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Analysis of Indonesia's Rising Economic Protectionism since Yudhoyono's Era

Enggar Furi Herdianto

INSTITUTION/AFFILIATION

Department of International Relations, Universitas Islam Indonesia, Yogyakarta Indonesia

CORRESPONDENCE

Enggar Furi Herdianto, Universitas Islam Indonesia Main Campus, Jl. Kaliurang Km. 14,5, Sleman, D.I. Yogyakarta 55584
Email: enggar.furi@uii.ac.id

ABSTRACT

Protectionism is not a new economic policy for Indonesia. This policy has been taken since Sukarno's era. Even though the liberal approach was rising after the 1997 crisis, the return to protectionist policy was still visible in the Susilo Bambang Yudhoyono's era, and further advanced by Joko Widodo. This article focuses on analysing the rising protectionist policy in Indonesia's economy since the Yudhoyono era. It employs a qualitative approach by utilizing related secondary data. It shows that the Indonesian protectionism taken by the government was influenced by domestic, regional, and global conditions. This protective measure was taken to make sure that the domestic industry could cover the demand in the domestic market within a more liberalized global market. In doing this, various approaches have been developed including, incentives for domestic companies and declaring content requirements for the products sold in the domestic market. This research will help to understand better on the nature of Indonesia's economic policy, mapping economic opportunities that could be maximized by the government, and how it then affects international economic actors' strategy on entering the market.

KEYWORDS

Domestic Market; Economy; Protectionism

INTRODUCTION

Protectionism policy is not a new concept for Indonesia's national economic policy. At the beginning of Indonesia's independence, President Sukarno had developed and implemented protectionism policies in order to provide enough space for domestic economic development and reduce the influence of foreign economic actors. Starting from those spirits and efforts to take control of various sectors at the domestic level, the Indonesian government pushed to create a national economy that was independent from foreigners (Sulaiman, 2019).

This could be seen in various nationalist policies initiated during his era, starting from the nationalization process of foreign companies in 1957. Although it was an attempt to show disillusionment with the progress of West Papua's inclusion towards Indonesia, this was the beginning of a growing protectionist policy under his leadership (Firdausi, 2019). It was then intensified with the issuance of Law Number 86 of 1958 concerning the Nationalization of Dutch-Owned Companies, which then departed from the interest of providing profits back to the Indonesian people. This nationalization effort then had an impact not only on the control of the company's management and operations but also on the ownership and control of land controlled by Dutch companies in Indonesian territory (Wasino, 2016).

Even so, efforts to make Indonesia an economically independent country were faced with numerous challenges. While there were unstable political and national security conditions after the territorial struggle between the Indonesian government and the Dutch government which finally ended at the Round Table Conference in 1949, Indonesia also experienced severe economic constraints due to domestic instability caused by internal conflicts, natural disasters, and uneven government budgets for regional development (Ricklefs, 2001).

Sukarno's radical policies were also worsening these conditions. In addition to protectionism policies with corporate nationalization, Indonesia started to distance itself from the international world when declaring Indonesia's withdrawal from the United Nations (UN) which practically made Indonesia increasingly isolated from a number of international trading partner countries and foreign inward investments (Ricklefs, 2001).

Indonesia began to reopen itself towards the global market during the time of President Suharto. One of the fundamental policies that changed the national economy was the regulation on foreign investment that allowed foreign investment into Indonesia. This policy was then also followed by the increasing openness of the Indonesian market with a policy of reducing import duties, as well as further liberalization after the receipt of IMF assistance to help overcome the monetary crisis in Indonesia, which required Indonesia to make adjustments to national economic policies as a condition of its acceptance (Fischer, 1998). The impact of this policy has made the Indonesian market more liberal and integrated into the global market compared to the previous era.

Even so, Indonesia began to show interest in re-implementing a number of protections for its national economy. One of quite drastic move was when the government under

President Susilo Bambang Yudhoyono announced the export ban of raw mining materials and requiring exporters of raw mining materials to set up *smelters* in order to obtain export permits for their mining products (Hamayotsu, 2015). The government also renegotiated mining contracts with more than 100 mining companies, ranging from the area of work areas, contract renewals, royalty distribution, and other things deemed necessary to increase profits for domestic parties (Suryowati, 2014). This policy, of course, has caused quite a variety of controversies, considering that the policy not only has a direct impact on large companies but also on small-scale local miners, some of whom are constrained by the policy of revoking mining business permits (IUP) and the increasing difficulty of exporting their mining products due to lack of access to *smelters*.

Not only focusing on the mining sector but it could also be seen from how Yudhoyono tried to grow protections in other sectors as well. The government passed laws to give some degree of protection in food sectors which give the government authority to set import quotas, especially for food products that could rival domestic productions (Indonesia, 2012). In trade, the government also passed laws that give authority to limit imports in the name of 1) to develop and protect certain industry sectors in the domestic market, and 2) to keep the national financial balance (Indonesia, 2014). Not only that, the government also started to regulate that all traded goods within Indonesia's domestic market should fulfill national standards (Standar Nasional Indonesia/SNI).

