

## Institutional Analysis of Downstreaming Policies and Indonesia's Political Economic Resilience in Global Geopolitical Fragmentation

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### **Abstract**

*This study aims to analyse the institutional dynamics underlying changes in Indonesia's political economy and their implications for downstreaming policies and national economic resilience amid increasing global geopolitical fragmentation, including escalating competition between major powers (the United States and China) and trade disputes within the World Trade Organization (WTO). Downstreaming of natural resources is positioned as a strategic instrument to increase domestic economic value, strengthen industrialisation, and improve Indonesia's bargaining position in the global supply chains. This study employs a descriptive qualitative research design, using historical-institutional and policy analysis approaches. Data were obtained from various sources, including regulations related to downstreaming and mineral resources, books, academic publications, government policies, and other relevant sources. The results show that strengthening the role of the state in the management of strategic resources enables the implementation of more offensive downstreaming policies, such as the ban on nickel ore exports, which has triggered increased investment in smelters and significant growth in the basic metal processing industry. Downstreaming has proven to expand the domestic industrial base and contribute to economic resilience. However, the effectiveness of the policy is highly dependent on the quality of the bureaucracy, transparency of governance, and Indonesia's capacity to manage external geopolitical pressures. As a result, downstreaming can serve as a strategic pillar of sustainable economic development, as well as an instrument of national resilience in an increasingly fragmented global era.*

**Keywords:** Downstreaming, Political Economy, Economic Resilience, Global Geopolitics

**JEL:** A11, A13

### **A. INTRODUCTION**

The global political economy's dynamics play an essential role in transforming the domestic policy frameworks of numerous nations, especially regarding the management of natural resources and fostering economic resilience. In the current phase of global geopolitical division, marked by changes in economic influence, trade disputes, and the reconfiguration of international supply chains, commodity-exporting nations are compelled to adapt strategically (Sukmatika, 2025). While globalisation was once viewed as the main catalyst for economic and political

interdependence among countries, it is now encountering significant obstacles arising from growing deglobalisation tendencies, protectionist measures, and fierce competition among major powers. These developments are not only altering the landscape of international trade and investment but are also impacting the capacity of developing nations, including Indonesia, to design and execute successful economic strategies (Ardiansyah et al., 2024).

Amidst an increasingly fragmented global order, Indonesia the world's largest archipelagic state and a fast growing land of riches in the Indo-

Pacific has special hurdles and chances in making its policies for natural resources management and strengthening national resilience. Intensifying geopolitical competition among major powers, particularly in the US, China, and Russia have fought significant uncertainty, trade disputes, money penalties, and breaking apart of global delivery chains. These developments have exerted profound impacts on the international system and are reshaping the operation of transnational economic governance. As a developing country and with a strategic economic and political interest, Indonesia cannot forget the hold of this worldwide fragmentation (Venessa, 2025).

The idea of the Indo-Pacific is no longer about a place on a map; rather, it has evolved into a strategic arena in which major powers compete for influence. Within this context, Indonesia occupies a pivotal position where money, nation, and how things move across the world and through items from sea to sea all matter. These dynamics directly affect Indonesia's capacity to maximise the value of its home land and build up its strength in a time of the unknown (Pedrason, 2021).

The downstreaming of natural resources has emerged as a fundamental component of Indonesia's national development strategy, especially in response to the increasingly fragmented global political and economic landscape. Downstreaming transcends the mere enhancement of the added value of raw commodities; it represents a profound transformation aimed at strengthening the nation's economic resilience. By shifting Indonesia's status from a mere exporter of raw materials to a producer of higher-value processed goods, this policy has the potential for stimulating economic growth, generate employment opportunities, and stabilise domestic commodity prices (Akhmadi, 2024).

The importance of this policy more becomes more pronounced in the context of an uncertain

global geopolitical environment, where economic independence and the capacity to effectively manage resources are increasingly important. Nevertheless, the efficacy of downstreaming policies in enhancing national economic resilience amid global geopolitical uncertainty necessitates systematic and practically oriented analytical studies. As one of the largest nickel producers globally, Indonesia is compelled to reassess its institutional framework and economic policies.

Indonesia's decision to vigorously pursue its nickel downstreaming policy, including its withdrawal from the International Nickel Study Group (INSG) in 2006, exemplifies its efforts to adapt to these global dynamics. This policy not only signifies a paradigm shift from being a raw material exporter to becoming a value-added producer but also reinforces Indonesia's aspiration to enhance economic sovereignty and national resilience in escalating geopolitical uncertainty (Santoso et al., 2024).

The field of contemporary political science has recognised institutional analysis as a vital theoretical approach for understanding the complex relationships between states, markets, and global entities. Unlike classical institutionalism, which primarily focused on formal institutions, such as constitutions and bureaucracies, new institutionalism broadens the definition of institutions to encompass norms, values, informal practices, and narratives that collectively shape and influence political behavior. This expanded perspective is particularly relevant in analysing today's political economy, where decision-making processes are affected not only by formal rules but also by informal interactions and communication strategies. In an era marked by globalisation and the fragmentation of geopolitical landscapes where the boundaries between domestic and international factors are increasingly blurred, this methodology enables analysis of how various forms of institutions can mediate, constrain, and enhance the actions of both domestic and global

actors operating beyond formal structures (Sobari, 2024, pp. 56–58).

