



Regulation of Strategic Investment Downloading in The Growth of Indonesia's Leading Sectors

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ABSTRACT

Indonesia has great economic potential with abundant natural resources. However, so far Indonesia is still trapped in the global value chain as an exporter of raw materials. This causes the added value obtained by Indonesia to be low and the Indonesian economy does not grow optimally. The Indonesian government has realized this problem and has issued various policies to encourage downstream investment. This research aims to analyze the downstream regulations for strategic investment in the growth of Indonesia's leading sectors. This research uses normative legal research methods. Research data was obtained from a study of documents and laws and regulations related to downstream investment. The data analysis technique used is qualitative analysis. The data obtained were analyzed using descriptive and interpretive methods. The research results show that the Indonesian government is using an acceleration strategy to increase investment to increase the rate of downstream investment in leading sectors for national economic growth. Regulations for the downstreaming of strategic investments in the growth of leading sectors are regulated in several policies including Law Number 3 of 2020 concerning Amendments to Law Number 4 of 2009 concerning Mineral and Coal Mining, mandating that no longer export raw materials, Law Number 3 In 2014 regarding Industry, OJK issued a policy in the banking industry to support the acceleration program for Battery-Based Electric Motor Vehicles (KBL BB) as well as the development of its upstream industry.

Keywords: Downstreaming, Investment, Leading Sectors.

INTRODUCTION

Indonesia has great economic potential and is supported by abundant natural resources (Ekananda, 2022; Rahman et al., 2021; Yana et al., 2022). As the world's largest archipelagic nation, Indonesia is rich in various types of natural resources, including oil and gas, coal, iron ore, tin, copper, and gold, as well as vast biodiversity (Erdoğan et al., 2020; Yang et al., 2020). These natural resources contribute significantly to the Indonesian economy through the mining, forestry, fisheries, and agriculture sectors. However, so far, Indonesia is still trapped in the global

value chain as an exporter of raw materials. This causes the added value obtained by Indonesia to be low, and the economy needs to grow optimally (Halimatussadiyah et al., 2021; Kurniawan et al., 2022; Malahayati et al., 2021).

According to Ahmad Heri Firdaus, a researcher from the Center for Trade and Investment Industry Institute for Development of Economics and Finance (INDEF), Indonesia is still considered a country that often provides industrial products with low added value. This phenomenon can be seen from the contribution of domestic value added in Indonesia's total exports, which is still relatively small when compared to the average domestic value added in total exports of Organization for Economic Co-operation and Development (OECD) countries, which is around 3.6 billion US dollars in 2020. Indonesia tends to export more non-final products, such as intermediate goods or semi-finished products, even semi-finished goods. This situation puts Indonesia in a position with low participation in the global supply chain (Salsabila et al., 2024).

The Indonesian government has realized this problem and has issued various policies to encourage downstream investment. Downstream is a concept or strategy in industrial development that refers to the process of adding added value to natural resource products, be it in the form of raw materials or primary production, through a series of processing, manufacturing, and increasing economic value before the product is sold to the market. The Deputy Secretary for Investment and Mining Coordination at the Coordinating Ministry for Maritime Affairs and Investment (*Kemenko Marves*) stated that the downstream development of the mining industry in Indonesia can be used as an opportunity and strategic step toward a better future. There is still much downstream potential in other commodities and derivative products from the downstream of existing products (Wasis, n.d.).

Previous research by (Irawan et al., 2024) showed that the government withdraws investments to utilize nickel resources for the nation's prosperity through the domestic processing chain. The Indonesian government also opens the following opportunities by providing convenience in terms of licensing, as explained previously, and also facilities (privileges) to investors related to investment both from within the country and foreign.

Another study shows that the issuance of ESDM Minister Regulation No. 11 of 2019 certainly raises cons in its implementation, especially for foreign investors because automatically, the selling price of nickel originating from Indonesia becomes more expensive than before. However, the issuance of this regulation only partially hamper the pace of investment into Indonesia. The Indonesian government also opens the following opportunities by providing convenience in terms of licensing, as explained previously, and facilities (privileges) to investors related to investment both from within the country and abroad.

The novelty of this study is to examine downstream investment regulations in several leading sectors that have never been studied and become the novelty of this research. This research can help understand the dynamics of global supply chains, especially in downstream

industries. It can provide better insight into Indonesia's role in global supply chains and its implications for leading sectors' economic sustainability and growth. This study aims to analyze downstream regulations of strategic investment in the growth of Indonesia's leading sectors.

