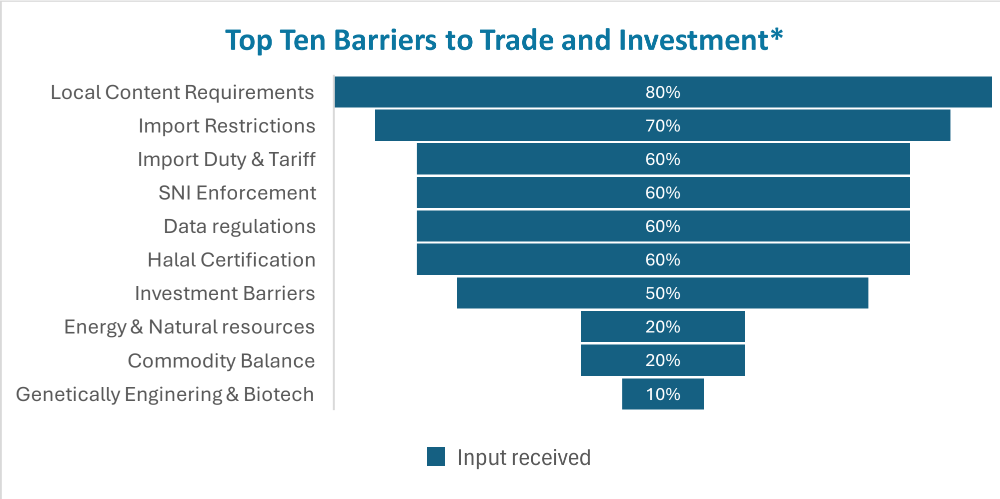
To support the bilateral reciprocal tariff talks, USABC held public-private dialogues and identified strategic recommendations, including the Summary of Investment and Trade Policy Recommendations covering 32 non-tariff barriers. To accelerate the efforts, members and leaders from UASBC's Indonesia Committee and 8 industry committees[1], **identified Top Ten Priority Non-Tariff Barriers to Trade & Investment (Appendix 1) and further highlight five most impactful reforms upon those priority barriers**.

The Ten Priority Barriers to Trade and Investment

Referring to the Summary of Investment and Trade Policy Recommendations and the insight from USABC's Trade and Tariff Working Group, this section summarizes 10 priority barriers.

*Please refer to **Appendix 1** to see the full description of issues, recommendation and impact.

[1] This report include input from the members and leaders of USABC's Indonesia Committee, Supply Chain, ICT Committee, Health and Life Sciences Committee, Food and Agriculture Committee, Aerospace, Defense & Security Committee, Energy Committee, Financial Services Committee, Custom & Trade Facilitation Committee.



1.	**Local Content Requirements** *Relevant regulations:* • *Government Regulation No. 29 of 2018 – Empowerment of Industry* • *Minister of Industry Regulation No. 16 of 2011 – Provisions and Procedures for the Calculation of Domestic Component Level (TKDN)* • *Minister of Industry Regulation No. 22 of 2020 – Provisions and Procedures for the Calculation of TKDN for Electronic and Telematic Products* • *Minister of Industry Regulation No. 29 of 2017 – Provisions and Procedures for the Calculation of TKDN for Cellular Phones, Handheld Devices, and Tablet Computers* • *Minister of Industry Regulation No. 16 of 2020 – Provisions and Procedures for the Calculation of TKDN for Pharmaceutical Products* • *Minister of Industry Regulation No. 31 of 2022 – Provisions and Procedures for the Calculation of TKDN for Medical Devices and In Vitro Diagnostic Medical Devices* • *Presidential Instruction No. 2 of 2022 – Acceleration of the Use of Domestic Products and Empowerment of Micro, Small Enterprises in the Context of National Movement* • *Presidential Regulation No. 46 of 2025 – Government Procurement of Goods/Services* • *Ministry of Energy and Mineral Resources Regulation No. 15 of 2013 – Utilization of Domestic Products in the Upstream Oil and Gas Business*
2.	**Import Restrictions** *Relevant regulations:* • *Minister of Trade Regulation No. 31 of 2023 – Provisions on Business Licensing, Advertising, Development, and Supervision of Business Actors in Trade Through Electronic Systems (PPMSE)* • *Minister of Trade Regulation No. 8 of 2024 – Import Policy and Provisions* • *Planned Minister of Finance Regulations – Implementation of Safeguard and Anti-Dumping Duties* • *Minister of Industry Regulation No. 34 of 2019 – Registration of Motor-Vehicle Types and Variants* • *Minister of Finance Regulation No. 190 of 2022 – Release of Imported Goods for Use*
3.	**Import Duties and Tariffs** *Relevant regulations:* • *Minister of Finance Regulation No. 190 of 2022 – Release of Imported Goods for Use* • *Information Technology Agreement (ITA)*
4.	**Mandatory Enforcement of Indonesian National Standards (SNI)** *Relevant regulations:* • *Ministry of Communications and Informatics Decree No. 519 of 2024 – National Data Center Implementation* • *Minister of Industry Regulation No. 8 of 2025 – SNI for Automotive Lubricating Oil* • *Minister of Industry Regulation No. 45 of 2022 – Industrial Standardization*

5.	**Data regulations: Data Localization, Personal Data Protection and Cybersecurity Bill** *Relevant regulations:* • *Government Regulation No. 71 of 2019 – Operation of Electronic Systems and Transactions* • *Law No. 27 of 2022 – Personal Data Protection Law* • *Cybersecurity and Resilience Bill*
6.	**Halal Certification** *Relevant regulation: Government Regulation No. 42 of 2024 –Halal Product Assurance System Implementation*
7.	**Investment Barriers** *Relevant regulations:* • *The Postal Activity sector (KBLI 53100)* • *BI Reg No. 18/40/ PBI/2016 on Payment Transaction* • *BI Reg No. 19/08/2017 on National Payment Gateway (NPG)*
8.	**Energy & natural resources restrictions** *Relevant regulations:* • *Presidential Regulation No. 22 of 2017 – National Energy General Plan (RUEN)* • *Government Regulation No. 8 of 2025 – Retention of Export Proceeds in Foreign Exchange for Natural Resource Exporters*
9.	**Commodity Balance** *Relevant regulations: Presidential Regulation No. 61 of 2024*
10.	**Genetically Engineered or Biotech Seeds** *Relevant regulations: Ministry of Agriculture Regulation No. 36 of 2016 – Safety Assessment of Genetically Engineered Feed Products*

Five High-Impact Reforms within the Ten Priority Barriers

This section highlights reforms in 5 key areas, within the top ten list of priority barriers, that will support more balanced negotiation outcomes but also push forward Indonesia's goal to create a more competitive business environment. See **Appendix 1** for more elaborate description of issues, recommendations and impact.