Institutional analysis is also essential in the context of Indonesia's downstreaming policy, which involves reconfiguration of the relationship between the state, the domestic market, and international investors. This policy reveals the complex dynamics between formal and informal interest groups and government decision-making process. Informal institutions, including informal governance practices, can significantly influence how this policy is implemented and how its benefits are distributed. In addition, primary attention is also given to the role of individual and collective political actors, such as business actors and ruling elites who pursue strategic gains through institutional barriers and incentives (Sobari, 2024, pp. 82–85).

As the global geopolitical landscape becomes increasingly intricate and competitive, it is important to examine how shifts in Indonesia's political economy may affect downstreaming strategies. The present study focuses not only on the direct impact of political and economic changes on downstreaming policies but also on the causal relationship between these changes, the implementation of downstreaming policies, and national economic resilience. This article therefore aims to explore how transformation in Indonesia's political economy, particularly the interactions among the state, local markets, and international entities affect the development and execution of downstreaming policies.

Furthermore, the study examines how these downstreaming policies contribute to strengthening national economic resilience within an increasingly fragmented and competitive global geopolitical environment. Through an analysis of the causal links between shifts in political economy, the enactment of downstreaming policies, and their effects on economic resilience, this research seeks to provide a comprehensive understanding of the

institutional complexities involved in addressing global challenges.

## **B. LITERATURE REVIEW**

### **Institutional Political Economy Theory**

This theory was formulated by Douglas C. North, who was awarded the Nobel Prize in Economics in 1993. He posited that the incentive structures shaping economic behavior are established by institutions, which can be categorised as both formal (such as laws, constitutions, and policies) and informal (including norms and conventions). North makes a distinction between institutions and organisations including the rules, whereas organisations consist of the individuals assembled to implement these rules. Institutional change transpires internally and incrementally, and path-dependent patterns elucidate why certain countries face stagnation while others achieve continuous growth (Hasan et al., 2020).

In their influential book, "Why Nations Fail," Daron Acemoglu and James A. Robinson further developed this perspective. They presented the ideas of inclusive and extractive institutions. Inclusive institutions are characterised by the protection of property rights, the provision of equal opportunities for everyone, and encouragement of innovation, which collectively promote widespread economic engagement and drive prosperity. In contrast, extractive institutions are structured to funnel power and wealth to a limited elite, ultimately stifling long-term economic development. The authors contend that inclusive political institutions promote the establishment of inclusive economic institutions, and this relationship is reciprocal. While inclusive political institutions facilitate widespread participation, extractive political institutions are authoritarian, concentrating power among a select few without proper checks and balances (Rusnaedy & Khaerah, 2021).

It is crucial to note, as Dani Rodrik emphasises, that there is no universally applicable

"recipe" for economic development. This assertion is accompanied by the proposal of an alternative perspective. Rodrik identifies six fundamental components that underpin market functionality, including property rights, regulatory frameworks and conflict management institutions. Achieving sustainable economic growth or economic resilience is unfeasible without inclusive political and economic institutions, based on an institutional political economy approach that focuses on the role of inclusive and extractive economic institutions. In the context of Indonesia, the transition from the authoritarian New Order regime to democratic governance signifies a shift in the political institutions. Nevertheless, despite this democratisation, the presence of oligarch structures remains a salient factor, wielding considerable influence over the policy-making process (Mäki, 2018).

Accordingly, Indonesia's downstreaming policy warrants an analysis through the lens of institutional political economy to understand how the prevailing structures shape both policy formulation and the distribution of resources. This policy represents a form of governmental intervention designed to enhance the value added to goods. Evidence from East Asian nations suggests that such interventions can yield beneficial effects on both industrialisation and social welfare. Within the framework of downstreaming in Indonesia, Rodrik's insights are especially significant for assessing whether the frameworks established for the execution of the policy, including permits, environmental regulations, and yield schemes, are in harmony with local requirements and conditions to foster sustainable economic resilience (Apriyanto et al., 2024).

Nevertheless, the efficacy of this initiative is significantly influenced by the nature of the institution involved. Should these policies be formulated and executed by extractive institutions where only elite groups or allies of

those in authority reap the benefits, then downstreaming will fail to foster inclusive and sustainable development for the broader community. In contrast, if implemented through inclusive institutions that prioritise transparency and accountability, the policy holds the promise of enhancing national economic resilience in the context of global geopolitical fragmentation (Himawan, 2021). Integrating the theories of North, Acemoglu, and Rodrik offers a thorough understanding of the dynamics surrounding Indonesia's political-economic transformation in response to global geopolitical fragmentation.

