



Impact of TKDN Policy Relaxation on Market Access for US Industrial Products in Indonesia

Muhammad Ammar Haitsam Rusly* and Julius Jilbert

Hasanuddin University, Makassar, Indonesia
*ruslymah24a@student.unhas.ac.id

Abstract. The Reciprocal Trade Agreement between Indonesia and the United States marks a crucial turning point in Indonesia's industrial and trade policy. This agreement fundamentally alters the competitive landscape by granting an exemption to US-origin companies and products from the obligation to comply with the Local Content Requirement, a protectionist policy that has long been a pillar of Indonesia's industrialization strategy. This research analyzes the multifaceted impacts of this TKDN relaxation. Using a mixed-methods approach that combines regulatory analysis, economic impact assessment, and a political economy theoretical framework, this paper examines the consequences of this policy shift on market access for US industrial products, the competitiveness of Indonesia's domestic industry, and the dynamics of the bilateral relationship between the two countries. The main findings indicate that while the TKDN exemption significantly enhances market and competitive advantage for US industrial products, particularly in the information and communication technology and medical device, it simultaneously creates substantial competitive challenges for Indonesia's domestic component and manufacturing industries. The resulting impact is bifurcated: on one hand, there are potential macroeconomic benefits through increased investment and the availability of quality products for consumers; on the other hand, there is a risk of de-industrialization and the weakening of local supply chains. This paper concludes that this preferential TKDN relaxation not only reflects a strategic concession under geopolitical pressure but also forces Indonesia to undertake a fundamental recalibration of its industrial development model at the crossroads of economic sovereignty and integration into global value chains.

Keywords: Local Content Requirement, Reciprocal Trade Agreement, Industrial Policy, Indonesia, United States

1 Introduction

The year 2025 witnesses a paradigmatic shift in trade policy architecture with the signing of the Agreement on Reciprocal Trade with the United States. This agreement, hailed by the White House as a "historic trade deal," becomes the culmination of a long-running tension between two conflicting interests. On one hand, there is Indonesia's long-term industrial development strategy, which relies on the Local Content

Requirement (TKDN) policy to encourage industrial deepening, import substitution, and economic self-sufficiency [13].

On the other hand, there is a strategic push from the United States to dismantle non-tariff barriers that are considered detrimental to market access for its export products, an agenda reinforced under a more assertive trade policy framework. The core of this agreement, and the main focus of this analysis, is Indonesia's commitment to grant exemptions or relaxations of the Local Content Requirement (TKDN) rules for US-origin companies and products. This clause effectively creates a fast track for US industrial products to enter the Indonesian market without being burdened by the local component usage obligations that have so far applied to other industry players.

This decision promptly triggered an intense public discourse. On one hand, the U.S. government and its industry associations welcomed the agreement as a major breakthrough that would open up previously impossible market access in the manufacturing, agricultural, and digital sectors. On the other hand, various circles in Indonesia, ranging from industry players and business associations to economic analysts, voiced deep "concern." They anticipate that without the protection of the Local Content Requirement (TKDN), local products, especially in the medical device and technology sectors, will be unable to compete, which could ultimately threaten the survival of domestic industries and create an uneven playing field.

This policy shift is not merely a technical deregulation, but rather a strategic concession born from external pressure. The official narrative from the U.S. government explicitly links this agreement to efforts to address the significant trade deficit with Indonesia and as part of the "America First" trade agenda. Meanwhile, statements from Indonesian officials referring to this move as a "response" to U.S. policy and the need for "flexibility" are a strong indication of an imbalanced power dynamic.

Before this agreement, Indonesia had actually shown flexibility by providing an alternative path for fulfilling the Local Content Requirement (TKDN) for companies like Apple, namely through an investment scheme in research and development (R&D) centers. However, the U.S. demand for a full exemption indicates that such a middle-ground approach was no longer considered adequate. The transformation from a "comply or invest" model to an "American companies are exempt" model fundamentally alters the risk-and-reward calculation for all investors, both foreign and domestic, and creates a new and unequal competitive arena [14].