RESEARCH METHODS

This study used normative legal research methods. Normative research methods are approaches used to analyze laws, norms, or principles related to a problem or phenomenon. This method focuses on examining existing norms, both in the form of legal regulations, legal doctrines, and relevant moral or ethical principles (Suyanto, 2023). Data is obtained by studying documents, laws, and regulations related to downstream investment. The document study approach collects information on policies, regulations, and guidelines relevant to this research topic. The data are then analyzed using qualitative techniques involving descriptive and interpretive analysis. Descriptive analysis identifies and describes the characteristics and context of the documents and regulations collected. Meanwhile, interpretive analysis is used to understand the implications and meanings behind the contents of these documents, as well as to interpret their relevance in the context of downstream investment.

RESULTS AND DISCUSSION

The improvement of a country's economy is reflected in economic growth that increases significantly and stably from time to time (Latri & Anis, 2020). Economic growth is a process in which the economic conditions of a country change continuously towards a better state over a certain period. An economy is said to experience growth when economic activity is higher than before (Yunianto, 2021). This economic growth has a significant impact on the welfare of its people. In the development process, increasing the economic growth rate is essential by spurring the growth of superior and dominant business fields. This is based on the assumption that a "trickle-down effect" occurs, where people's welfare will naturally be achieved (Pangkiro, 2016).

Economic development reflects the growth of leading sectors within a country. When one sector develops, other sectors will also be encouraged to develop. This forms a linkage between the sectors. This linkage could improve a region's economy (Suharjo & Santoso, 2014). Meanwhile, in Indonesia, there are 12 leading sectors or critical sectors of the economy that play an essential role in the state's economic development. A number of these sectors include the trade sector, chemical industry, fertilizer, and pesticide industry, other services, buildings, machinery industry, tools and electrical equipment, other food industries, land transportation, electricity, gas, and clean water, rubber and plastic goods industry, animal husbandry, as well as the paper, paper goods, and cardboard industries (Indriani & Mukhyi, 2013).

The leading sector refers to a sector that has the potential to be further developed to increase a region's economic growth. This sector is formed from the development of production

that the potential possessed by the region can produce. In addition, the leading sector can meet demand from within and outside of the region (Kesuma & Utama, 2015). Identifying a sector as a leading sector occurs when the sector has comparative and competitive advantages. That is, the sector has advantages in production compared to similar sectors in other regions and is also able to compete effectively in the market. The leading sector has an important role as one of the drivers in accelerating economic growth in each region or country. Therefore, it is essential to improve this leading sector to significantly contribute to overall economic growth.

In order to increase the growth of superior sectors, it is necessary to make efforts to form and collect capital or investment in each sector (Armelly et al., 2021). Investment can be invested capital, to increase future income output. In economic theory, investment refers to spending activities to increase an industrial company's production capacity. Investment is a major component in moving the wheels of a country's economy. In theory, increased investment is believed to spur growth in trade and production volumes. The impact is to expand productive employment opportunities, which can increase per capita income and improve community welfare

The significant investment impact can then be applied in leading sectors in Indonesia through downstream strategies. According to Patunru (2015) in (Deddy & Adriyanto, 2023), downstream is often called downstreaming or value-adding, which means efforts to reduce raw material exports and vice versa encourage domestic industries to use these raw materials with the aim of increasing domestic added value while creating jobs. This means that downstream will encourage industries in leading sectors in Indonesia to carry out further production processes on raw materials produced from abundant natural resources. For example, rather than simply exporting raw materials such as mine ore, a country may encourage mine processing industries to produce finished goods such as metals or industrial equipment. Then in the end the domestic added value increases and creates more job opportunities in the processing industry. In addition, if you really have to export, then what is exported is finished goods resulting from the processing of these raw materials.