Further protectionism policies were also implemented by President Joko Widodo in his first term of leadership. One of the policies that gave quite a pressure is the Domestic Content Level (*Tingkat Komponen dalam* Negeri/TKDN) policy for several types of products that were considered strategic, where producers would not get permission to sell their products if they still did not meet the domestic content levels determined by the government (Chasani, 2018). This was a step that on the one hand was to force economic actors to invest in Indonesia to be able to continue to access a large market in Indonesia. This policy itself started with 4G smartphone products traded domestically, which were forced to meet the predetermined TKDN (Giovannus, 2020). Indonesian government *database* (Rezkisari, 2020). This initial step on the one hand was considered to encourage the development of technological mastery and the use of the domestic market for the development of domestic industry in the future. Although there were indeed records related to the type of local content it turns out that some of them consisted of locally developed application installations, and not in the hardware ones (Kementerian Perindustrian Republik Indonesia, 2016).

On the other hand, this policy has also received criticism for reducing the competitiveness of the domestic market, considering that many actors were then unable to meet the requirements given and ended up dominated by several actors who had large capital and capabilities to be able to maintain their market in Indonesia, especially foreign investors who are able to secure enough capital to dominate Indonesia's large market.

The facts above are interesting to examine further. On one hand, we could see that liberalization in Indonesia got slowed down since the Yudhoyono era by the start of domestic protection, from limiting the imports of food products which considered threatening domestic industry, laying the basic regulation for import limit if deemed as threatening domestic industry, and also started regulation on limiting export of raw mining goods in order to increase production chains in domestic level. Those policies were not eliminated by Widodo, but rather he amplified it with numbers of policies which limiting imports of certain products, especially the ones that could not locally produced. On the other hand, under Joko Widodo's presidency, Indonesia is also exploring free trade cooperation with more parties. Starting from the renegotiation of IJEPA (Indonesia-Japan Economic Partnership) cooperation (Qur'ani, 2020). Ratification of IA-CEPA (Indonesia-Australia Comprehensive Economic Partnership) cooperation in early 2020 (Dewan Perwakila Rakyat Republik Indonesia, 2020), to the RCEP (Regional Comprehensive Economic Partnership) (Dewan Perwakilan Rakyat Republik Indonesia, 2020) negotiations in the ASEAN forum that combines free trade agreements ASEAN and partners (except India), forming the largest trading bloc with a total of 30% of the world's economic GDP until the agreement was concluded in 2019 (Panturu&Aprilianti, 2020). By looking at the phenomenon above, this research will focus on efforts to answer the question Why does Indonesia's economic policy tend to lead towards protectionism in the midst of free trade flows since Yudhoyono's era?

THEORETICAL FRAMEWORK

Mercantilism in the Modern Era

Mercantilism is one of the concepts of political economy that has long emerged and developed in the international world. This concept focuses on the strongest possible efforts to suppress the importation of products traded in the domestic market and strongly encourage the export of domestic products to the international market. The strategy is carried out with one goal: to reduce the deficit and maximize the country's trade balance surplus. This concept can also be seen as a form of economic nationalism which is usually followed by various protections, ranging from domestic market protection to domestic industrial protection in order to survive and develop it without significant competition (Amadeo, 2022).

Mercantilism itself was initially considered as one of the best political economic strategies to maintain the stability of the country's trade balance. It was mostly seen in a large number of Western countries that adhere to this view in their international trade policies which focus on protectionism policies and strong government control over their economies. It then started to be seen as a less relevant concept after Adam Smith expressed his views on the free trade system. He saw that mercantilist trade system was working for the rich and big companies, but not for the state and the majority of the people, since they were the ones who ripped the benefit of the system, by not letting competition in and by giving them bigger power to control the market, which later hinder the growth potential from the market (Smith, 1977). Mercantilism is considered the opposite of free trade which glorifies the minimum control of government as well as market-free competition in order to achieve market optimum conditions through *invisible hands* (Magnusson, 2015).

Smith stated that there was a fallacy in mercantilism. This is because there is confusion to distinguish wealth from capital. With the restriction of capital out of his country's territory, Smith argues that this only provides a defeat in competition in the world market. Instead of encouraging the expansion of its production trade and manufacturing networks, mercantilism has more of an impact on providing barriers to these activities (Smith, 1977). This can be seen from the policy of banning the export of capital which was carried out mainly by the British in the 18th century. Ultimately, what benefits from this system is not the entirety of society or groups of traders and small companies, but rather only provides an advantage for the handful of groups that have dominated the domestic market by ensuring there is no strong competition that forces it to run a more efficient and consumer-profitable system (Magnusson, 2015).

Malmgren (1970) stated that the rise of mercantilism in various parts of the world is due to the beginning of an increased focus on domestic politics and the social problems that arise in it. It is true that international trade regimes are increasingly leading to liberal views. This can be seen by the running of various agreements and agreements related to free trade and easier capital movement. On the other hand, there are also more and more skeptical views on multilateral cooperation efforts that are considered not to provide maximum benefits for interest groups at the domestic level. It then encourages stronger insistence at the domestic level for the government to implement national economic manipulation policies to ensure equitable distribution of the welfare of domestic groups and increase national economic activity with the aim of achieving *full employment*. Currently, the mercantilism policy is not only seen from the policy of reducing imports, encouraging local production, and/or encouraging an increase in exports to achieve a balance of trade. This economic intervention can also be carried out by economic cooperation in a bigger scope (such as through regional cooperation) by distributing the burden of the policy to other countries as well. In this regard, Malmgren exemplifies the *Common Agricultural Policy* (CAP) policy in the *European Economic Community* (EEC). This policy allows EEC member countries to determine the minimum price of agricultural products produced in the region and set the price of similar imported products above the domestic price. On the one hand, to increase productivity, it is also necessary to export these agricultural products. To cover the less competitive production costs in the international market, the higher price burden of imported products is used as one of the cross-subsidies to reduce the export price of these domestic agricultural products. The system certainly benefits EEC members but harms other exporting countries of similar products. They need to sell at very competitive (very low) prices to be able to compete with products from the EEC, thereby increasing pressure from groups of farmers in each domestic non-EEC country (Malmgren, 1970).