1. Local Content Requirements (LCR): Balancing Localization and Economic Growth

The US private sector commends the recent LCR reform that lower LCR minimum to 25% if no domestic products are available. However, a stronger compaetitive advantage strategy can help create a more sustainable environment that drives investment and innovation and builds capabilities, particularly in areas where domestic materials and technologies are still insufficiently developed in areas like ICT, healthcare (pharmaceutical and medical devices), oil and gas sectors. Reforming LCRs in these key sectors is critical to open access to cutting-edge technology, increase efficiency in high-value sectors, boost fair market competition and attract long-term investment.

LCRs aims to boost domestic industries, however, rigid scope, calculation and implementation unintentionally presents the most significant challenges for various industries (see Appendix 1), hindering access to innovative medicines, more affordable automotive products, and energy project viability, among others. Moreover, LCR calculation that incorporating Corporate Contribution Value (*Bobot Manfaat Perusahaan* or BMP) such as capacity buildings, CSR, Research & Development and both manufacturing and non-manufacturing business investments, can further grow domestic capability in a more sustainable way while driving economic growth.

To catch up with the vast development of technology and innovation, Indonesia should consider easing its LCR regime to better access emerging technological sector. Refining these rules to reduce the barriers will also empower domestic businesses including Indonesian SMEs and attract long-term partnerships with U.S businesses, while ensuring patients and consumers gain faster access to innovative products and services.

2. Transforming Import Regulations that Promote Trade Agility and Industry Development

Indonesia's evolving trade and import restrictions have created unintended barriers both domestic and foreign businesses. Frequent changes on importation, as seen in Ministry of Trade (MOT) Regulation No. 36/2023 which then was revised into MoT Regulation No. 8/2024, has been presenting unpredictability, increased cost and compliance challenges, especially when paired with rigid technical approval requirements such as low quota issuance rates, delayed quota approvals, and mandatory physical verifications.

Indonesia could significantly enhance its competitive capabilities by shifting from restrictive regime toward incentive-based policies, as seen in other ASEAN peers. Moving toward a more investor-friendly trade environment, Indonesia would benefit from clearer, transparent, and streamlined regulatory reforms. Reforming these import barriers will strengthen Indonesia's food security and supply chain resilience high-potential sectors such as automotive, agriculture, and e-commerce.

Moreover, eliminating quota and technical approvals (Pertek) requirements will create transparent and better flow import from the U.S. To mitigate risk, allowing mutual recognition for certifications or quality control from trusted foreign laboratories, while implementing targeted, risk-based quota verification for new suppliers or products with a history of non-compliance will balance safety and economic growth. Another example that reduces trade gap with the U.S is by reducing tariffs on essential inputs like food corn and soy – a strategy that will decrease dumping risk from China and India and encourage US businesses to make long-term investment.

3. Import Tariffs and Duties Reforms to Attract high-value Investment

To enhance Indonesia's global competitiveness and demonstrate a strong commitment to an open and investor-friendly digital ecosystem, reforms for import tariffs and eliminating duties and ITA tariff eliminations will ensure consistent implementation of Indonesia's WTO commitments – a measure that is also repeatedly referenced on the National Trade Estimate Report 2025. Aligning with international regulations and implementation of Indonesia's WTO commitments, combined with tax clarity regime for critical sectors that allows mobility, such as automotive and aerospace, promote high-value investment in technology and manufacturing, and opening up access to essential raw material imports that are not available domestically.

For example, by maintaining a 0% tariff under the ITA for HS subheading 8517, eliminating critical technical barriers such as import declaration requirements for intangible digital goods and duties on electronic transmissions, as well as aligning with international frameworks such as the Digital Economic Framework Agreement (DEFA) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Indonesia can and strengthen its position to expand tangible and intangible cross-border services. Meanwhile, lower tariff for critical parts in high-tech and digital technology industries attracts greater investment in physical and digital infrastructure, while accelerating innovation-led growth and improve both air and digital connectivity in Indonesia, allowing it to become a more competitive regional hub.

4. Indonesia National Standard (SNI) Enforcement that Foster Innovation and International Integration

Through various regulations, service providers are obligated to obtain SNI certificates as part of the public procurement process. While this policy aims to increase control over import and income, without harmonization with the international equivalence, it results in unintended consequences such as supply chain bottlenecks, higher compliance costs. In the digital sector, cloud service providers, for instance, are required to comply with SNI standards that overlap with ISO, without clear implementation guidance. Comprehensive implementation guidelines and flexibility through Mutual Recognition Agreements (MRA) – a scheme that is globally proven to facilitate efficient standard and conformance system – will provide timely market access which are crucial in sectors like electronics and healthcare.

Moreover, a flexible and transparent standards regime aligned with international certifications will lower administrative burdens, increase supply chain resilience, and enable Indonesian businesses to integrate more deeply into global markets. Such approach also ensures stable prices and faster availability of essential goods that are not yet available domestically. Adoption of MRA and ISO standards as recognized requirements is a key unlock stabilized pricing and critical goods supply. Reforms to streamline bureaucratic procedures for certification and trademark registration also allows better compliance. For example, more realistic timelines under MOI Regulation No. 8/2025 will reduce delayed certification to obtain critical for automotive components.