### **Downstreaming Policy**

Downstreaming policies, commonly known as "value-adding" strategies have emerged as a central topic in discussions on the global political economy, especially within resource-rich nations. In the Indonesian context, this concept pertains to a strategic approach aimed at transforming raw materials into either finished or semi-finished products to enhance higher margins of added value. The main aims of this initiative are to bolster local industries, reduce vulnerability to raw material exports, and protect nickel reserves from depletion. Furthermore, it seeks to foster the development of domestic downstream industrial networks, take advantage of the rising production of smelters, assist industries such as stainless steel, batteries, and electric vehicles, as well as to enhance both the trade balance and national economic advancement (Setiawan et al., 2025). In Indonesia, the execution of downstreaming policies has involved various sectors, including minerals, coal, agro-based sectors (such as agriculture, plantations, and fisheries), and forestry. For instance, the government has enforced the establishment of smelters while prohibiting the export of raw nickel ore to promote domestic processing activities, which has subsequently stimulated job creation and boosted state revenue (Putri, 2025).

On 1 January 2020, Indonesia officially implemented a downstreaming policy for nickel, guided by Regulation of the Minister of Energy and Mineral Resources (ESDM) No. 11 of 2019 and Law No. 3 of 2020. This initiative is a development of the provisions set out in Law No. 4 of 2009 regarding Mineral and Coal Mining, which stipulates the requirement for domestic processing and refining of mining products. In accordance with Law No. 4 of 2009, the sustainable development of the industrial economy within the mining sector is contingent upon three primary factors. (Sugara & Shabrina, 2024).

First, the presence of substantial mineral reserves including bauxite, copper, tin, gold, and nickel guarantees a consistent supply of raw materials. Second, there is a strong market for smelter-produced goods such as ferronickel and alumina, both domestically and internationally. Third, while certain regions encounter challenges, there is a sufficient supply of energy resources. The downstreaming process is one which promotes vertical integration, extending from mining operations (upstream) through processing (downstream) to the manufacturing industry that serves end-users. Consequently, downstreaming serves as a strategic approach to enhance the profitability and overall value of commodities, thereby significantly influencing the Indonesian economy (Tapada, 2022).

In the mineral sector, defined by its non-renewable natural resource, the primary objective of effective management is to enhance added value. This involves the exploitation of by-products, including gold and silver derived from copper concentrate, as well as slag and sulfur utilised in auxiliary industries. Furthermore, downstreaming has the potential to boost state revenue through taxation and Non-Tax State Revenue (PNBP) generated from activities within the mineral processing industry. Additionally, this policy represents a commitment to uphold mineral resource sovereignty, ensuring that

natural wealth is harnessed for the maximum welfare of the Indonesian populace, as stipulated in Article 33 of the 1945 Constitution (Ika, 2017).

Regardless of Indonesia's downstreaming policy, significant obstacles exist both within the country and on a global scale. Domestically, challenges such as insufficient technological resources, unclear prioritisation of sectors, and disorganised regulations impede progress. Further complications arise from the amendments to raw mineral export permits established in Government Regulations No. 1 of 2014 and No. 1 of 2017, which undermine the intentions of the Mineral and Coal Mining Law, leading to legal ambiguities and creating deterrents for investors (Ngadiman et al., 2024). Internationally, the prohibition on nickel ore exports has resulted in a legal challenge from the European Union via the World Trade Organization (WTO).

This legal dispute underscores the discrepancies between Indonesia's downstreaming policy and established international trade norms, potentially jeopardising Indonesia's standing in global trade interactions. The European Union (EU) contends that the export ban contravenes Article XI.1 of the General Agreement on Tariffs and Trade (GATT) 1994, which prohibits quantitative restrictions on imports and exports member states. While Indonesia maintained that the ban was a temporary measure aimed at mitigating shortages of critical commodities and invigorating the mining sector, the WTO panel ultimately rejected this argument (Martinelli et al., 2023).

The European Union's critique of Indonesia's downstreaming approach is firmly rooted in a national interest perspective. The EU's reliance on external sources for raw materials, particularly nickel, is crucial given the limited availability within its own borders. Nickel is indispensable to the EU's steel industry, which underpins the economy and supports various sectors, including automotive, construction, and electronics.

Additionally, nickel is vital component for developing sustainable technologies, such as electric vehicle batteries, which align with the EU's emission reduction goals for 2030 and 2050. As a result of Indonesia's downstreaming policy, it has precipitated a surge in global nickel prices, leading to increased production costs in the EU and diminishing the competitiveness of EU products on the international market. Such situation illustrates that Indonesia's downstreaming policy significantly impacts the EU's economic stability, especially considering the current global geopolitical fragmentation that stresses the need for reliable access to essential raw materials (Haddad et al., 2022).

With motivated by the objective of increasing domestic added value and state revenue, Indonesia's mineral downstreaming policy represents a complex structural reform effort. However, its implementation requires regulatory adjustments, significant investment support, and a well-thought-out strategy to overcome various technical, financial, and legal issues, as well as considering to the global economic dynamics.