Looking at the above phenomenon, Uzunidis & Laperche (2011) formulated four phases that are influential in the development of protectionist policies in a country. *First*, it starts with countries who competes with each other by implementing direct intervention policies, utilizing tariff and non-tariff barriers to improve domestic welfare and increase national economic strength. *Second*, those policies then cause competition between companies, which encourages the government to cooperate with large national companies who have a high level of productivity, good financial capabilities and as a global player in the international market. *Third*, the state has not only negotiated economic cooperation with other countries, but has also expanded its negotiations to forge a cooperative alliance with other large companies who have an increasingly strong influence in domestic and regional political economy. And *fourth*, private agents (companies, banks, financial institutions) are finally able to become influential actors in the formation of norms in the policy-making process of domestic political economy (Uzunidis & laperche, 2011).

Furthermore, Uzunidis & Laperche (2011) explain that the current practice of mercantilism cannot be equated with previous similar practices. Nowadays countries are already more interconnected. This interconnectedness can be seen from trade, investment, and financial activities on a global scale, which makes the isolationist policy almost impossible to implement. A full protectionism policy which will actually kill the efficiency of the economic activities that have been carried out so far, and make it face higher production costs which end up with the un-competitiveness of their domestic products. It is caused by limited resources which can result in low productivity and low product quality. And since there is less competition in the domestic market, then there is less pressure as well to innovate, which makes domestic industries less developed compared to others in international market. A full protectionist policy also comes with a strict trade balance policy, which makes it harder for industries to access funds from international financial institutions, or even investing abroad in order to keep a positive state balance. Since there is a limited market that could be accessed, it then can result on the decline in domestic demand due to the strict trade balance policy, which in turn makes prices soar and people's purchasing power decrease and the worst possibility will lead the economy towards recession.

However, for developed countries, the implementation of mercantilism strategies is precisely a way to maintain their company's dominance in the global market. At the urging of multinational corporations based in their countries, a number of developed countries (such as the United States) are leveraging their position both as debtors and their influence in global institutions to encourage third world countries to extend authority to multinational corporations while providing some protection for their presence in the domestic markets of those countries. In other words, this policy of mercantilism is not only used to protect the domestic market, but also provides a number of protections for its companies in other countries.

In the end Uzunidis & Laperche (2011) concluded a few things. First, protectionism policies are aimed at the benefit of domestic producers, either by using restrictions on the entry of foreign products into the domestic market (e.g. import quotas, implementation of health standards, the environment, work environment that are difficult to achieve by foreign products) or by trade barrier policies (such as high import tariffs or support for local substitution products). This is done not only to encourage the growth of domestic industries, but also to reduce the unemployment rate in the country. Second, regional economic integration is also one of the characteristics in the new mercantilism. Regionalization provides not only market expansion for its domestic companies, but also a level of protection from foreign companies through incentive schemes and high standard protection umbrellas for products that will enter the regional market.

In this case, we can see that what was run by the government under President Susilo Bambang Yudhoyono and Joko Widodo was in the same direction as what Uzunidis & Laperche put forward. The Indonesian government continues to promote protection for domestic industries through various policies. Starting from the stricter importation policy which in the future will be implemented on various types of products traded in Indonesia. This is to ensure that the domestic industry can increasingly dominate the domestic market. The policy of increasing import tariffs on a number of products also shows how the Indonesian government seeks to provide protection for products developed and produced domestically, so that the inefficiencies obtained do not have much effect on the domestic market. Indonesia's participation in various regional trade negotiations and cooperation such as the ASEAN Free Trade Area and the Regional Comprehensive Economic Partnership also cannot be underestimated, considering that this also provides an expansion of coverage for domestic industries and also provides benefits that are not obtained by competitors from outside the region. In the end, it shows that although the Indonesian economy is currently connected to the global market, protecting the interests of domestic actors has ultimately become one of the main goals of Indonesia's national policies, including in the new mercantilism policy strategies implemented by the current government.

Looking at this, we could see how the new mercantilism concept could fit in with Indonesia's political economic dynamics especially since the Yudhoyono era. This concept could help explaining how Indonesia's economic policies are 1) designed to give more benefits and opportunities for domestic economy, whether it is from import limits, technical standards/requirements, or even export limit for valuable raw materials in order to push inward investment towards Indonesia. On the other hand, 2) we could see how this concept also covers how Indonesia is becoming more active in pushing regional economic cooperation in order to create not only wider market for Indonesia's market reach, but also to create a regional bubble for protecting it from direct competition in the global market. This way, this research will be able to fill in the gap on the study of Indonesian political economy, especially seen from the protectionist/mercantilist view.