In Indonesia, downstream investment has been launched since 2010, the development of downstream from year to year can be seen based on the picture below:

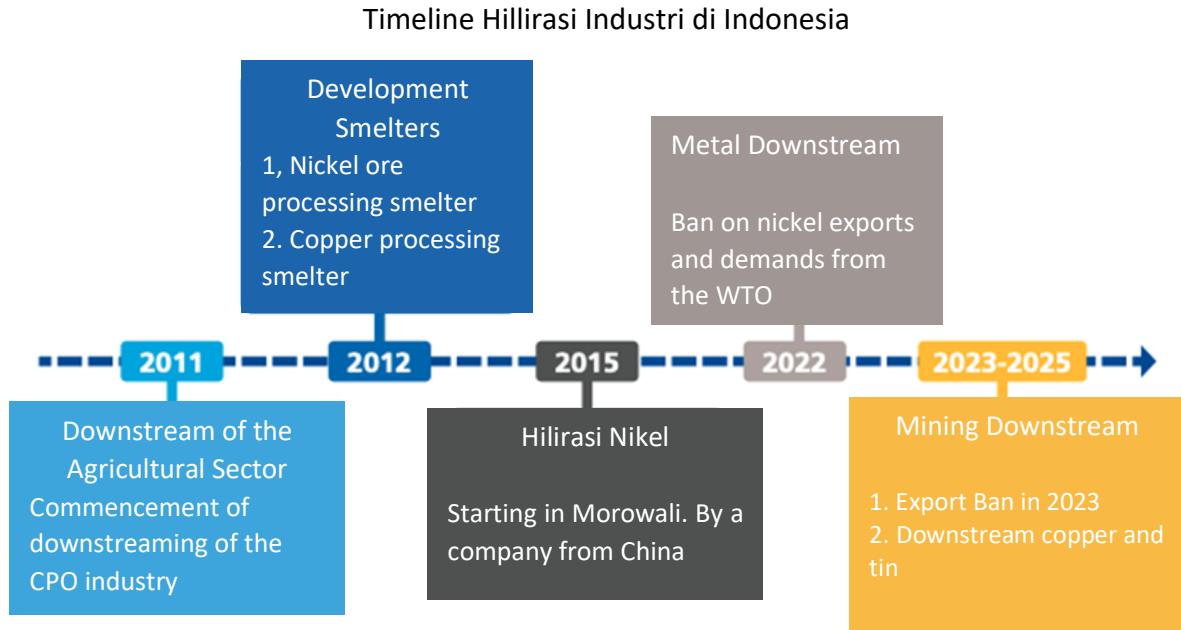


Figure 1. Timeline of Downstream Industry in Indonesia

Based on figure 1, it can be described that the downstream industrial process in Indonesia has experienced development from 2011 to 2025. In 2011, downstream agricultural sector began with a focus on downstream CPO (Crude Palm Oil), which marked the first step in developing the palm oil processing industry. In 2012, the construction of smelters was carried out, including a nickel ore processing smelter and a copper processing smelter. In 2015, the downstream focus shifted to the nickel sector with the start of the downstream process in Morowali by companies from China, demonstrating international cooperation in an effort to increase the added value of Indonesian industry. In 2022, the downstream focus shifts to metals, with a ban on nickel exports and demands from the WTO. Meanwhile, in the 2023-2025 range, the downstream focus of the mine is expanded with a ban on aluminum exports in 2023, as well as other downstream mining efforts such as copper and tin.

Furthermore, the Indonesian government in downstream has adopted a strategy to accelerate investment increase as part of efforts to increase the downstream pace of investment in superior sectors, which aims to support national economic growth. One implementation of this strategy is through investment marketing activities such as Marketing Investasi Indonesia (MII), organized by the Ministry of Investment/Investment Coordinating Board (BKPM) in Shanghai, People's Republic of China (PRC). The event, which will be held on October 29, 2023, titled "Investment Opportunities in the New Capital and Downstream Industries", was attended by 100 participants from 46 companies from China. The event was opened by the Minister of Investment/Head of BKPM Bahlil Lahadalia and the Ambassador of the Republic of Indonesia to the People's Republic of China and Mongolia, Djauhari Oratmangun. The first panel discussion in

this event discussed the topic of downstream industry, involving Director of Coal Business Development of the Ministry of Energy and Mineral Resources Lana Saria and Vice Chairman & Senior Vice President of Huayou Cobalt Fang Qixue (Ministry of Investment / BKPM, 2023).

The results from 2018 to 2022 recorded a significant increase in PRC's investment realization in Indonesia, with an average annual growth of 59%. Investment contributions from China to Indonesia reached USD8.2 billion in 2022. Even in the period from January to September 2023, China again ranked second in investment realization, with a figure reaching USD5.6 billion. China's investment focus sectors include the base metals industry, transportation, warehouses, telecommunications, and the electricity, gas and water sectors. This means that the investment received from China not only supports the downstream agenda in Indonesia, but also strengthens key sectors in the national economy.