### **Economic Resilience**

Economic resilience is defined as the capacity of an economic framework to uphold stability and sustainability while adjusting to both internal and external disruptions. Similarly, it encompasses a nation's capability to preserve its economic stability and foster growth when confronted by domestic or transboundary threats. Within the realm of development, this concept emphasises equitable and sustainable investment along with the advancement of technologies that fulfill human requirements without harming the environment. Furthermore, effective industrial governance is intrinsically linked to economic resilience, where digital transformation might serve as a critical factor for achieving sustainable economic prosperity. This encompasses enhancing food security and environmental

sustainability while boosting income for communities (Puspitasari et al., 2023).

In a global context filled with fluctuations, such as financial crises and political changes, economic resilience defines as a crucial element in ensuring that countries can continue to develop without sacrificing social and political stability. Countries with strong economic resilience are able to manage crises, weather global market fluctuations, and mitigate the negative impacts of dependence on external factors. This resilience depends not only on internal factors, such as efficient management of natural and human resources and diversification of economic sectors, but also on the ability to respond to external crises, such as trade wars or changes in global energy prices. Furthermore, economic resilience also encompasses the ability to maintain social and political stability, despite exposure to the impacts of globalisation, such as rising unemployment or social inequality. Some strategies to achieve this resilience involve policies that support macroeconomic stability and strengthen the domestic sector, such as encouraging innovation, improving the quality of human resources, and improving infrastructure (Savilia et al., 2025).

On a regional scale, economic resilience is assessed by the Human Development Index (HDI), which incorporates four primary components: life expectancy, expected years of schooling, average years of schooling, and per capita expenditure (Fahrurrozi et al., 2023). At the national level, the welfare-based approach serves to evaluate economic resilience through three core indicators: income, education, and health. This framework acknowledges that national resilience function as a geostrategic initiative. While income indicators may inherently be subjective in nature, they reflect enhanced economic resilience evident in increased purchasing power and improved income distribution. Conversely, educational indicators contribute positively in the long-term benefits by elevating the standard of

human resources, although they necessitate short-term investments that may temporarily constrain welfare levels (Sudjana, 2019). Within the scope of this study, these indicators are not regarded as mere statistical figures, rather they serve as proxies for policy efficacy and governance quality. Consequently, the analysis of downstreaming policy design, institutional execution, and the regional distribution of economic benefits is predicated upon the interpretation of changes in income, education, and health indicators.

From the standpoint of institutional economics, resilience is influenced not solely by quantitative metrics but also by the caliber of the institutions that oversee political economic frameworks. Nations underpinned robust institutions typically exhibit enhanced resilience, sustainable development, more effective capital distribution, elevated levels of innovation, and increased economic resilience in times of crisis. Therefore, the dimensions of economic complexity encompassing export diversity, technological sophistication, and innovation capabilities are examined not only as structural achievements but also as the result of authority structures, regulatory designs, and coordination capacities among state actors. The unification of measurable economic resilience determinations with institutional quality, policy practices, and geopolitical dynamics is predicted to yield a comprehensive perception of national economic resilience in the face of downstreaming and global geopolitical fragmentation (Kurniawan, 2021).

The dynamics of global geopolitics have seen a notable change, progressing from a unipolar landscape led by the United States following the Cold War to a more multipolar environment. This era is characterised by the rise of emerging powers notably China, India, and Russia, which are contesting the dominance of the US. Factors such as globalisation, advances in technology, and economic development in emerging economies

contribute to this diffusion of power. Such a transition in economic and military strengths presents both challenges and opportunities, especially for nations like Indonesia. A primary manifestation of this geopolitical fragmentation is the trade war occurring globally, especially between the US and China. This economic rivalry influences not only their bilateral relationship but also affects the overall stability of financial markets and global economic dynamics. Notably, this friction has prompted China to recalibrate its trade barriers and deepen its regional and global engagement in accordance with its World Trade Organization (Mulyono, 2017).

Nevertheless, this competition heightens the likelihood of protectionist measures, which include trade tariffs imposed by major powers. Furthermore, alterations in global supply chains, driven by the US-China trade conflict, have made Southeast Asia, particularly Indonesia, as an attractive location for manufacturing shifts. Beside the trade dispute, geopolitical fragmentation has intensified tensions in the Asia-Pacific area, particularly in the South China Sea, where China is asserting its territorial claims, thereby jeopardising regional peace and important maritime trade routes. The Strait of Malacca, through which 40% of worldwide trade flows, remains exposed to the risk of military confrontation. While Indonesia is not a claimant in this context, the nation encounters violations of its rights in the Natuna Exclusive Economic Zone, posing a threat to its maritime sovereignty. Other obstacles include technological rivalries, particularly in 5G development, compelling nations to select strategic alliances without compromising their neutrality. Based on this evolving scenario, Indonesia needs to develop a flexible foreign policy and invest in human capital to boost its competitiveness on the global stage (Maharani, 2025).