METHODS

The method that will be used in this study is a descriptive-qualitative method, because the research will analyze data beyond numbers and this method will help understand the context better. This research will utilize secondary data obtained through books, journals, and/or writings related to the discussed topic. Meanwhile, the level of analysis is at the country level to see how the government political economic policies influence its economic development. The research procedure that will be carried out would be done in few steps. First, collecting raw data from transcripts, journals, and other data materials. Second, organizing and preparing data for analysis by sorting and arranging data based on the type of sources. Third, read all the data in order to grasp the depth and credibility of the information gathered. Fourth, coding the data based on data categories to ease the analysis process. Fifth, generate the description and themes of the data in order to show perspectives on information gathered and then interrelating those themes and description based on the case study. Sixth, interpreting the meaning of themes/description of the data by conducting data analysis using the research framework used in the research (Creswell, 2018).

RESULTS AND DISCUSSION

Indonesia's economic protectionist strategies since the era of President Susilo Bambang Yudhoyono

The economic policy strategy under the Presidency of Susilo Bambang Yudhoyono had set changes on Indonesia's economic development. Various achievements, policy directions, and challenges became one of the initial foundations for various economic policies development carried out during the period of his administration, both in his first and second presidential terms. In this sub-section, the discussion will focus not only on Indonesia's macroeconomic conditions in 2014, but also on various economic policies that have been formulated and implemented during the leadership of President Susilo Bambang Yudhoyono.

Indonesia's success in becoming the world's 15th largest economic power during the Presidency of Susilo Bambang Yudhoyono had made Indonesia get a lot of attention from the international world, both in terms of business and politics. From the business side, we can see that Indonesia is one of the main investment destinations in the Southeast Asian region. Various investments, both direct and capital investments flowed to the domestic market, which in turn continues to maintain Indonesia's economic growth in the range of 5% per year. Indonesia even enjoyed growth above 6% in 2010, at a time when many countries were experiencing a prolonged recession due to the stagnation of the global economy since 2008 (The World Bank, n.d.).

This rapid economic increase ultimately prompted a deeper analysis of the amount of profit obtained by Indonesia in its ongoing economic activities. Since the implementation of Indonesia's economic liberalization policy strategy to deal with the 1997 monetary crisis, it can be seen that Indonesia continued to rely on this strategy. This was inseparable from the success of liberal economic approach in restoring domestic economic growth which had led Indonesia not only to recover economic conditions, but to surpass its pre-crisis conditions. On the other hand, criticism of economic liberalization policies was also strengthening. This was because the Indonesian government continued to privatize various assets of state-owned companies. The ongoing market liberalization was also seen as not giving maximum benefits for the Indonesian economy, which only made Indonesia becoming more dependent on raw material exports with less efforts to increase domestic industry capacity which made it always got the lowest profit from the running production chain (Batubara, 2014).

That view was then reinforced with the increased need for stronger political support for the incumbent regime, which further increased the pressure to begin implementing a series of nationalism-based policies in Indonesia. This could be seen in the implementation of Law number 4 of 2014 regarding Mineral and Coal Mining, which stated the obligation of mining product exporters to build mining material refining centers or *smelters* within five years. It was then followed by various policy adjustments until the issuance of Government Regulation Number 1 of 2014 which required the refining of exported mining materials (Batubara, 2014). Apart from the mining sector, the spirit of nationalism was also pushing the development of domestic industrial capabilities. This could be seen from the development plan of automotive industry based on electric vehicle technology by the Minister of SOEs Dahlan Iskan who encouraged the development of national electric cars (Zuhra, 2016). Although these efforts did not last long due to domestic political polemics, the government also developed an incentive policy for vehicles with environmentally friendly small engine dimensions which are often referred to as *low-cost green cars* (LCGC). It was aimed to increase the local content of domestic automotive products to be lose to 100% and was expected to dominate the national automotive market whose components were still widely imported from other countries (Wisudawati, Lestari, Utami, & Saputro, 2021).

During his presidency, agricultural products also received more attention through stricter regulation. It started with a focus on providing a large amount of land for agricultural development in Merauke and other parts of the country to increase domestic agricultural production (Putri, 2019). It was then also translated into the Horticulture Law which also stated that the central and/or local government should also monitor and control the import and export activities of horticultural products (Indonesia, 2010).

Next, we could also see how Yudhoyono tried to implement some measures on domestic trade. Starting with a nationwide national standard for all imported products sold in the domestic market. It was triggered by rising numbers of imported products, especially from China, which concerning many economic actors (from big firm to small and medium businesses) in Indonesia. The Indonesia National Standard (Standar Nasional Indonesia/SNI) was actually started since 2000, but its implementation was so slow, even in 2007 only 215 items were required to fulfill the standard even though there were already 3.200 standards available under SNI (Jawa & Khoirunissa, 2018). Here, the government then formulate a stricter law which requires all imported goods traded in domestic markets should fulfill SNI standards (Indonesia, 2014b).

At the same time, there was also the formulation of regulation on trade, including measurement on protecting and securing domestic trade activities. Here we could see that the government tried to make it possible to monitor and intervene the trade activities if it deemed as disadvantaging domestic economic players from the practice of dumping (exported products towards Indonesian market are sold in lower price compared to the price in the origin country), which could be responded by slapping import tariff or even import quotas to those products (Indonesia, 2014a). This measure was taken since Indonesia already has a comparatively low import tariff since it already embraced economic liberalism strategy closer after 1997 crisis, which left it with non-tariff measurement in order to create additional protection towards its domestic market (Patunru & Rahardja 2015).