Trade Policy Uncertainty (TPU) theory posits that unexpected tariff escalations function as significant economic frictions, compelling the postponement of irreversible strategic decisions such as investment and R&D. Beyond export demand shocks, the input cost channel theory highlights that domestic retaliatory tariffs trigger dominant supply-side pressures via rising import costs, which empirically correlate more strongly with heightened managerial uncertainty than export tariffs themselves. Furthermore, the transmission of these negative impacts depends heavily on firm heterogeneity, where a 'real hedging' mechanism through market diversification proves effective in mitigating risk, whereas smaller firms with high market dependence suffer the greatest exposure to uncertainty due to high market adjustment costs [16].

The United States tariff policy historically balances three main goals: revenue, domestic industry protection, and reciprocity, with priorities continually shifting in response to political and economic changes. Economic models demonstrate that high tariffs (e.g., 70%) designed to maximize revenue without retaliation, sharply decline in benefit (to an optimal tariff of around 30%) when trading partners implement reciprocal tariffs. In the most recent context, particularly since the second Trump administration, the US tariff policy has triggered a profound transformation of the global trade architecture, moving from traditional protectionism toward the systematic dismantling of multilateral institutions. The serious impacts include an existential crisis for the WTO and the erosion of global trust in US commitments, prompting other nations to build alternative institutional frameworks (such as the EU-CPTPP partnership, the acceleration of RCEP, and the expansion of BRICS) in a collective effort to establish new trade predictability [19]

Based on this background, this research aims to answer a series of crucial research questions: What are the direct economic consequences of exempting U.S. industrial products from the Local Content Requirement (TKDN) on their market competitiveness in Indonesia?

2 Literature Review

One study used SWOT to evaluate an Institutional Educational Project at a university, aiming to strengthen decision-making in educational management. Another study presented an analysis of a national education system based on a SWOT analysis [1]. This approach aims to make SWOT analysis more granular (detailed through finer subcategories) and relational (mapping complex inter-element connections), enabling more accurate knowledge extraction and supporting advanced strategic analysis [2].

The SWOT analysis of Endometrial Receptivity Tests (ERT) identifies Strengths in WOI personalization (NGS) and Opportunities for non-invasive tests, yet it is dominated by Weaknesses like low reproducibility and Threats from marketing preceding strong validation. Therefore, current evidence does not support the routine use of ERTs, and additional, well-designed research is urgently required [3]. The SWOT analysis underscores the feasibility of sustainable biofuel production from potato residue in South Africa, where significant supply Strengths and waste management Opportunities outweigh seasonal availability Weaknesses and regulatory/market Threats that must be addressed [4]. The expert-perception based SWOT appraisal of CPEC sustainability shows that its main Strengths (geostrategic position) and Opportunities (regional connectivity) are counterbalanced by crucial Weaknesses (financial constraints, lack of transparency) and Threats (natural resource exploitation), demanding urgent policy reform to diversify partnerships and ensure more sustainable development [5].

The rigorous counterfactual analysis found that Regional Trade Agreements (RTAs) are significantly associated with the outsourcing of environmental footprints—the shifting of environmental impacts (energy, water, raw materials) from developed to developing countries, despite the presence of stringent environmental clauses [6].

Despite Free Trade Agreements (FTAs) being designed to boost the diffusion of green technologies, an analysis using a gravity model found that specific FTA provisions aiming to facilitate trade in environmental goods are not significantly associated with increased trade flows of those goods [7]. In a *Cournot oligopoly* model where countries invest in policy infrastructure, a Trade Agreement banning export subsidies tends to be more self-enforcing than one banning tariffs, because the asymmetry between the two instruments makes punishment with tariffs much harsher than punishment with subsidies [8].

The EU–UK Trade and Cooperation Agreement (TCA) is comprehensively estimated to cause a significant long-term reduction in the UK's GDP, with the adverse impact nearly equally split between trade barriers and the resulting fall in Foreign Direct Investment (FDI) stock [9]. An analysis using the General Method of Moments (GMM) shows that the implementation of the General Agreement on Tariffs and Trade (GATT) tends to raise Agricultural Producer Prices (PPI) in Asian countries, whereas World Trade Organization (WTO) membership has the opposite effect, lowering PPI in the region [10]. The structural gravity model analysis of the India-EU Free Trade Agreement (FTA) predicts an asymmetrical outcome where EU services exports to India are expected to more than double, while India's services exports to the EU would only increase by about 50%, with lifting restrictions in the telecommunications sector being the most important policy area [11].