### Previous Studies

Numerous prior studies have addressed these themes, including research evaluating the institutional and governance obstacles impeding the effective execution of Indonesia's downstreaming policy. This research reveals considerable deficiencies in the institutional frameworks and governance mechanisms when compared to best practices adopted in other nations, highlighting the urgent necessity for comprehensive reforms. Specifically, it identifies coordination failures between ministries and stakeholders that obstruct policy execution and proposes actionable recommendations aimed at enhancing the institutional architecture and governance aspects of the downstreaming policy to ensure better alignment with its declared goals (Lahadalia et al., 2025).

Additionally, another article examines Indonesia's nickel downstreaming strategy, as a manifestation of an emergent 'developmental state' model that incorporates sustainability considerations. While this framework successfully illustrates novel elements of state-led development, it also suggests that further enhancements are required to address the adverse environmental and social repercussions. This analysis enriches theoretical discourse by merging the principles of the classical developmental state with the imperative of tackling critical environmental and social challenges amid sustainable development efforts (Lahadalia et al., 2024).

A separate study explores the interplay between global geopolitical instability and Indonesia's economic resilience, identifying fiscal discipline, diversification of export markets, and the fortification of foreign exchange reserves as essential strategies to alleviate external pressures. Furthermore, it underscores the critical necessity of rigorous fiscal oversight and the enforcement of public governance measures to prevent the institutional decay potentially caused by corruption. This article contributes

theoretically through the lens of Prospect Theory, emphasising the influence of risk perception and governmental decision-making on the trajectory of macroeconomic policies while also providing practical implications that serve as a guide for policymakers in devising proactive measures in response to geopolitical challenges (Melzattia et al., 2024). While existing literature provides insight into understanding institutional constraints, state models, there remains a conspicuous lack of integrative study examining Indonesia's downstreaming policy through the lens of institutional political economy directly in the context of global geopolitical fragmentation and its implications for national economic resilience. This study seeks to address this gap with an integrative institutional analysis within a comprehensive analytical framework.

### C. RESEARCH METHODS

The present study employs a descriptive qualitative research methodology, incorporating a policy and institutional analysis approach to comprehend the political economic changes in Indonesia resulting from downstreaming policies. This investigation further explores the implications of these changes for the economic resilience in global geopolitics. The research is predominantly supported by two data sources: extensive literary research and in-depth document analysis. The sources utilised encompass legislation, including Law No. 4 of 2009 and Law No. 3 of 2020 concerning Mineral and Coal Mining, Regulation of the Minister of Energy and Mineral Resources (ESDM) No. 11 of 2019, national planning documents (RPJMN), official publications from relevant ministries, and reports from pertinent international institutions such as the WTO and World Bank. The analysis was conducted in three stages: literature selection using clear inclusion and exclusion criteria, categorization and thematic analysis, and analytical synthesis. While this study recognises potential limitations regarding potential

interpretive bias and the capacity to accurately capture the dynamics of policy implementation at the micro level. However, this approach is particularly relevant in providing a comprehensive conceptual analysis of political economic transformation in terms of downstreaming and global geopolitics in Indonesia.

#### D. RESULTS AND DISCUSSION

##### Evolution and Transformation of Political Economic Policy in Indonesia

The evolution of Indonesia's political and economic policies reflects a notable paradigm shift from an authoritarian centralisation towards decentralisation and increased public participation. This transformation has significant implications for economic development strategies, including downstreaming policies, within an increasingly fragmented global geopolitical environment. During the New Order era (1966-1998), President Soeharto implemented an authoritarian and centralised economic model emphasising domestic political stability, defense, and security as prerequisites for economic progress. During this period, economic policies prioritised rapid growth and social welfare improvement through industrialisation and infrastructure expansion. While these policies successfully fostered substantial economic growth and poverty reduction, they also engendered social inequality, corruption, and reliance on foreign debt. Indonesia's dependence on foreign capital and the inadequacy of domestic financial sector regulations rendered the economy susceptible to global financial fluctuations. This vulnerability culminated in the 1997 Asian Financial Crisis, which precipitated a sharp depreciation of the rupiah, soaring inflation, and a severe economic contraction. The subsequent political instability, ultimately leading to the collapse of President Soeharto (Shaleha et al., 2024).

The ensuing *Reformasi* era was characterised by a transition towards decentralisation, enhanced transparency, and increased public involvement in the formulation of economic policies. The primary objective was to foster inclusive and equitable growth while enhancing the governance of state finances. The government undertook a restructuring of the banking sector, provided recapitalisation for banks, and entered into a loan agreement with the IMF that encompassed structural reforms and reductions in subsidies. The establishment of the State General Treasury Account (RKUN), the fortification of the Supreme Audit Agency (BPK), and the formation of the Corruption Eradication Commission (KPK) illustrated the commitment to improving transparency and governance. Additionally, the government conferred independent status upon Bank Indonesia through Law No. 23/1999, marking a significant advancement for macroeconomic stability. Concurrently, the enactment of Law No. 22 of 1999 regarding Fiscal Decentralisation and Regional Autonomy empowered regional governments with greater authority. Although this was intended to be beneficial, it inadvertently resulted in fragmentation within the policymaking process and an increase in regulations at the regional level. Despite these reforms, execution was often hampered by capacity constraints, lack of inter-ministerial coordination, and slow advancements within the House of Representatives (DPR). Nationalistic sentiments and conflicting political interests also posed challenges, particularly regarding unpopular reforms such as privatisation or the elimination of subsidies (Shodiq & Maula, 2025).