On the other hand, we could also see how Yudhoyono also tried to rise Indonesia's presence in regional and global economic cooperations. Starting with ASEAN, which together with other ASEAN-6 countries (Brunei, Malaysia, the Philippines, Singapore, and Thailand) fully implemented CEPT (Common Effective Preferential Tariff) under the AFTA (ASEAN Free Trade Agreement) in 2010. It was an ambitious attempt to integrate regional market under ASEAN umbrella, which make it possible to widen the market reach and also encouraging the development of regional production networks by creating a trade block under rules of origin (ROO) regulations in order to be able to access it (Sukagewa, 2021). ASEAN also started the implementation of its trade agreements with country partners, from ASEAN-China Free Trade Agreement, ASEAN-South Korea Free Trade Agreement, ASEAN-Japan Comprehensive Economic Partnership, ASEAN-India Free Trade Agreement, to ASEAN-Australia-New Zealand Free Trade Agreement. Those agreements were meant to boost intra-member trade activities by reducing import 155arif fon agreed items under ROO scheme (Suvannaphakdy, 2021).

Economic protectionist strategy and policy of President Joko Widodo

Those economic policies during Yudhoyono era then became the platform of development policy for the next governmental regime in Indonesia. Joko Widodo focused his campaign to encourage equitable distribution of infrastructure development and efforts to integrate Indonesian territory through maritime routes. This spirit was equally driven by the sentiment of nationalism that strengthened among Indonesian society, which was greeted with populist development programs, and led to the winner of the 2014 general election (Kurnia, 2019). This also became the driving force for the emergence of more protectionist policy designs compared to previous regimes.

On one hand, President Widodo does provide support to the business sector. This is reflected from his attempt to simplify regulations related to licensing and taxation for business activities in Indonesia. One of them is the *Online Single* Submission policy imposed by the

Ministry of Finance of the Republic of Indonesia for the investment process in Indonesia (Deny, 2018). This was further integrated to ASEAN Single Window regional excise taxes under the ASEAN umbrella (ASEAN Single Window, n.d.). Likewise, with its efforts to build transportation infrastructure to facilitate distribution channels and equitable market access throughout Indonesia. This can be seen from various toll road construction projects, railway construction, to port infrastructure improvements in various parts of Indonesia. Those are in line with his statement on international economic forums on supporting a more business-friendly environment by deregulation, the development of trade facilities, and a more appropriate wage standard (Humas Kemensetneg, 2016).

On the other hand, President Widodo's administration also implements a number of protectionist practices during his leadership. The push for stronger protection of domestic industries due to ease of business policies that are considered providing easier opportunities for foreign companies to enter the national market is one of the pressures for the government. Challenges of the global economy also gives additional pressure for Indonesia's economic growth strategy. These phenomena eventually pushed the Indonesian government take a more protectionist strategy than before. In this case, the government's approach is not by limiting business activities, but rather how the current business activities will profit domestic players more, by a more targeted economic policies in strategic sectors in order to keep it from profit loss and to lure more inward investment towards Indonesian market.

Domestic development policy is not only affected by domestic conditions, but also by global development. At the beginning of his presidency, there was an international political and economic upheaval which also impacted on Indonesia. Starting with the increasingly heated rivalry between the United States and China in the East Asian region. The shift in the focus of the United States' policy focused on East Asia and the efforts to formulate the Trans-Pacific Partnership (TPP) by its partner countries surrounding China were among pressures on China's position in the region (deLisle, 2016).

On the other hand, the slowdown in the growth of Indonesia's destination market economy created bigger challenge for domestic economic development. With the discourse of Britain's exit from the European Union, market confidence in the region had decreased. This did not include the economic recovery of the United States which was not as fast as imagined and followed by fiscal tightening policies and increasing the country's interest rates which impacting on the transfer of some investor funds to the United States instead of to developing countries such as Indonesia (Falianty, 2018).

The rivalry between the United States and China, which was increasingly heated by the trade conflict between the two countries, had also further muddied regional and global economic conditions. On the one hand, the *American First* policy launched by United States President Donald Trump forced many (both domestic and foreign) companies to move their production bases into the United States. This further exacerbated the trend of foreign investment in the global market due to the large tendency to meet the domestic needs of the

United States market. It was aligned with President Trump's efforts to blockade trade with China, which then caused global economic disruption. On one hand, other countries (including Indonesia) saw an opportunity to fill the gap in the void of Chinese products in the United States market. So was the opportunity to lure investment from United States companies who avoided such conflicts and looking for investment opportunities in other regions, including Southeast Asia (Fitriani, 2017). However, Indonesia could not optimally utilize these conditions considering the low level of production chains in its domestic industry (Pangestu, 2019).

The shift of China's economic cooperation strategy under the *Belt and Road Initiative* (BRI) launched in 2015 also provided a fundamental change to global economic politics as China tried to connect its country with different regions of the world. This project then pushed China to have active cooperation on various infrastructure development, both roads, bridges, and power plants across the globe (Anwar, 2019).