5. Data Regulations: Creating a Globally Connected Digital Economy through Cross Border Data Flow, Personal Data Protection and Cybersecurity Frameworks

Regulatory reforms that embrace global interoperability will enhance cybersecurity, digital financial inclusion, and scalability for both local and international businesses. A forward-looking data governance framework significantly accelerates U.S. digital investment, ensure privacy protections. This would not only strengthen Indonesia's role as a digital economy and digital finance hub but also support its potential of digital economy growth beyond $130 billion by 2025.

In particular, alignment with international standards, which include simplified certification and market access for cybersecurity products, leveraging globally recognized standards and existing mechanisms such as the Common Criteria (CC) will encourage U.S and global technology leaders to invest in Indonesia's cloud or public digital infrastructure, talent development, and innovation ecosystems. Reduced overlapping or duplicate requirements also reduces administrative and regulatory barriers and costs, especially for SMEs which are less likely to have the capacity or resources to navigate complex administrative and regulatory burdens. Additionally, Indonesia's financial institutions will be better positioned to compete regionally and achieve their financial inclusion goals.

If Indonesia adopts policies that promote cross-border data flow, a Personal Data Protection law that offer clear implementation guidance, combined with effective cybersecurity law implementation without overlaps, Indonesia will be able to see certainty, secure interoperability and robust risk management. Such a conducive data regime would increase the ability to leverage collective expertise and global technology ecosystem, enabling Indonesia to benchmark against global best practices. Furthermore, it will encourage U.S and global technology leaders to invest in Indonesia's cloud or digital infrastructure, talent development, and innovation ecosystems and open up access hyperscale data center with cloud computing, AI from the U.S. and global network providers.

Other priority barriers

The additional 5 priority barriers under Appendix 1 "Top Ten Priority Non-Tariff Barriers to Trade and Investment" also play important role from the US private sector's perspective. For example, regulatory reforms across halal certification, investment barriers, biotech, and energy policy create a significantly more competitive business environment. On halal certification, faster recognition of foreign halal bodies and labeling reforms—particularly for pharmaceuticals, food & beverage as well as agriculture products, providing Indonesian consumers with access to high quality products and, in some cases, life-saving treatments. Removing investment restrictions such as easing foreign equity caps would align Indonesia with regional hubs like Singapore and Malaysia.

Moreover, a reform that include prudent import approvals in the LNG sector and a wide range of commercial solutions for long term national energy plans would enhance Indonesia's energy security and solidify Indonesia's standing as a reliable energy partner. Meanwhile, investment barrier reform will immediately increase Foreign Direct Investment (FDI) and stimulate economic growth. Not only adding support for President Prabowo's priority programs, but better investment regime will also provide businesses with better access to international capital markets for expansion and development projects, driving job creation and financial inclusion goals.

In addition, reform on commodity balance as a monitoring tool, will significantly reduce barriers, improve supply chain flexibility, and maintain oversight without disrupting imports. Classic barriers such as commodity balance, and emerging issues such as Child Protection policy, are both issues that the U.S government has been focusing on. Generally, these reforms provide ensures a balanced approach to meeting domestic demand for commodity and digital products while boosting competitiveness through efficiency, scalability, and market responsiveness.

Challenge into Opportunity: Achieve the "*Indonesia Emas 2045*" Goal

With expanded foreign investment and reduced regulatory complexity for critical products, Indonesia can deepen bilateral ties with the United States—enhancing its reputation as a reliable partner and strengthening regional supply chain resilience. In addition to Increased import from the US which potentially influencing a review of U.S. reciprocal tariffs, improved regulatory clarity, reduce business cost and streamlined processes would, foster innovation, and build investor confidence.

As trade and investment patterns shift away from geographic proximity and towards geopolitical spectrum, Indonesia is stepping into a central role in the China+1 strategy. Beyond U.S.-Indonesia economic relations, aligning more closely with globally recognized standards would enable Indonesia to further integrate into international supply chains and elevate Indonesia's leadership in ASEAN as a reliable hub for the digital economy, healthcare, energy, aerospace, and supply chain sectors, attracting trade and investment globally.

Ultimately, these combined efforts to expand Indonesia's trade, investment, manufacturing and supply chain in both domestic and global ecosystem will be generating a snowball effect that includes sustainable and accelerated economic growth, job creation opportunities that are sustainable and rely on its ecosystem, and stronger energy, food, and digital security. These outcomes will support Indonesia's goal of escaping the middle-income trap and achieving high-income status by its centennial anniversary in 2045.

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Appendix 1: Top Ten Priority Non-Tariff Barriers to Trade and Investment

(Based on the USABC Summary of Investment and Trade Policy Recommendations submitted to CMEA in April 2025)