Since 2014, the Joko Widodo era, has prioritised infrastructure development, downstreaming initiatives, and reforms on the supply side. Recognised for a pragmatic, implementation-focused leadership style, President Joko Widodo has accelerated the construction of toll road, airport, light rail transit,

and high-speed train construction. Reforms aimed at improving regulatory and investment climates, developing human resources and MSMEs, enhancing domestic industry competitiveness, and fostering strategic sectors such as agriculture, mining, maritime, and fisheries through deregulation within the Economic Policy Framework have also been pursued. In response to global geopolitical fragmentation, President Joko Widodo's strategies to attract foreign investment and expand export markets are aligned with the necessity of diversifying trading and investment partners amidst geopolitical uncertainties. Nonetheless, challenges persist in the effective execution of reforms and policy coordination, necessitating sufficient political backing and comprehensive monitoring mechanisms. The optimal implementation of downstreaming policies is vital for bolstering national economic resilience. Overall, Indonesia's political economy trajectory demonstrates an adaptive approach to domestic and international challenges, where the success of downstreaming policies is contingent upon institutional support, effective coordination, and unwavering political commitment to overcome obstacles and realize the country's economic potential (Delanova, 2018).

The institutional transformation of Indonesia's political economy is a vital factor in comprehending the evolution of downstreaming policies and the pursuit of economic resilience amid global geopolitical fragmentation. These reforms entail substantial modifications to the regulatory environment, redefining the functions of State-Owned Enterprises (SOEs), advancing regional autonomy, and regulating foreign investor participation (Suradiyanto, 2019). Since the *Reformasi* period, Indonesia has endeavored to streamline regulations via the 2007 Investment Law and subsequent initiatives such as the One-Stop Integrated Service (PTSP) system and the Job Creation Law (UU Ciptaker). The primary aim of

these deregulation efforts is to foster a more favorable investment climate, diminish bureaucratic obstacles, and simplify licensing procedures for both domestic and international investors. Nonetheless, persistent challenges include the intricacy of a fragmented bureaucratic system between central and regional authorities, along with legal ambiguities that may impede investment activities. Aligning regulatory standards across different levels of government is crucial to ensuring legal clarity and expediting licensing processes (Pratama, 2022).

Within the context of downstreaming, state-owned enterprises (SOEs) function as essential agents in the development of strategic industries, particularly those requiring significant capital investment and advanced technological capabilities. Moreover, they also have play a role in extending broader public access to economic benefits. The significance of governmental oversight in managing capital flows and supporting domestic sectors is prominently emphasised. Policies that limit foreign ownership in critical sectors, such as natural resources and key industries, serve to preserve economic sovereignty through the activities of SOEs or local organisations. Furthermore, the enactment of regional autonomy, initiated by Law No. 22 of 1999 and subsequently amended by Law No. 23 of 2014, grants regional authorities the authority to supervise and administer their jurisdictions. This legislative framework aims to create a conducive environment for investment, fostering economic growth, political stability, and the democratisation of local governance. Regional autonomy also seeks to enhance accountability and responsiveness of local governments to community needs. However, it may pose challenges, including regulatory disparities across regions that could discourage investment. Consequently, effective coordination between central and regional governments is essential to establish consistent investment policies and

streamline licensing processes (Sugianto et al., 2020).

Foreign investment, especially Foreign Direct Investment (FDI), is acknowledged as a significant contributor to a nation's economic complexity, job creation, and economic progress. FDI facilitates significant capital inflows, cutting-edge technology, and enhanced production capacity, particularly within the industrial and infrastructure sectors. However, the potential for regional economic inequities, the dominance of foreign corporations that could stifle local sectors, and dependence on foreign capital are some of the hazards associated with the presence of international investors (Irmawati et al., 2024).

The government must establish inclusive and sustainable foreign investment policies, encourage collaboration with local companies (joint ventures), and ensure technology transfer and enhancement of domestic human resources. To achieve equitable and sustainable economic development, this institutional transformation demonstrates Indonesia's efforts to balance the need for foreign investment with domestic interests. The government's ability to address regulatory issues, optimise the role of each economic actor, and ensure that the benefits of investment are felt by all levels of society amid a continuously changing global geopolitical landscape will be crucial for the success of downstream policies and strengthening economic resilience (Aryanisah et al., 2025).

### **Downstreaming Policy for Natural Resources**

Indonesia's policy on downstreaming natural resources is crucial for diminishing reliance on raw material exports. The enforcement of the raw nickel export ban since 2020, for instance, has catalysed considerable substantial investments in smelters and the battery sector, although it has also led to a dispute with the European Union at the WTO. Downstreaming is intended as a tool to enhance domestic value addition and fortify the long-term foundation of industrialisation.