Regarding the implementation of the BRI in Southeast Asia, it is clear that China is actively spreading its influence and cooperation within the region. Funding and technical assistance are prepared by China to ensure it is connected to Southeast Asian countries. In Indonesia, BRI projects can be seen from port infrastructure and energy projects in various regions in Indonesia (Aiyara, 2019). This is apparent with the existence of infrastructure development projects that also directly involve Chinese companies in the process.

China's rising investment and domestic market penetration also grow a negative sentiment regarding its presence among Indonesian people. This can be seen from criticism to demonstrations in various regions calling for protests related to China's deep economic penetration in the domestic economy, which is seen as a threat to the existence of domestic economic actors themselves, ranging from large industries to small and medium-sized enterprises.

Global economic uncertainty during COVID-19 pandemic that occurred since the beginning of 2020 was also another threat. The sudden stop of economic activity and global mobility was strongly felt by Indonesia, with the economic contraction felt quite intensely, which made its growth reach -2.1% compared to the previous year. The domestic economy itself was slowly improving after an intensive national pandemic mitigation program and a mass vaccination program to suppress the negative impact of the spread of the virus while allowing community mobilization to restore economic activity as before (Asian Development Bank, 2022).

Conflict between Russia and Ukraine since the end of 2021 also added extra burden on Indonesia's economic recovery. Although the conflict was geographically far from the Southeast Asian region, the global impact was very pronounced. It triggered rising food and energy price across the globe which caused by the disruption of global energy supply and global wheat distribution, since Russia is one of the biggest energy exporters, and both Russia and Ukraine are the biggest wheat exporter for global market as well (Junaedi, 2022). Not to mention the continued impact of the increase in prices of other commodities such as palm oil which has made the world food price soar (Hirsch, 2022). Those crises are also deeply felt by the government and the people of Indonesia. The increase in prices of basic commodities such as fuel oil, cooking oil, and other food commodities has put heavy pressure on efforts to domestic economy recovery.

Global economic uncertainty has a great impact on Indonesia economic growth. This then led to the increasing negative sentiment of the Indonesian people towards the increasingly liberal national economy which casted domestic economic actors aside. The increased competition of Indonesian commodities in the global market is also another factor that encourages the government to create conditions to ensure that the domestic economy actors are the ones who get the biggest benefit.

One of the first policies was implementing local content regulation in certain sector. It began with the issuance of Minister of Industry Regulation No. 3 of 2014 regarding Guidelines for Increasing the Use of Domestic Products in the Procurement of Government Goods/Services That Are Not Financed from the State Revenue and Expenditure Budget/Regional Revenue and Expenditure Budget (Menteri Perindustrian RI, 2014), which encourages the use of domestic products for each procurement. This provision was strengthened by the issuance of Presidential Regulation No. 16 of 2018 concerning Government Procurement of Goods/Services which regulates the provisions for fulfilling the level of domestic content related to products and services used by government programs/activities (Presiden RI, 2018). This shows that the government emphasizes the preference of domestic products in these various procurements, considering that the portion of state spending also has a fairly large composition in the Indonesian national economy.

In the telecommunications sector, the government has also begun to regulate similar regulations. The electronic telecommunications device industry is greatly affected by the issuance of the Minister of Communication and Informatics Regulation No. 27 of 2015 regarding Technical Requirements for Long Term Evolution Technology Standards-Based Telecommunications Equipment and/or Devices which regulates the mandatory level of domestic content in every product based on *Long Term Evolution*/LTE technology or 4G telecommunications technology (Menteri Komunikasi dan Informatika RI, 2015). This regulation is strengthened by the Regulation of the Minister of Industry No. 29 of 2017 regarding Provisions and Procedures for Calculating the Value of Domestic Component Levels of Cellular Phone, Handheld Computers, and Tablet Computers, which regulates in more detail related to the technical calculation of the percentage of local content of these products (Minister of Industry of the Republic of Indonesia) (Menteri Perindustrian RI, 2017).

Another local content requirement policy is also implemented on electric vehicles produced and marketed in Indonesia. The policy is based on Presidential Regulation No. 55 of 2019 concerning the Acceleration of the Battery Electric Vehicle Program for Road Transportation. The policy stipulates that the percentage of domestic content components continues to increase every five years until it reaches a minimum of 80%. The fulfillment of the local content regulation is specifically for electric vehicles sold in the Indonesian market (Presiden RI, 2019). This is a bold step considering that at the beginning of the issuance of the policy, Indonesia was still lacking in mastery of technology and the market for these products. Some are also worried that Indonesia's automotive industry will lag behind and it is difficult to catch up with other countries that are also competing to improve their mastery of technology in this field. Although it is recognized that Indonesia's bold move has actually made Indonesia able to attract global automotive players such as Hyundai to invest in Indonesia in the development and production of electric vehicles for the domestic and regional markets and then followed by investment commitments of several other Japanese automotive principals.

The success on the implementation of previous policies encouraged Indonesia to increase the scope of local content requirement products. Several other types of products such as pharmaceutical products as well as medical devices and in vitro diagnostic medical devices are some examples of the widening scope of the policy. Besides local content requirement for certain products, the government also gives incentives on certain products which set up its production base and giving technological transfer into domestic market and industry.