No	Barriers	Description and Main Issue	Recommendations	• Expected Impacts of Reforms
1.	**Local Content Requirements (LCR)** *Relevant regulations:* *1. Government Regulation No. 29 of 2018 – Empowerment of Industry* *2. Ministry of Industry (MOI) Regulation No. 16 of 2011 – Provisions and Procedures for the Calculation of Domestic Component Level (TKDN)* *3. MOI Regulation No. 22 of 2020 – Provisions and Procedures for the Calculation of TKDN for Electronic and Telematic Products* *4. MOI Regulation No.*	**LCR for Electronic and Telematic Products** • **Revision of MOI No. 16/2011 and No. 22/2020** requires clear comparative advantage strategy. • Minimum inter-ministerial coordination results in fragmented LCR implementation. • Corporate Contribution Value (*Bobot Manfaat Perusahaan* or BMP) activities are not considered in the current LCR calculation. • The current regulation focuses on manufacturing aspects in LCR, while intangible assets such as intellectual property (IP) are overlooked. • There is a need for better control and monitoring of counterfeit products.	• **Strengthen inter-ministerial coordination** to ensure that LCR policy supports long-term industrial growth. • **Promote knowledge transfer through incentives** for multinational companies investing in training and collaboration with local firms. • **Recognize BMP contributions and increase the weight of IP-related investment** in LCR calculation to encourage innovation. • **Better control and monitoring on counterfeit products and non-standard products** including Public Procurement System (e-KAT), e-Commerce and offline market	• **Higher income from Import Duties**: with better control and monitoring of LCR, consumer and end-user will get more protection, Indonesian Government will get more income from Import Duties and fair treatment for brand owner (while the illegal importers not paying any duties).
		LCR for Software in Public Procurement • **Revision of MOI 16/2011** regulates goods and services absent specific LCR regulations, but the prescribed calculation does not take into account the unique nature of certain goods and services (e.g., cloud services). • **MOI Regulation 22/2020** governs LCR for electronic and telematics products but limited clarity on compliance specifics, such as specific LCR percentages, calculation method, and product scope. • **President Instruction No. 2/2022** stipulates LCR thresholds in government procurement. The government's e-catalog generally classifies cloud as software and has not recognized cloud	• **No expansion of LCR**: The government needs explicit statement of no further expansion of LCR to other industries (beyond electronics) and not exclude ICT services. • **LCR should be considered as a minimum requirement in public procurement,** instead of a criteria for a "best value" bid evaluation and contract award process. "Best value" means the most advantageous balance of price, quality, and performance identified through competitive procurement based on transparent set of criteria. • **Specifically regulating LCR for unique non-software items** such as cloud services and data center components as the government pushes for down streaming of the industry.	• **Accelerated Digitalization**: With fewer barriers to entry, government, SOEs, private and SMEs gain faster and expanded access to secure, enterprise-grade AI and hybrid cloud solutions, which supports Indonesia's digitalization agenda, reduce business costs, and increase competitiveness. • **Greater Investment in Software Innovation**: Improved regulatory clarity encourages global tech providers to expand investments in local partnerships, software development, public digital infrastructure, and digital upskilling. • **Stronger Tech Ecosystem Alignment**: A balanced LCR policy fosters meaningful collaboration between multinational firms

No	Barriers	Description and Main Issue	Recommendations	• Expected Impacts of Reforms
	29 of 2017 – Provisions and Procedures for the Calculation of TKDN for Cellular Phones, Handheld Devices, and Tablet Computers 5. *MOI Regulation No. 16 of 2020 – Calculation of TKDN for Pharmaceutical Products* 6. *MOI Regulation No. 31 of 2022 – Calculation of TKDN for Medical Devices and In Vitro Diagnostic Medical Devices* 7. *Presidential Instruction No. 2 of 2022 – Acceleration of the Use of Domestic Products and Empowerment*	services as a separate category, complicating compliance in public procurement. • There is still an absence of MOI's guidelines for LCR enforcement for cloud service providers in government procurement, such as the requirement of certification by local assessors	• **USABC supports relaxation of existing LCR**, including for cloud, 4G and LTE devices under U.S.-Indonesia tariff negotiations • **Create clear MOI guidelines** for LCR calculation that supports effective compliance without hindering services and investment.	and local developers, enabling knowledge transfer and long-term growth. • Clear guidance creates compliance certainty and lower operational costs **encouraging innovation and investment in enterprise-grade software solutions**
		LCR for Healthcare: Pharmaceutical and Medical Devices • **Innovative healthcare industry is not growing**: Indonesia has the lowest availability of new drugs in the Asia-Pacific region, at only 9% – there is no further investment in this sector. Even some multinationals have left Indonesia (e.g., Abbvie, Eli Lily, Sandoz, and Sanofi). Meanwhile, innovative drugs and medical devices are available in neighboring countries such as Singapore and Malaysia – redirecting GDP outward. Limiting innovative drugs to private hospitals does not provide inclusive access for out-of-pocket and BPJS patients. • **LCR calculation excluding high value investment:** Many foreign pharma companies have built manufacturing plants in Indonesia, but LCR is only calculated based on each product rather than the overall business, these investments are not taken into account. Meanwhile Chinese companies meet LCR pharma only from repackaging, highlighting calculation flaw. Capacity buildings investment, mostly conducted by U.S and multinational companies, are high value investment which are not	• **Review the LCR calculation to include capacity buildings, research and development** and other non-manufacturing elements as part of LCR (these components may be included as part of the direct materials per latest revised draft calculation). In addition, expand the scope and definitions of LCR and recognize overall business investment such as building manufactures, instead of only including product-based calculation • Develop a long-term roadmap and industry mapping to assess resource capacity in the medical device sector. • Avoid a one-size-fits-all approach in the revised LCR Regulation and implement in phases based on sector readiness. • Recognize various forms of company contributions, including BMP in calculation • Provide incentives for innovation and R&D investment. • Ease policies on imported medical devices (AKL) to align with Indonesia's Health Transformation priorities. • Establish a cross-ministerial/institutional taskforce between MOI and the Ministry of Health (MOH), to ensure that policies encourage sustainable investment, innovation, and access to medical technology.	• **Reforms for LCR in healthcare opens up the competitive landscape for medical devices and become a hub for regional healthcare industry**. Without overly limited LCR and undue economical costs, Indonesia will have access to newer, innovative devices which will reach the patients faster and allow procurement of innovative products with a balance of price, quality and performance. • **Accessibility of high-quality medical devices** and better access to innovative drugs that are needed by patients / hospitals (under BPJS scheme) making patients at risk of not getting the right and the most effective treatment and impacting government budget (need to be treated longer / repeat treatment). • Flexibility in LCR policy creates a healthcare ecosystem that is integrated, competitive, and able to meet domestic needs and beyond, significantly **supporting Indonesia's agenda become a regional healthcare hub.**