3 Methodology

The approach used in this research is qualitative, with the aim of reviewing and considering the consequences for the Indonesian economy resulting from the exemption of US products from the Local Content Requirement (TKDN). Data collection in this study relies entirely on data sourced from various public documents and archives. A systematic data collection method was employed to ensure the triangulation and validity of the information. These data sources can be classified as follows:

Official Government Documents: This collection of documents includes the core text of the agreement framework, such as the Joint Statement between Indonesia and the US, as well as the fact sheet released by the White House. In addition, official press releases, press conference transcripts, and public statements from relevant government agencies in Indonesia, such as the Coordinating Ministry for Economic Affairs, the Ministry of Trade, and the Ministry of Agriculture, were also gathered. These documents serve as primary sources for understanding the official policy narrative, the commitments made, and the mitigation strategies articulated by the government.

4 Result

4.1 The Implementation of Indonesia's Local Content Requirement Policy

A theoretical model to analyze trade wars between two countries within the framework of the international division of labor, specifically focusing on upstream industries and

intermediate goods. The research establishes that the trigger for a trade war hinges on the self-price coefficient of demand being balanced relative to the cross-price coefficient, where failure to meet this condition prompts the emergence of trade subsidies rather than tariff wars. Crucially, the model finds that the scale of the trade war or subsidy does not influence key equilibrium variables such as social welfare, firm profits, or product prices, leading to the conclusion that for a trade war to be effective, nations must restructure their markets by abandoning the international division of labor in favor of horizontal integration or domestic production [21].

To fully understand the impact of the relaxation of the Local Content Requirement (TKDN) policy, it is important to first conduct an in-depth analysis of what the TKDN policy is, how it has evolved, and how it was implemented before the agreement with the US. The TKDN policy is not a single regulation, but rather a complex policy framework that has been an integral part of Indonesia's industrial development strategy for years. Legally, the main foundation of the TKDN policy is stipulated in Law No. 3 of 2014 concerning Industry, which is further implemented through Government Regulation (PP) No. 29 of 2018 concerning Industrial Empowerment.

This Government Regulation explicitly mandates the use of domestic products by state institutions, ministries, local governments, State-Owned Enterprises (BUMNs), and Regional-Owned Enterprises (BUMDs) in the procurement of goods/services financed by the state/regional budget (APBN/APBD). This rule serves as the government's primary instrument to create a guaranteed market for products that meet TKDN standards.

The mechanism for calculating the TKDN value itself is quite detailed. The TKDN value is calculated as a percentage of the total production cost of a good or service that originates from domestic components.

This component includes three main aspects: (1) Direct Materials, assessed based on the country of origin of the raw materials; (2) Direct Labor, assessed based on the nationality of the workforce; and (3) Factory Overhead Costs, which are also allocated based on their country of origin.

The process of verifying and certifying this TKDN value is carried out by independent survey institutions appointed by the Ministry of Industry, such as PT Sucofindo, to ensure accuracy and compliance. The Indonesian government strategically applies the TKDN policy by setting different percentage levels for industrial sectors considered priorities. The following table summarizes some examples of TKDN requirements that were in effect before the agreement with the US.

Table 1. Summary of TKDN Policy in Priority Sectors Before the Trade Agreement with the United States.

Industrial Sector	Mandatory TKDN Percentage	Example Product	Policy Objectives
Medical Devices	> 60%	Hospital beds, surgical instruments, patient monitors	Promote self-sufficiency in the medical device industry, reduce

			imports, strengthen national health resilience
Agricultural Machinery	> 43%	tractors, rice threshers, water pumps	Increase the use of local agricultural machinery, support agricultural modernization
Electric Power	40% - 76%	Transmission networks, substations, turbines, solar panels	Strengthen the supporting industries for the energy sector, optimize state spending on infrastructure projects
Electronics	40%	Mobile phones, tablets, laptops	Encourage investment in manufacturing and R&D, reduce the electronics trade deficit
Oil & Gas	30% - 43%	Pipes, valves, offshore construction services	Enhance the capabilities of domestic oil & gas supporting industries, create jobs in capital-intensive sectors

Source: tkdn.kemenperin.go.id (2014)

From the government's perspective, the implementation of the TKDN policy has yielded a number of positive results. The Ministry of Industry and other related ministries often report that the Program for the Increased Use of Domestic Products (P3DN), which is based on TKDN, has successfully driven the optimization of government spending on local products, created new jobs, and even increased state revenue from income tax (PPh) in line with the growth of domestic industry. These achievements serve as the government's primary justification for continuing to maintain and even strengthen the TKDN policy as a key pillar of national industrial development [12].