Nevertheless, the execution of the downstreaming policy encounters structural obstacles, including inadequate bureaucratic capacity, uneven profit distribution, and opposition from significant trading partners. The nickel, bauxite, and Crude Palm Oil (CPO) industries remain intricately linked to the global markets, rendering downstreaming policies a continual struggle between national priorities and international influences. Moreover, while downstreaming elevates export value addition, there is a concerning trend of diminishing contributions to economic growth unless the policy is paired with diversification into other sectors. The Indonesian government must tackle the potential risk of falling into a resource-dependency trap, ensuring that downstreaming serves not only as a temporary enhancement but also as a cornerstone for sustainable industrial transformation (Barkah, 2023).

The regulatory landscape governing Indonesia's raw material exports is evolving from a previously liberal, commodity-focused approach to a more protective, selective policy that emphasises value-added industrialisation. This transition employs a variety of tools, including export bans or restrictions, differential export taxes, as well as tariffs and quotas, alongside non-tariff standards that are aligned with the goals of domestic supply security and improving the current account balance. In terms of mineral resources, the nation has moved from a model centered on "resource outflow" to one that prioritises "domestic processing first," as evidenced by Minister of Energy and Mineral Resources Regulation No. 11/2019. This regulation specifically pertains to nickel and imposes limitations on low-grade ore exports to ensure a reliable supply for smelters. Consequently, this has resulted in substantial investment in base metals, job creation, and increased foreign currency revenues, even as it has triggered legal challenges at the WTO and

elicited protectionist reactions from international trading partners (Rochani et al., 2024).

For other commodities, such as coal and various minerals, the government has implemented a mix of export taxes and domestic market requirements to encourage a transition from exporting raw materials to offering processed goods. Regarding essential food items, quota systems and temporary adjustments have been utilised to manage price stability and supply. This institutional shift necessitates collaboration among various ministries — including Energy and Mineral Resources, Trade, and Investment/BKPM — to ensure that incentive structures are effectively aligned with the capabilities of the industrial sector, logistics, and quality standards. The success of this coordination is crucial for consistent implementation, which is often challenged by fluctuations in global prices, domestic opposition, and uncertainties in regulation. Furthermore, in an increasingly fragmented geopolitical environment, policies regarding raw material exports have begun to serve as instruments of geostrategy, aiming to secure national supply chains, enhance negotiating power in trade discussions, and recast downstreaming as a concept tied to postcolonial economic independence (Purba, 2024).

However, the success of these initiatives is contingent upon achieving three essential balances between: protecting sectors and maintaining openness to preserve manufacturing competitiveness; regulatory stability and the flexibility necessary to handle price volatility; as well as fostering added value and ensuring environmental and social protections, so that downstreaming genuinely contributes to long-term economic resilience instead of merely substituting old dependencies with new ones (Widiyanto et al., 2025).

In the development of downstreaming policies, state institutions function as agenda architects, norm formulators, and coordinators of implementation, whereas international actors

provide encouragement, capital, technology, and exert pressure that restricts freedom of movement. The President and the House of Representatives (DPR) established policy direction through the 2020 Minerba Law (which pertains to agenda setting and legitimacy), subsequently translated by the Ministry of Energy and Mineral Resources, the Ministry of Industry, and the Investment Coordinating Board (BKPM) into a framework that prohibits raw ore exports, mandates domestic processing, and facilitates investment packages for smelters and battery ecosystems. State-owned enterprises (SOEs) and the IBC consortium serve as industrial anchors and policy collaborators (Matondang et al., 2024). At the regional level, the ESDM, forestry, and environmental agencies manage permits and socio-environmental impacts, while universities, NGOs, and local communities act as counterbalances, emphasising governance, deforestation, and occupational safety—prompting policy adjustments during the implementation and evaluation phases (Saraswati et al., 2025).

Internationally, Chinese companies are the primary providers of financing, technology, and offtake agreements. While this has accelerated the development of IMIP/IWIP but concurrently establishes a dependent industrial framework. Global forums and regimes, such as the WTO/EU, present disputes regarding export bans that necessitate legal-trade diplomacy; meanwhile, regional frameworks and the G20/JETP offer normative legitimacy and channels for transition financing. The outcome is a conciliatory form of “resource nationalism”: states assert industrial sovereignty and domestic value addition, yet institutionally adopt strategic foreign direct investment (FDI) and cross-sector governance to address regulatory deficiencies, mitigate environmental risks, and enhance economic resilience in the context of geopolitical fragmentation (Febriali Sahl & Djati, 2025).

### **Institutional Analysis of Economic Resilience in the Era of Geopolitical Fragmentation**

The downstream processing trajectory in the era of geopolitical fragmentation consists of changes in political-economic institutions, including policy governance, regulatory structures, and state-market coordination mechanisms. Geopolitical fragmentation increases energy prices and causes supply chain disruptions, sanctions, and trade restrictions, which delay investments and increase production costs. Responsive organisations must internalise these risks through an international risk management framework, legal certainty, and the design of fiscal and non-fiscal incentives that encourage the substitution of strategic inputs and diversification of export markets. Conversely, as geopolitics promotes economic nationalism and local interest in content, downstream processing is beneficial if institutions strengthen upstream-downstream coordination, standardisation, and financing of technological transformation to ensure that industrial progress is not hindered by semi-finished commodities ('Ainah & Adawiyah, 2024).