No	Barriers	Description and Main Issue	Recommendations	• Expected Impacts of Reforms
	of Micro, Small Enterprises in the Context of National Movement *8. Presidential Regulation No. 46 of 2025 – Government Procurement* *9. Ministry of Energy and Mineral Resources (MEMR) Regulation No. 15 of 2013 – Domestic Products in the Upstream Oil and Gas Business*	being taken into account in the LCR calculations, preventing U.S companies to achieve minimum LCR. • **The medical device industry** needs a long-term roadmap and a new definition of local contribution, including BMP; avoid a one-size-fits-all approach. • High and low-tech medical devices are dependent on imported raw materials and components, including from the US. This affects the cost structure and absorptive capacity in JKN.	• In supporting the Free Health Check program, it is important to maintain a smooth supply of medical devices that meet accuracy standards.	
		LCR for the Oil and Gas Sector • Although LCR framework **MEMR No. 15 of 2013** for the oil and gas sector aims to strengthen the local industry, it presents challenges due to a big gap in the availability of specialized materials and technologies locally • The strict of LCR for input that are currently unavailable may lead to potential project delays, increased costs, and slower technology adoption, which could impact overall project viability.	• Recommended to consider waivers for LCR in the Oil and Gas Sector or provide alternative compliance pathways, particularly in cases where critical inputs are not available locally or do not meet required standards. • Reforms should focus on areas where Indonesian industries have or can develop competitive capabilities. • Recognizing contributions such as technology transfer, specialized workforce training, and research and development (R&D).	• Reforms on LCR framework for the oil and gas sector **will encourage investment, enhance project efficiency, and support high-value local industry development** without imposing unrealistic sourcing obligations. • Alternative compliance pathway to LCR could help maintain access to global supply chains and support project continuity.
2.	**Import Restrictions** <u>*Relevant regulations*</u>*:* *1. Minister of Trade Regulation No. 31/2023 on e-commerce platform*	• **MOT No. 31/2023** provides short-term benefits to local MSMEs but limits consumer choice and does not support sustainable growth. • Other ASEAN countries such as Vietnam, Thailand, Malaysia, and Singapore actively provide incentives and support programs for MSMEs, allowing them to compete with foreign e-commerce players.	• Review Minister of Trade Regulation No. 31/2023 Remove the USD 100 e-commerce import restriction and consider fair VAT for imported e-commerce products. • Integrate import administration systems to reduce duplication. • Build public–private partnerships with U.S companies to support MSMEs growth in domestic and international markets.	• **Fewer Import restriction creates fair-trade and boost competitiveness**: Relaxing these regulations can help ensure fair-trade treatment and competitiveness. • **U.S companies to plan long-term investment and support the Government's Priority projects**: Better quota approval system allows companies respond effectively to market demand, make long-term investment and contribute more Indonesia's import income, supporting the Government's Priority Projects.
		• **MOT No. 8/2024 jo MOT No. 36/2023**introduces frequent and abrupt	• Improve transparency in the formulation and implementation of trade policies with a long-	

No	Barriers	Description and Main Issue	Recommendations	Expected Impacts of Reforms
	providers ***(MOT No 31/2023)*** 2. *Minister of Trade Regulation No. 8/2024 on Import Regulation* ***(MOT No 8/2024)*** 3. *Planned MOF regulations for safeguard and anti-dumping.* 4. *Minister of Industry Regulation No. 34 of 2019 on motor vehicle registration* ***(MOI No 34/2019)*** 5. *MOF Regulation No. 190/2022 on Release of Imported Goods for Use* ***(MOF No 190/2022)***	changes, despite removing HS codes from restricted lists • Quota and technical approvals (*Pertek*) issues persist, particularly for textile products, including masks and textile materials for footwear. • The import quota approval system with limited quota and slow procedures, creates unpredictable bottlenecks • This regulation requires import verification for lubricating oils by Indonesian surveyors in the country of origin, creating high costs and logistical barriers, especially for small volume imports, thus reducing the competitiveness of lubricant products in the domestic market.	term trade growth strategy and adequate public consultation involving domestic businesses and foreign investors. • Provide real-time and easily accessible information on tariffs, licenses, and quotas. • Review the impacted HS Codes and remove those for commodities/products not available in Indonesia, such as NIOSH-standard masks, which are not Indonesia's protected industries (e.g., fabrics and/or clothing). • Eliminate Technical Approvals (Pertek) requirements for quota approval to create transparent and straightforward import. • Implement risk-based quota verification and target verification by surveyors for new suppliers or products with a history of non-compliance. • Allow mutual recognition for certifications or quality control (e.g., Certificate of Analysis (CoA)) from trusted foreign laboratories • Phased implementation of surveyor obligations, prioritizing the high-risk or large-volume products.	• **Higher national income**: With deregulation or better approval rate on Quota, U.S companies can support Government Priority Project better and support Indonesia's Economic Growth • **Strengthen position as a global hub**: Aligning with regional best practices would enhance Indonesia's competitive supply chain costs, attract more foreign investment, and strengthen Indonesia's position as a global trade hub. • Pre-clearance, where goods are approved before arriving, would **speed up customs processing, ease port congestion, and reduce warehousing costs,** especially for time-sensitive shipments like perishables.
		MOI Regulation No. 34 of 2019 • Vehicle import into Indonesia requires import quota approval to get a type registration mark (TPT) before a vehicle can be registered for circulation on roads. • Quota approvals are capped per application, with restrictions on the number of simultaneous applications while approval processing takes 30-60 days and, in some cases, even longer delays.	• Ensure transparency on the quota approval process and increase quota approval rate (currently only ~10 to 50%) • Remove the import quota requirement and associated administrative procedures for completely built-up (CBU) imported vehicles.	
		• **PMK 190/2022** does not provide a pre-clearance system for physical goods before their arrival in Indonesia. • Currently, goods must arrive in Indonesia before the licensing process can begin. • Countries like Singapore, Vietnam, and Thailand already facilitate pre-clearance,	• Implementing a pre-clearance system for imported goods that enables customs clearance before physical arrival. • Pre-clearance would improve coordination between logistics providers and customs, reduce storage costs, and optimize transport planning. It also enhances predictability by	