4.2 Analysis of the Indonesia–US Reciprocal Trade Agreement and the TKDN Exemption Clause

The fundamental roots of trade war conflicts can be elucidated through the perspectives of Mercantilism and Neo-Mercantilism, which view international trade as a zero-sum game wherein one nation's economic gain is inevitably interpreted as another's loss. Grounded in this concept, states strategically employ policy instruments such as tariffs and quotas to shield domestic industries from the threat of foreign competition [17].

The Indonesia-US Reciprocal Trade Agreement announced in July 2025 is a complex package of deals, in which the relaxation of the Local Content Requirement (TKDN) is just one component of a broader bargaining process. To understand the impact of the TKDN exemption clause, it is crucial to analyze it within the context of the entire reciprocal, or mutually responsive, agreement.

An analysis of the official documents released by both governments, particularly statements from the White House and the USTR, reveals the quid pro quo structure of this agreement. On one hand, the United States committed to lowering the reciprocal tariffs it had previously threatened to impose on Indonesian products. The tariff, initially proposed at 32%, was reduced to 19%. This move provided certainty and relief for Indonesian exporters who are heavily dependent on the US market.

On the other hand, Indonesia made a series of much broader and more profound commitments. The main commitment is the elimination of tariffs on over 99% of US products exported to Indonesia, covering almost all sectors from agricultural products, health products, ICT, automotive, to chemicals. However, the most transformative commitment, and the focus of this analysis, is the dismantling of various non-tariff barriers. The official White House document explicitly and repeatedly mentions Indonesia's commitment to "exempting U.S. companies and originating goods from local content requirements." It is this clause that effectively neutralizes the TKDN policy for US products.

The political context behind this agreement cannot be ignored. The pressure from the US was very real, driven by a trade deficit in goods with Indonesia that reached \$17.9 billion in 2024. This agreement is seen by the US as a way to rebalance that trade relationship. The Indonesian government, in its effort to respond to this pressure, tried to frame the deal as part of a broader deregulation effort to improve the investment climate. However, statements from Indonesian officials clarifying that the TKDN exemption would not apply to all sectors, but would be limited to specific areas such as ICT, medical devices, and data centers, indicate an attempt to limit the scope of the concessions granted.

Table 2. Comparison of Indonesian and US Positions in the Reciprocal Trade Agreement

Area of Commitment	United States' Commitmen	Indonesia's Commitment
Tariffs on Industrial & Agricultural Goods	Lower reciprocal tariffs on Indonesian goods from 32% to 19%.	Eliminate tariffs on over 99% of U.S. products entering Indonesia.
Non-Tariff Barriers (General)	-	Eliminate various barriers, including import licenses, pre-shipment inspection requirements, and burdensome labeling requirements.

Local Content Requirements (TKDN)	-	Exempt U.S. companies and goods from local content requirements (TKDN).
Digital Trade	-	Support a permanent moratorium on customs duties on electronic transmissions at the WTO, eliminate tariffs for "intangible products," and guarantee cross-border data transfers to the U.S.
Intellectual Property Rights (IPR)	-	Take steps to resolve long-standing IPR issues of U.S. concern (in line with the USTR's Special 301 Report).

Source: whitehouse.gov (2025)

This table clearly shows that Indonesia's concession on the TKDN exemption is part of a larger package of trade-offs. Indonesia "paid for" the US tariff reduction with a series of comprehensive market liberalizations, in which the elimination of TKDN for US products became one of its key pillars. An analysis of this balance of exchange is key to understanding the political and economic calculations underlying the Indonesian government's decision [13].

4.3 Impact on US Industrial Products: Increased Market Access and Competitive Advantage

The exemption from the Local Content Requirement (TKDN) provides a very significant advantage for industrial products from the United States in the Indonesian market. This impact goes beyond mere cost reduction; it fundamentally removes one of the most substantial barriers to entry, especially in market segments controlled or influenced by government policy, such as goods and services procurement [15].