To maintain global business continuity, institutions must possess the ability to adapt quickly based on policy intelligence, employing economic diplomacy to open alternative trade/technology corridors, and decentralising operations to create space at the sectoral/regional level. These strategies are in line with risk mitigation techniques, geographic diversification, and crisis communication. As a result, institutions that combine execution flexibility with direction certainty give rise to resilient downstreaming, which helps Indonesia turn geopolitical shocks into competitive advantages by improving manufacturing capabilities, expanding the footprint of value-added markets, and ensuring supply (Mulyani et al., 2025).

The relationship between downstream policy and Indonesia's economic resilience is

demonstrated by three interrelated pillars including: increasing added value and export diversification, bolstering domestic industrial capacity and its institutions, and presenting-risk management in a fragmented geopolitical landscape (Khalidun, 2024). The prohibition on ore exports and the development of nickel smelters have led to an increase in the export of value-added products. This expansion has diversified the foreign exchange base and mitigated vulnerability to fluctuations in raw commodity prices, serving as an external resilience mechanism demonstrated by the growth in iron and steel exports following downstream processing. Moreover, downstreaming integrates the domestic value chain, fostering employment, stimulating innovation, and augmenting government revenue. It also promotes the development of supporting institutions such as licensing frameworks, security enforcement—including the role of the TNI—and environmental governance, thereby enhancing fiscal, industrial, and technological resilience essential for long-term stability. In the context of geopolitical fragmentation, downstreaming functions as a geoeconomic strategy by leveraging national positioning and resource endowments to secure critical supplies and market share. It involves constructing a responsive bureaucratic infrastructure, strengthening logistical capabilities, and managing market expansion and global communication standards, collectively counteracting external pressures and bolstering systemic competitiveness (Wau et al., 2024).

Nevertheless, resilience is not inherently guaranteed. To prevent downstream activities from becoming a source of friction and instead transform them into a mechanism for macro stability, structural transformation, and strategic autonomy, it is essential to maintain policy consistency (including regulatory certainty and incentives for clean technology), enforce environmental and safety standards, and engage in proactive economic diplomacy. These

measures are crucial to alleviate the risks associated with trade retaliation, uncertainties in foreign direct investment (FDI), and possible disruptions in supply chains. Consequently, downstream enterprises function as an 'architecture of resilience' that integrates institutional capabilities, geo-economic strategies, and domestic value addition, enabling them to endure external shocks and extend Indonesia's growth cycle (Annisa & Najicha, 2021).

## E. CONCLUSION

Institutional changes in Indonesia's political economy have played a significant role in shaping the direction of downstreaming policies. The transition from a liberalised model towards a more robust state intervention model has granted the government the capacity to exercise a more strategic control over the utilization of natural resources. Evidence suggest that downstreaming yields significant benefits, including the generation of domestic economic added value, increased investment in the processing sector, and the reinforcement of Indonesia's standing within the global supply chain particularly within the domains of clean energy and electric vehicle battery production. However, the success of downstreaming is not without structural challenges, such as limited bureaucratic capacity, the risk of market distortion due to excessive protectionism, and resistance from major trading partners amid increasingly fragmented global geopolitics. Furthermore, the inherent volatility of global geopolitics necessitates a flexible analytical approach, as rapid shifts in international relations and cross-border export-import policies can abruptly alter the relevance of data and the efficacy of identified strategies.

Downstreaming performs a dual role in economic resilience: while it strengthens the foundations of national industrial independence; remains vulnerable to external shocks, such as

trade wars, global energy transitions, and protectionist policies of other countries. In order to address this challenge, Indonesia must prioritise economic diversification and enhance multilateral economic diplomacy to ensure downstreaming are not confined within a resource-dependence trap. Ultimately, institutional quality is the pivotal factor in transforming downstreaming into a long-term instrument for resilience. Indonesia must circumvent the pitfalls of institutional entrapment by embracing a governance paradigm rooted in transparency, accountability, and a commitment to sustainability. As a result, downstreaming can be regarded not only as a short-term strategy for securing added value, but also as a crucial element in fostering national economic resilience in an era of global geopolitical fragmentation. To further refine our understanding of these issues and identify potential challenges, future research initiatives should concentrate on analysing the institutional capacity and governance of downstreaming implementing agencies. These must demonstrate an ability to balance compliance, investment, and corruption prevention. Subsequent research endeavors should concentrate on Indonesia's diplomatic approach concerning protectionist policies, such as the Inflation Reduction Act or Critical Raw Materials. Additionally, these future studies should assess the social and environmental ramifications of the downstream value chain in the context of inclusive and sustainable development goals.

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