The existence of downstream investment is a strategic strategy because it can provide various significant benefits. If downstream is carried out in industry, it can reduce some cost components such as marketing and distribution costs. Simplification of production costs also has the potential to increase downstream sector production because the cost of obtaining raw materials becomes cheaper.

The purpose of downstream is to increase the selling value of commodities, strengthen the industrial structure, provide more jobs, and increase business opportunities in the country. Downstream is considered very important because it can help minimize the impact of falling commodity prices. If an area only relies on raw material commodities, then the area will experience difficulties when the selling value of these commodities decreases. However, if an area relies on the industry of semi-finished products or finished goods, then the selling value will be even higher. In addition, the price of this product tends to be more stable than the price of raw materials.

Several policies related to downstream strategic investment in leading sectors are regulated in several regulations, one of which is Law Number 3 of 2020 concerning Amendments to Law Number 4 of 2009 concerning Mineral and Coal Mining. This regulation has mandated the downstream industry or increasing added value in the mining industry. One of the mandated measures is the cessation of raw material exports, which aims to provide incentives for the processing of such raw materials domestically.

According to (Darongke et al., 2022), the policy in Law Number 3 of 2020 is very much in line with the National Medium-Term Development Plan IV of 2020-2024 and the Government Work Plan of 2020. It is said that one of the development goals and indicators in the field of Natural Resources and Environment is to increase the added value of the mineral and mining industry in a sustainable manner. This is pursued through a strategy to increase added value or downstream, which includes:

Restrictions on the export of mineral raw materials and the implementation of Domestic Market Obligation (DMO) to ensure the availability of raw materials for the mineral processing

and refining industry. Increased effectiveness of incentives in encouraging investment in domestic mineral processing and refining. Increased legal certainty for the processing and refining of minerals in the country.

The next regulation in regulating downstream activities is listed in Law Number 3 of 2014 concerning Industry. Based on the objectives of the Law, advanced industrial development is realized through strengthening an independent, healthy, and competitive industrial structure. This is done by utilizing resources optimally and efficiently, and encouraging industrial development throughout Indonesia by maintaining a balance of progress and national economic unity based on people, justice, and noble values of the nation's culture by prioritizing national interests. Through this regulation, it provides a strong legal foundation to regulate and support downstream industry activities. The main objective is to strengthen national industries to be more independent and competitive, as well as ensure that industrial development reflects national interests and pays attention to regional diversity in Indonesia.

Furthermore, in addition to the Law, regulations regarding downstream investment are also contained in financial sector policies, especially in the banking industry. The Financial Services Authority (OJK) issues policies in the banking industry to support the acceleration program of Battery-Based Electric Motor Vehicles (KBL BB) and the development of its upstream industry. Several policies implemented by OJK to support downstream investment in the KBL BB sector are the first relaxation in credit quality assessment for the purchase and production of KBL BB, which aims to provide easy access to financing for business actors involved in the KBL BB industry. Second, the provision of funds for consumption and production debtors of KBL BB, by providing adequate financing facilities to support production and consumption activities in the KBL BB industry. In addition, there is an incentive policy for ownership of Electric Vehicle loans, which includes low interest rates and maximum tenors to facilitate public access to owning electric vehicles (Berliandaldo & Prasetio, 2022).

The regulatory measures that have been arranged collectively confirm the government's commitment to encourage downstream investment in strategic sectors. These regulations provide a strong legal foundation and a clear framework for the implementation of strategic downstream investment in Indonesia. The implementation of strategic downstream investment, in accordance with existing regulations, is expected to increase overall economic growth in accordance with broader economic development goals, which then the positive impact will be felt by the community at large, because sustainable economic growth will encourage the improvement of people's welfare.

CONCLUSION

The Indonesian government has implemented an acceleration strategy aimed at increasing investment to spur downstream activities in key sectors, thereby boosting national economic growth. Provisions regarding downstream strategic investment in the leading sector are regulated in several policies. In particular, Law Number 3 of 2020 concerning amendments to Law Number 4 of 2009 concerning Mineral and Coal Mining mandates the cessation of raw material exports so as to provide incentives for domestic processing. In addition, Law Number 3 of 2014 concerning Industry also plays an important role in regulating downstream activities. In addition, the Financial Services Authority (OJK) has also taken policies in the banking sector to support the acceleration program of Battery-Based Electric Motor Vehicles (KBL BB) and encourage the progress of its upstream industry. These policy measures collectively underscore the government's commitment to encouraging downstream investment in strategic sectors, aligned with broader economic development goals.

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