Before this agreement, US companies wishing to participate in government tenders or sell products in tightly regulated sectors had to go through a complicated and often expensive TKDN certification process. They faced a difficult choice: build a local supply chain that might be inefficient, invest heavily in R&D in Indonesia to meet an alternative scheme, or not participate in that market at all. With the exemption, US companies can now compete directly with domestic products that have long benefited from TKDN regulations, especially in government projects funded by the state/regional budget (APBN/APBD) [14].

This positive impact is felt most strongly in several strategic sectors:

Information and Communication Technology (ICT) and Digital Products: This sector is the biggest winner. Companies like Apple, which previously faced difficulties in meeting the 40% TKDN requirement for products like the iPhone and was even threatened with being unable to distribute its latest models, now have a smooth path to

Indonesia's large consumer market. This advantage is reinforced by Indonesia's commitment in the same agreement to support digital trade, such as not imposing customs duties on electronic transmissions and facilitating cross-border data flows. This combination of TKDN elimination and digital trade liberalization creates a highly conducive environment for US tech giants.

Medical Devices: The high-tech and capital-intensive US medical device industry can now export its products directly to Indonesia without having to meet the very high TKDN requirements (above 60%). This opens up a significant market for producers of advanced medical equipment, such as diagnostic devices, implants, and hospital machinery, which previously struggled to compete due to regulatory barriers.

Automotive and Agriculture: The agreement also explicitly mentions Indonesia's commitment to eliminating barriers for US automotive and agricultural products. For the automotive sector, this means accepting US safety and emissions standards, which simplifies the homologation process. For the agricultural sector, it means the removal of various complex import licensing regimes.

The strategic response from US companies is also becoming apparent. Apple, for example, confirmed it will continue its investment commitments in Indonesia, but with a focus on non-manufacturing areas such as expanding the Apple Academy (an R&D training center) and building a production facility for products like AirTags in Batam. This indicates a strategic adjustment: the company is leveraging the new, friendlier climate to strengthen its market presence without being tied to the large-scale manufacturing commitments that were previously one way to meet the TKDN.

Moreover, this exemption provides a "dual advantage" for US companies. Not only are they freed from a costly regulatory burden, but their competitors from other countries (such as Europe, China, South Korea, or Japan) will likely still have to comply with the existing TKDN rules. Although Indonesia's Ministry of Industry stated that TKDN reforms would eventually apply to all countries to avoid accusations of discrimination, the agreement document with the US is very specific in mentioning an exemption for "U.S. companies and originating goods." If this situation persists, where a smartphone from the US is TKDN-free while a phone from China must meet a 40% TKDN, then this is no longer just "open market access," but rather "preferential market access." This effectively creates a market distortion that benefits the US, could trigger trade diversion, and significantly influence the investment decisions of non-US companies in Indonesia.

4.4 Impact on Domestic Industry: Challenges and Opportunities

For Indonesia, the relaxation of the TKDN policy for US products is a double-edged sword. On one hand, it opens up new opportunities and potential efficiencies. On the other hand, it presents an existential challenge to the industrial ecosystem that has been built over many years under a protective umbrella. This complex impact can be systematically analyzed using a SWOT (Strengths, Weaknesses, Opportunities, Threats) framework.

Challenges (Weaknesses and Threats)

The biggest and most immediate threat is the increased competitive pressure on domestic industries. Local component manufacturers, especially in the ICT, medical

device, and electronics sectors, who have been suppliers to assembly industries to meet TKDN targets, now face direct competition from imported US products that are often superior in technology and economies of scale. Without the local content obligation, assembly companies (including foreign companies operating in Indonesia) no longer have a strong incentive to buy from domestic suppliers if imported components from the US offer better price, quality, or availability.

This directly threatens the previously "captive market," particularly in government and State-Owned Enterprise (SOE) procurement. Domestic companies that could previously win tenders thanks to TKDN preferential price incentives must now compete on a level playing field with US industrial giants. This concern has been voiced by various industry associations and analysts, who see the potential for de-industrialization or "hollowing out" if Indonesia becomes merely a consumer market without the backing of strong production capabilities. If domestic factories are unable to compete, reduce production, or even shut down, the risk of mass layoffs (PHK) becomes very real, especially in related labor-intensive sectors.

Opportunities (Strengths and Opportunities)

However, amidst these challenges, there are also opportunities that can be leveraged if managed well. The loosening of these rules has the potential to attract more Foreign Direct Investment (FDI) from the US. A more open investment climate could encourage US companies not only to sell products but also to build research, development, and service centers in Indonesia, which in turn could facilitate the transfer of technology and knowledge.