No	Barriers	Description and Main Issue	Recommendations	• Expected Impacts of Reforms
		significantly reducing clearance times and maintaining competitive supply chain costs.	minimizing delays caused by customs documentation or inspection issues.	
3.	**Import Duties and Tariffs** *Relevant regulations:* 1. *MOF Regulation No. 190/2022 on Release of Imported Goods for Use* (**MOF No. 190/2022**) 2. *Information Technology Agreement (ITA)*	• **MOF Regulation No. 190/2022** requires import declaration for digital products outlined under MOF Regulation 17/2018 (applications, videos, and audio) which may lead to future duty on electronic transmissions, high compliance costs and administrative burdens. It poses double taxation risk through VAT and withholding tax (WHT) obligations —disrupting digital investment and of cross-border digital services in Indonesia.	• Reform import duty on electronic transmission of digital products, avoid double taxation and eliminate unnecessary compliance burden • Revocation MOF Regulation No. 190/2022 Chapter 99 from Indonesia's tariff schedules, • revoke the import declaration requirement for intangible goods	• **Reduced production and delivery cost** for multinational and local companies will reduce prices for customers. Companies will not limit services and, without additional administrative procedure, expedite these services • These reforms will create a more agile and competitive digital economy, **encouraging investment and flow of digital services**
		Inconsistency with WTO • Electronic Transmission of Digital Products equipment is still subject to a 10% import duty, despite the 0% WTO bound rate • HS subheading 8517 (e.g., switching and routing equipment), Indonesia imposes a 10% import duty on these products, although the tariff for these products has been set at 0% by the WTO	• Eliminate the import declaration requirement for intangible digital products. • Establish consistent and transparent implementation of Indonesia's WTO commitments on ITA tariff eliminations. • Ensure compliance with the 0% tariff according to WTO commitments for HS 8517. • Indonesia to consider not proposing reversing WTO moratorium on customs duties for intangible goods.	• **Legal certainty and tax clarity** creates greater investment and innovation in digital infrastructure, software services, and cloud-based technologies by US companies and global providers. • **Stronger investor confidence**: Upholding Indonesia's commitments under the WTO e-commerce moratorium would deliver a strong message for reinforcing investor confidence, clarity and position the country as a regional leader.

		The import related tax structure imposed on the Aviation and Aerospace Sector in Indonesia
		Generally, aircraft parts related HS codes starting with 8807 (i.e., propellers, rotors, undercarriages, structural components, and other essential aircraft parts) are classified as duty free in Indonesia. However, there are other aircraft parts that are not classified under HS 8807 that will attract duties and taxation (see below). These parts are technically classified under different HS
			• Adoption of a scheme that allows for duty free and tax free import for qualifying aircraft parts not limited to the 8807 HS codes only e.g. Valve (84818082 at 5% duty rate, switches - 85365069 at 5% duty rate and Transformer 85044030 at 10% duty rate, as well as:
			  • Import duties - Tiered at 0%, 15% and 25% for good under USD 1500 or HS code-based duty rate for goods above USD1500.00.,
			  • Value Added Tax (VAT) – 11% Standard and 12% for luxury items
				• **Expanded and modernized aerospace related ecosystem** through eliminating aerospace related tariff barriers, thus enhancing the country's air connectivity and increase industry players' contribution to the national economy. into Indonesia. Such a concrete initiative will help alleviate the cash flow of businesses in the aerospace industry including international airlines, companies in the maintenance, repair and overhaul (MRO) industry, original

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		codes heading due the nature of the general rule of interpretation.	• Income Tax –5% for goods with 15%-25% import duties and 10% for HS code-based duties for items above USD 1500	equipment manufacturers and distributors of qualifying aircraft parts.
4.	**Mandatory Enforcement of Indonesian National Standards (SNI)** *Relevant regulations:* 1. *Ministry of Communications and Informatics **(KOMINFO) Decree No. 519/2024** on National Data Center;* 2. *Ministry of Industry Regulation No. 8 of 2025 on Mandatory Implementation of Indonesian National Standards for Lubricating Oils (**MOI No 8/2025**);* 3. *Ministry of Industry Regulation No. 45/2022 on*	• **Ministry of Communications and Informatics (KOMINFO) Decree No. 519/2024** requires public cloud providers to possess local certificates to pre-qualify for the National Data Center Ecosystem. The standards listed are SNI ISO 9001, SNI ISO/IEC 27001, SNI ISO/IEC 27017, and SNI ISO/IEC 27018. Often the requirements are designed to be more easily met by local providers, requiring local entity, local presence and local content. Meanwhile, some requirements are listed without implementing guideline, so local certifiers not being able to issue certificates. • **MOI Regulation No. 8 of 2025** mandates enforcement of SNI for Automotive Lubricating Oil regulates that effective July 2025, Continuously Variable Transmission Fluid (CVTF) lubricants must obtain SNI certification. However, the certification system through SIINAS (Sistem Informasi Industri Nasional) is only operational by May 31 2025, giving only 30 business day for certification processes, hindering major businesses (e.g., Toyota, Daihatsu, Mitsubishi, etc.) obtain certification before July, risking shortages of CVTF lubricants which harms production chain and business outlook. • **MOI Regulation No. 45 of 2022**, mandates SNI on automotive components for safety, emissions, and fuel efficiency aspects.	• **Formal adoption of ISO** as a substitute to its equivalent SNI, including through Mutual Recognition Agreement (MRA) between Indonesia's National Accreditation Commission (KAN) and the International Accreditation Forum (IAF). • **Issue effective implementing guideline** to allow local speedy certification and provide sufficient time for compliance • **Revamp the certification process** by removing bureaucratic obstacles and expediting trademark registration and the appointment of official representatives. • Regarding the Mandatory SNI for lubricating oil, the Government of Indonesia may reconsider similar regulations in the future before issuing the policy, considering the significant impact to business.	• **Create supply and pricing stability.** Relaxing the SNI requirement can maintain a stable supply of critical products and components, allowing manufacturers and importers to better manage costs especially for SMEs which are less likely to have the capacity to navigate complex administrative burdens. This prevents sudden price increases and maintain affordability for consumers. • **Smoother operations across the value chain**: A sufficient transition period for the certification process boosts operation efficiency and market confidence. Major manufacturers in Indonesia can avoid production delays, ensuring better material sourcing, workforce deployment, and time-to-market. • **Regulatory certainty and transparency** will fuel a more conducive environment for digital investment and innovation, encouraging greater participation in Indonesia's digital ecosystem. • **Higher alignment with globally recognized certifications and standards enables interoperability** and involvement into international supply chains and digital ecosystems, preserving Indonesia's ability to benefit from the collective expertise and benchmark against global best practices. • Strengthen Indonesia's position as a leading regional and global digital economy – projected to exceed $130 billion by 2025. Expands the ability of Indonesian