Looking back at the implementation of mercantilism in Indonesia's economic policy

If we look back at the dynamics above, we could see that the development of protectionist policies is based on Indonesia's own economic dynamics. Based on four phases of development by Uzunidis & Laperche (2011), we can see that Indonesia has already implemented all four phases of the new mercantilism practice. *First*, by having situation where countries compete with each other by utilizing available policy options, from domestic and global market liberalization to the implementation of tariffs and non-tariffs trade barriers, in order to ensure national development and people's welfare. S*econd*, the rising competition forced the government and national companies to work together in order to excel within the competition. *Third* is broader government negotiations, not only with domestic actors but also with other companies that have a larger scale to boost up the domestic gain. *Finally*, other non-governmental actors have also become private agents (companies, banks, financial institutions) which subsequently influence the formation of norms in the policy-making process of domestic political economy.

When viewed from the *first* component, the Indonesian government is trying hard to maximize the trade system and economic policies that have been running. After the collapse of the Indonesian economy in the 1997 crisis, the Indonesian economy was massively liberalized promoted by IMF assistance program. It forced Indonesia not only to open its market, but also to restructure its economic system under liberal economic order. This was followed by unfavorable political conditions for the ruling regime to carry out radical changes in economic policy. In the end, market liberalization was then widely implemented and became the sole strategy to cope with the crisis.

There were impacts on implementing those changes. The first was the stabilized national economy which boosted by political stability and the increasing global market confidence towards Indonesian market. This was achieved by the establishment of a new, more stable government regime that provided certainty for domestic economic activity. Gradually, this stability was able to increase market confidence in Indonesia and began to encourage investment and increase national economic development and revitalized the domestic economy. Further liberalization efforts were also seen from the government's efforts to privatize a number of government-owned national companies from various sectors. This was done to reduce the government's financial burden, especially for companies that did not perform well enough and could only live under government financial support. The government also maintained macroeconomic stability in order to provide certainty for investment and trade activities in the domestic market. The result of these efforts was the visible improvement in Indonesia's economic condition, from initially getting the worst impact of the 1997 monetary crisis, to becoming one of the fastest-growing countries in the region and became the largest economic power in Southeast Asia.

On one hand, the liberalization process had indeed succeeded in boosting Indonesia economic development. But on the other hand, Indonesian economy also began to be dominated by foreign economic actors, from the rising ownership in various domestic industries to wider presence of imported products on domestic market. This situation created a higher competition for local industries, especially when the imported ones had better higher technology, quality and cheaper prices. It then triggered a race to the bottom phenomena which encouraged production efficiency using low labor wages across Indonesian region, not by upgrading the technological and skill capability of domestic industry. This phenomenon can be widely seen especially in the raw materials industry, many of them did not get further investment to develop the value chain of the industry.

Facing those fact, Indonesia under Yudhoyono presidency seemed to try another way around, by increasing measures on economic protection. We could see that Yudhoyono tried at least two approaches. One, he tried to impose import limits (by tariff or non-tariff barriers) in numbers of sector, starting with the increasing government authority to monitor and intervene the market and forcing imported goods to get SNI certification before sold in domestic market. Two, he also started to increase domestic gain from its export activities, one of them from limiting the export of raw materials in order to pressure foreign companies to increase their foreign direct investment towards Indonesia, so Indonesia will gain technological and economical upgrade.

The above conditions then led Indonesia to start thinking about the *second* component by working with local industries to maximize profits and efforts to survive the increasingly strong competition from the global world. One of the cooperation could be seen in the automotive industry sector. With the increasing strength of the national economy, Indonesia's automotive industry experienced a significant growth and made it the second largest automotive industry in Southeast Asia, just behind Thailand. To boost up the industry development, the government formulated a policy by involving Indonesian automotive industry associations such as Gaikindo (Indonesian Vehicle Industry Association) called *low-cost green car* (LCGC) policy during the Yudhoyono's era. This policy provides considerable tax incentives for the automotive industry that was investing in the development of local components as well as local technology research and development centers. Even the amount of LCGC vehicle tax is also much smaller, making it more affordable for consumers. Later on, the successful implementation of the tax incentive scheme has also begun to be adopted in other industries, from solar power plant components to medical devices.

This effort is indeed not the first policy in encouraging the development of the domestic automotive industry. During Soeharto's era, the government had also developed a national car project called Maleo led by B.J Habibie, although it was later scrapped and replaced by the Timor and Bimantara national car projects run by his two sons, Hutama Mandala Putra (Tommy) and Bambang Trihatmojo.

This success was also used to formulate further protectionist policies. To ensure that the national automotive industry could catch up with the latest automotive technology, in 2019 the Widodo presidency continued the previous spirit by formulating a local content requirement policy for electric vehicles sold in the Indonesian market (Yolanda, 2019). This was also followed by the increasing investment related to the development and production of high-capacity batteries for electric vehicles in Indonesia, not only coming from the investment of Japanese companies but also by a consortium of South Korean companies, Chinese companies, and the United States' as well. Even Hyundai, which has invested in large quantities, has sold its first domestic electric vehicle production in Indonesia in early 2022 (Kurniawan, 2022).