For Indonesia's downstream industries, this policy could be a blessing. Indonesian manufacturing companies that use high-tech machinery, components, or raw materials from the US as production inputs will benefit. They can access higher-quality inputs at potentially lower prices (as there are no longer implicit TKDN compliance costs), which can ultimately increase the efficiency and competitiveness of their final products in both domestic and export markets.

From the consumer's point of view, this policy promises clear benefits. The market will be flooded with a greater choice of quality imported products from the US, which will theoretically drive price competition and make these products more affordable. Lastly, this competitive shock could serve as a "wake-up call" for domestic industry. The most resilient local companies will be pushed to innovate, increase efficiency, and improve product quality in order to survive and compete. In the long run, this could purify the industrial landscape, leaving behind players who are truly globally competitive.

The following table summarizes the SWOT analysis of the impact of the TKDN relaxation on the Indonesian economy.

Table 3. SWOT Analysis of the Impact of TKDN Relaxation on the Indonesian Economy

(STRENGTHS)

(WEAKNESSES)



Existing domestic industrial base in several sectors as a foundation.	High dependency of assembly industries on imported components.
Large domestic market as an attraction for investment.	Low technological competitiveness and economies of scale of local industries compared to the U.S
Experience in industrial policy and regulation	Inconsistent quality and availability of some local components.
(OPPORTUNITIES)	(THREATS)
Increased foreign direct investment (FDI) from the U.S., especially in R&D and service sectors.	Increased direct competition for domestic component producers.
Potential for technology and knowledge transfer from U.S. companies	Loss of protected markets (government/state-owned enterprise procurement) for local products.
Lower input costs for Indonesian downstream industries that use U.S. components.	Risk of de-industrialization and Indonesia becoming solely a consumer market.
Increased choice and potential for lower prices for consumers.	Potential wave of layoffs (PHK) if local industries cannot compete
Encouraging innovation and efficiency among competitive local companies.	Increased trade balance deficit along with a surge in imports from the U.S.

Source: whitehouse.gov, data processed using SWOT analysis (2025)

This SWOT analysis shows that the impact of the TKDN relaxation is highly dependent on how the Indonesian government and industry players respond to the challenges and capitalize on the emerging opportunities. Without effective mitigation strategies, the existing risks could potentially outweigh the achievable benefits.

Based on research utilizing the universe of product exports by firms from eleven low and middle-income countries, it is documented that tariff reductions under trade agreements have strong pro-competitive effects, which both encourages new firm entry and significantly reduces the (tariff exclusive) price-cost markups of exporters. This key finding, that markups fall with tariff cuts, contradicts a core prediction of standard oligopolistic competition models of trade, leading the study to extend an international pricing model of oligopolistic competition to include multiple countries and a rich preference structure that allows for fierce competition among firms from the same country and less intense competition among firms from different countries [20].

5 Discussion

The United States tariff policy, particularly under the second Trump administration, signals a profound shift toward economic nationalism aimed at dismantling the existing multilateral trade architecture, moving beyond traditional protectionism. This policy imposes a minimum 10% baseline tariff on nearly all goods imports, while selectively imposing much higher rates (up to over 100%) on major trading partners, notably China, often driven by non-trade-related objectives [18]. The primary consequence is triggering an existential crisis for the World Trade Organization (WTO), eroding global trust in US commitments, and reversing export-led development paths in many developing countries. In response to this disruption, other nations are opting to build alternative institutional frameworks through coalitional multilateralism, such as the EU-CPTPP partnership, the acceleration of RCEP, and the expansion of BRICS, in a collective effort to establish new trade predictability outside the US-dominated system.

Facing the complex consequences of the trade agreement with the US, the Indonesian Government formulated a series of policy responses and mitigation strategies. Narratively, the government framed the TKDN relaxation as part of a larger reform agenda to simplify business processes and improve the investment climate, with the ultimate goal of attracting more capital and technology into the country. However, behind this deregulation narrative, there are tangible efforts to design measures to protect domestic industry from the worst impacts of the policy.