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	*SNI Obligation (**MOI No 45/2022**)*	• Indonesia has not implemented the ASEAN Mutual Recognition Agreement (MRA) to recognize UNECE standards, nor has it recognized the U.S. safety and environmental regulations. • Automotive components that are designed to meet more advanced international standards often cannot meet SNI regulations. • Starting 2025, SNI regulations will prevent components without a local official brand representative office cannot be imported.		companies to serve global customers. As an illustration, a typical SNI certification process requires at least 6 months with at least USD 20,000 cost.
5.	**Data regulations: Data Localization, Personal Data Protection and Cybersecurity Bill** *Relevant regulations:* *1. Revision of Government Regulation No 71/2919 (**GR No 71/2019**)* *2. Personal Data Protection Law (**Law No. 27/2022**)* *3. Cybersecurity Bill*	• **Revision of Government Regulation No. 71/2019** on data localization requirements in the financial sector restrict U.S companies' ability to deliver the full value of its emerging technology such as hybrid cloud and AI solutions to Indonesian financial institutions. These limitations hinder innovation, reduce efficiency, and constrain the adoption of globally integrated technologies that are critical to strengthening the competitiveness and resilience of Indonesia's financial ecosystem. • **Personal Data Protection Law (Law no 27/2022)** For multinational companies to operate in Indonesia, processing data overseas is inevitable and critical to ensure robust risk management, cost efficiency and operational scalability • **Cybersecurity and Resilience Bill** is currently being harmonized and is yet to have any public consultation. Concerns raised related to the limited visibility of	• Avoid data localization policies that restrict innovation and economic growth. • Urgently implementing regulation for the Personal Data Protection law that offer clear guidance on technical implementation, facilitate the adoption of international data protection standards, and designate a certification body • Ensure alignment with international certifications and standards to enable interoperability, provide operational certainty and efficiency, reduce the cost of compliance for businesses of all sizes • Avoid institutional overlap in cybersecurity governance that create barriers and increased costs, especially for SMEs. • Simplify certification and market access for cybersecurity products, leveraging globally recognized standards and existing mechanisms such as the Common Criteria (CC), which Indonesia has adopted as a standard for evaluating and certifying the security of Information and Communication Technology (ICT) products and systems.	• **Enhanced Digital Transformation and institutions** could adopt secure, globally integrated hybrid cloud and AI solutions improving efficiency, scalability, and responsiveness to market demands. • **Increased U.S. Investment in Digital Infrastructure**: Greater regulatory flexibility, transparency and certainty would encourage U.S and global technology leaders to invest in Indonesia's cloud or public digital infrastructure, talent development, and innovation ecosystems. • **More Competitive Financial Sector**: With access to advanced analytics, automation, and cyber security capabilities, Indonesia's financial institutions will be better positioned to compete regionally and achieve their financial inclusion goals. • **Reduced overlapping requirements** which reduces administrative and regulatory barriers and costs, including for SMEs. • Having an effective Personal Data Protection regime and alignment with international standards both create certainty, efficiency, secure interoperability

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		the latest draft and any potential provisions which could disadvantage foreign providers and raise trade compliance issues, including certification requirements and scope of obligation for both domestic and foreign digital service providers.	• Conduct public consultations for efficient and inclusive regulations.	and robust risk management. Such a conducive environment for digital economy, will reflect fair competition between local and global providers, in**creases the ability to leverage collective expertise and global technology ecosystem, enabling Indonesia to benchmark against global best practices.**
6.	**Halal Certification** *<u>Relevant regulation:</u>* *1. Government Regulation No. 42/2024 on The Organization of Halal Product Guarantee (**GR No. 42/2024**)*	**GR No. 42/ 2024** • The US private sector appreciates the postponement of the halal supply chain obligation until 2026, which gives businesses time to transition. However, the implementation, including the separation of transportation and storage of halal and non-halal products, will significantly increase logistics costs. Additional cost for specialized facilities, complex distribution processes, staff training, and certification adds operational burden. • There are significant delays in the Foreign Halal Certification Body (FHCB) recognition process with Indonesia's Halal Product Assurance Agency (BPJPH), with some cases exceeding 3 months. • These delays could jeopardize the halal status of imported chemical products. Given the approaching Halal Law implementation deadline, it is crucial for BPJPH to expedite the process.	• Indonesia needs more mutual recognition with foreign halal certification bodies to avoid redundancy and delays. • recognize that proper packaging are effective ways to prevent contamination, instead of requiring physical separation of halal shipments, to reduce inefficiency • Rather than a blanket "non-halal" label, a more balanced approach is to highlight the non-Halal ingredients, allowing patients to make informed decisions without stigma, • We request BPJPH's to expedite FHCB recognition process within five working days upon submission of all supporting documents. • To prevent delayed essential raw material import, Halal registration system (SiHalal) shall be fully operational before the implementation deadline. The service level agreement shall be upheld in accordance with regulations.	• A more efficient approach to halal law implementation would **minimize logistics costs and optimize efficiency while maintaining the integrity of halal products** • Labelling policy for non-Halal pharmaceutical products will help inform, not deter, patients to **access to quality and life-saving treatments.**
7.	**Investment Barriers**	• There is an need to remove investment restrictions and eliminating uncertainty in the investment process,	• To enable investment, we will need clear rules that protect the investor, equal treatment under the law, shortened approval timelines, majority shareholder rights	• **Increased FDI.** This influx of capital can stimulate economic growth and development.