Even so, the dynamics of global economic uncertainty is also affecting the development of Indonesia's domestic industrial policy. The trade conflict between the United States and China certainly makes many economic actors turn to other more stable markets, one of which is Indonesia. This makes the Indonesian market flooded with imported products and increases the trade balance deficit. In order to reduce the deficit rate, one of the industries that has received the spotlight is telecommunications products, where domestic consumption of this product is quite high, but Indonesia's production capability is still very low. This ultimately led to an increase in large quantities of imports without any improvement in the production chain in the country.

These conditions ultimately prompted the government to exert further pressure on economic actors, who also met the *third* component. In order to put pressure on large-scale companies to invest in new sectors, the government issued a local content requirement policy for telecommunications products with LTE/4G technology. The local content percentage were gradually increased for 4G based telecommunication products sold in Indonesia, which later followed by further investment for production and product development base in Indonesia, both focusing on hardware and software. In order to ensure the level of compliance with the policy, the government also enforces the deactivation of telecommunications device signals that are not registered in the database of the Ministry of Communication and Informatics of the Republic of Indonesia. This in turn further strengthens the implementation of previous policies that have brought large amounts of investment into the country.

Looking back at the implementation of those four components, it then led to the creation of the *fourth phase.* With the creation of domestic market protection from various government policies, in the end, non-government actors themselves become one of the agents of the policy. It starts with domestic companies from industries that get protection umbrellas. One example is the LCGC policy that encourages domestic automotive manufacturers to lure global automotive principals to invest more in order to meet the local content requirement of the products sold in Indonesian market. It successfully lured massive investment from Toyota, Honda, to Nissan to develop new factories in Indonesia (Sukma, 2012). There is also a domestic content level policy for electric vehicles, which Hyundai then welcomed as the principal of South Korean automotive which then collaborated with several companies to establish a battery factory that would supply the battery needs of the national automotive industry (Putri, 2021).

Policies related to local content requirement across several sectors ultimately also received support from the industry players. Although there were objections from a few of them, there were still others who were interested in developing their domestic industry in Indonesia. One of the examples was how Asus, a technological company from Taiwan, was quickly adopting itself with the new regulation for 4G technology-based products and opening its smartphone production facility in Batam in 2015 (Rachman, 2015). Samsung, a technology company from South Korea, initially showed its objection on meeting local content requirement (Siadari, 2016), eventually also decided to increase its production capacity in its production base in Indonesia (Pertiwi, 2021). So was Oppo who did an additional investment to develop production capability of its current production facility (Maharani, 2023).

CONCLUSION

The protectionist policy developed in Indonesia is not a policy that comes out of nowhere. It is clear that the development of this policy is greatly affected by domestic, regional, and global conditions that encourage the Indonesian government to take protective measures for its domestic market. Various levels of protectionism policies were then developed by Yudhoyono and Widodo government, ranging from providing incentives for domestic companies to declaring local content requirement for the products sold in domestic market. Even though the protectionist policy is not implemented on the whole economic sector, but rather on a strategic one, these policies have succeeded in making fundamental changes on making sure that the domestic industry can cover the demand in domestic market.

In this case, we can see that the protectionist came from the dynamics of Indonesia's political economy itself. First, Indonesia already started a more interventionist approach towards economic development strategies since Yudhoyono era in order to reduce the negative impacts of liberalization and also to maximize gain from domestic economic activity. Second, Indonesian government also already started to have a closer cooperation on formulating policy on facilitating industry since Yudhoyono era, from industrial incentives to market protections using tariff and/or non-tariff barrier, especially in strategic ones such as automotive and smartphones industry. Third, Indonesian government also exert further pressure to other actors such as big companies to obey changes on regulation by imposing stricter non-tariff barrier (e.g., Indonesia's own national standard, the ban of illegal imported smartphones, monitoring and intervention on food and horticulture products). And finally fourth, when those actors already adapted with the changes, they eventually become the supporter of the more protectionist policies since they get more benefit by a more stable condition with less competition.

But it should be noted that the protectionist policy should be formulated and implemented wisely by the government to ensure that it will not harm the domestic economy in the long run. Expanding the implementation of protectionist policy across other sectors seems very tempting since it will boost up investment and the development of domestic industries. It is becoming more tempting when we see the size of Indonesian population which shows how big Indonesian domestic market is for domestic industries to grow. However, it is also necessary to make sure that those targeted industries will be able enter the global market as well. Making sure domestic industries can survive in domestic market competition is one thing, and making sure those industries can develop their technologies and having a higher efficiency through a larger scale of production is another thing to consider as well.

Here, those protectionist policies are indeed successfully boosting domestic industrial capabilities. By utilizing Indonesia's big domestic market, the government ensures that the domestic market will not only absorbing goods from overseas, but also forcing those industries to develop and produce their goods locally. These policies will not only give benefit on the upgrading of the technological and production capabilities, but also increasing employment rate which later also impacting the increase of the purchasing power of the community. We need to keep in mind that private consumption is still dominating Indonesia's economic activities, which could explain why Indonesian government is quite confidence that the negative impact of protectionism could be minimized since Indonesia has quite a big domestic market to absorb goods produces by those domestic industries.

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ABOUT THE AUTHOR:

Enggar Furi Herdianto is a lecturer and an Assistant Professor at the Department of International Relations in Universitas Islam Indonesia. His research interests are focused on Southeast Asian Studies, East Asian Studies, Global Political Economy, Automotive Industry Policy, and Public Diplomacy.

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