Various government documents and statements from the legislature, as revealed by Commission VII of the Indonesian House of Representatives (DPR RI), outline several main pillars of the mitigation strategy. These pillars include the Provision of Fiscal and Non-Fiscal Incentives, where the government is encouraged to support domestic industry through incentives such as tax reductions for R&D investment, subsidies for energy and raw material costs, and the provision of low-interest business loans, with the goal of lowering domestic production costs to be more competitive. Furthermore, the strategy incorporates the establishment of Supportive Regulations, which involves designing a clearer industrial zoning roadmap, establishing efficient industrial estate standards, and simplifying environmental permits, all aimed at creating a conducive ecosystem for the sustainable growth of local industries.

The government is also expected to continue Infrastructure Investment in key areas such as ports, toll roads, and digital logistics, as efficient infrastructure is believed to reduce high domestic logistics costs that have long been an obstacle to the competitiveness of local products. Finally, the strategy emphasizes the importance of Strategic Partnerships by encouraging the formation of joint ventures between local and foreign companies (including from the US), which is seen as an effective way to facilitate the transfer of technology and knowledge, thereby accelerating the national industry's learning curve.

Voices from the business community have also enriched this discourse. The Indonesian Employers' Association (Apindo), for example, urged the government to implement bolder reforms and more targeted fiscal incentives to prevent a wave of layoffs, especially in the most vulnerable labor-intensive sectors. Interestingly, there was also an unexpected voice from the medical device industry segment. A

spokesperson for the Ministry of Industry revealed that some US medical device companies that have already invested and built factories in Indonesia have actually requested that the TKDN policy remain in effect. For them, TKDN functions as a shield for their investment in Indonesia, ensuring that the products they produce domestically can be absorbed by the government procurement market.

This demonstrates the complexity of the policy's impact, where TKDN can be seen as a "fortress" for both local companies and foreign investors who have committed to domestic production.

Nevertheless, there is a significant disconnect between the problem created by the agreement and the solutions being offered. The problem is very specific and targeted: US products in certain sectors now gain an instant competitive advantage because they are free from TKDN obligations. Meanwhile, the proposed solutions—such as general tax incentives, infrastructure development, and partnership programs—are broad, untargeted, and require a long implementation time. These mitigation measures, while generally good for industrial policy, do not directly answer the sudden and sharp competitive challenge currently faced by local component producers.

For example, infrastructure development will not quickly help a local mobile phone component producer compete with imported components from the US that now enter freely. This gap between a specific problem and generic solutions raises doubts about the effectiveness of the government's mitigation strategy. This aligns with warnings from various parties, including DPR members and economists, that the government should be cautious and not use TKDN merely as a bargaining chip in trade negotiations without preparing a strong and relevant policy cushion to absorb the shock.

6 Conclusion

The relaxation of the Local Content Requirement (TKDN) policy for United States industrial products, as part of the 2025 Reciprocal Trade Agreement, represents a policy moment fraught with consequences. The analysis in this journal shows that this move is a double-edged sword that creates a series of complex and often conflicting impacts. This decision, born from the intersection of domestic industrial development ambitions and international political-economic pressures, fundamentally alters the competitive landscape in the Indonesian market.

The exemption from the local content requirement (TKDN) provides significant market access for United States products, creating an uneven competitive advantage and posing a serious threat to Indonesia's domestic industry. This policy could lead to market share erosion, de-industrialization, and job losses. Its economic impact is bifurcated: on one hand, there are potential benefits such as increased foreign investment and more diverse products for consumers, but on the other hand, there is the risk of a weakened domestic manufacturing base and increased dependence on imports.

The long-term implications force Indonesia to re-evaluate its industrialization strategy, questioning whether this marks a permanent shift to a more liberal model or is merely a temporary setback. While it may ease short-term trade tensions, the policy risks creating a more asymmetrical relationship and increasing Indonesia's economic

dependence on the US. Globally, this case serves as an example of how bilateral power dynamics can override multilateral trade principles and dictate the industrial policy of developing nations. More in-depth, firm-level quantitative studies are needed to empirically measure the impact of the TKDN relaxation on key variables such as sales, market share, and labor absorption rates in affected sectors compared to those that are not. Furthermore, a political analysis of how non-US foreign investors (for example, from China, Japan, and the European Union) adjust their investment strategies in Indonesia in response to the preferential advantages gained by their US competitors would provide highly valuable insights. The answers to these questions will be crucial in charting the future trajectory of Indonesia's industry and economy on the world stage.

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