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	Relevant regulations: 1. *The Postal Activity sector (KBLI 53100);* 2. ***BI Reg No. 18/40/ PBI/2016** on Implementation of Payment Transaction Processing;* 3. ***BI Reg No. 19/08/2017*** 4. *on National Payment Gateway (NPG)*	• **The Postal Activity sector (KBLI 53100)** has a 49% foreign ownership cap. While supporting fair competition, international logistics companies can complement local capabilities by strengthening Indonesia's integration into global supply chains. • **BI Regulation No. 18/40/PBI/2016 on payment transaction processing operations** limits foreign ownership of payment companies to 20% (but exempts existing investments that exceed this foreign equity limitation). • **BI Regulation No. 19/08/2017 on the National Payment Gateway (NPG)** limits 20% foreign equity on firms that wish to obtain a switching license to participate in the NPG	• Reconsider foreign ownership limits to attract strategic investment and strengthen Indonesia's logistics ecosystem. • Countries like Malaysia, the Philippines, and Singapore have benefited from full foreign ownership through enhanced efficiency, innovation, and global integration. • Review of foreign ownership cap, and if possible, removal of can deepen US companies' participation in Indonesia's payment sector not just in terms of equity but new ideas, functionality and enhancements that augment and value add to Indonesia's payment ecosystems.	• **Access to Capital**: Provides Indonesian businesses with better access to international capital markets for expansion and development projects, driving economic growth and job creation. • **Improved Financial Services**: Exposure to global financial institutions can lead to the introduction of new financial products and services • **Financial Inclusion**: Liberalization can pave the way for innovative financial products and services that cater to underserved populations, promoting greater financial inclusion and access to banking services for all citizens.
8.	**Energy & natural resources restrictions** *Relevant regulations:* 1. ***Presidential Regulation No. 22/2017** on The National Energy Master Plan;* 2. *GR No. 8/2025 on Foreign-Exchange Export Proceeds from Business,*	**Meeting Domestic Natural Gas Demand and LNG Imports** We observe challenges in Indonesia meeting its rising domestic natural gas demand due to a decline in pipeline gas supply and a development gap in new gas and LNG projects. Short-term solutions, such as realigning exports, risk Indonesia's long-term reputation as a reliable LNG supplier and the overall energy investment climate.	• Consider a range of commercial solutions to meet domestic energy needs, particularly natural gas, e.g., granting LNG import approvals prudently and strategically. • Importing LNG from the U.S reflects Indonesia's positive commitment and should serve as a basis for the U.S. Government to consider reviewing and easing the recently imposed reciprocal tariff measures.	• A reform that include prudent LNG import approvals, in turn, would enhance **Indonesia's energy security and improve the investment climate for key energy projects** and solidify Indonesia's standing as a reliable energy partner. • Increased import of LNG from the US will support Indonesia's national energy security and **strengthen bilateral economic relationship, potentially influencing a review of U.S. reciprocal tariffs.**
		• **Government Regulation No 8 of 2025** requires exporters in the mining, plantation, forestry, and fisheries sectors to retain 100% of their export proceeds in Indonesian banks for 12 months • Due to continuous advocacy, the oil and gas sector is exempt from the 100%	GOI may need to reconsider export retention and any policies in the future that negatively impact the investment climate and business competitiveness. Contract sanctity must be prioritized as the highest agreement, demanding absolute respect from both parties.	• The export retention exemption for the oil and gas sector highlights its significant contribution to the country's economic growth. While the partial retention requirement is in place, it may still influence the sector's overall economic contribution. Therefore, further evaluation on the policy,

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	Management, and/or Processing of Natural Retention ***(GR No 8/2025)***	retention but must retain 30% of export proceeds for 3 months, as per GR No. 36/2023, harming investment climate and the Production Sharing Contract (PSC) sanctity.		considering the sanctity of PSC contracts, might be beneficial.
9.	**Commodity Balance** *<u>Relevant regulations:</u>* 1. ***Presidential Regulation No 61/2024*** *on Commodity Balance*	**Presidential Regulation No 61/ 2024** • The regulation requires businesses to submit detailed import documentation, which may involve a complex and time-consuming process. This can potentially result in delays in the importation of goods. • Companies are expected to align their inventory planning with the commodity balance to avoid overstocking or understocking. However, adjustments to the commodity balance may present challenges in maintaining a steady flow of imports and adequately meeting market demands.	• Recommend reforming the Commodity Balance system to reposition it primarily as a monitoring tool rather than an enforcement mechanism. • Enhancing transparency – particularly through the provision of clear and detailed import data – can help foster investor confidence and support effective business planning. • Simplifying and streamlining the import licensing process could help reduce administrative burdens and minimize delays. • Reaffirming the original intent of the commodity balance system – to ensure the availability of essential raw material – may support policy clarity. Commodities already verified and approved at the Coordinating Minister level could be considered for automatic import approval (PI) to facilitate smoother implementation.	• Commodity Balance as a monitoring tool will significantly reduce barriers, improve supply chain flexibility, and **maintain oversight without disrupting imports**. • Reform provides **wider market options** with quality products and ensures a balanced approach to meeting domestic demand while allowing competitive imports. • **Transparency and streamlined import processes creates reliable supply chain,** enhance market stability, fair trade and competitiveness.
10.	**Genetically Engineered or Biotech Seeds** *<u>Relevant regulations:</u>* 1. *Ministry of Agriculture Regulation No. 36/ 2016;* 2. *Ministry of Environment Regulation No. 69/2019*	Current regulations for seed registration are inefficient, complex, and not fully aligned with the U.S and international standards. The review process for stacked events in feed and environmental safety assessments should adopt a high-coverage, low-barrier approach similar to that used by other countries, including the U.S., to facilitate trade and investment in GE-containing commodities.	• Adopt a "high-cover, low concern" approach, reviewing stacked events in feed and environmental safety assessments, consistent with international practices to facilitate trade and investment in GM-containing commodities • The regulatory framework, assessment, and approval processes should be simplified by strengthening the function and authority of the Biosafety Commission to optimize oversight of biotechnology products.	• With streamlined process, risk-proportionate and globally/US-aligned regulation, the approval process for GM crops can be more efficient both for technology developers and the government agency conducting the assessment for approval. eventually, efficient approval process will help accelerated process for import of US commodity (e.g. soybean) and adoption of GM corn seed by Indonesian farmers to boost productivity sustainably.

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