



## TradePAG #1 2025

# STRENGTHENING INDONESIA'S GLOBAL VALUE CHAIN (GVC) ECOSYSTEM



## TRADE POLICY ADVISORY GROUP (TradePAG)

A collaborative forum between the Trade Policy Agency (BKPerdag), ERIA, and ITAPS FEM IPB, providing research-based policy recommendations for Indonesia's trade strategy.

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# BACKGROUND

Global Value Chains (GVCs) now account for more than 70% of global trade and have become a key driver of global economic growth.



However, Indonesia still faces various structural barriers:



**Exports are dominated by low-technology**



**logistics costs remain high**



**SME participation in exports is low- even though SMEs contribute around 60% of GDP**

Countries such as Vietnam and Thailand have strengthened their positions in high-value manufacturing through supply chain integration and technological adoption. Indonesia needs to build a smart, inclusive, and evidence-based trade policy framework.



# KEY CHALLENGES

1

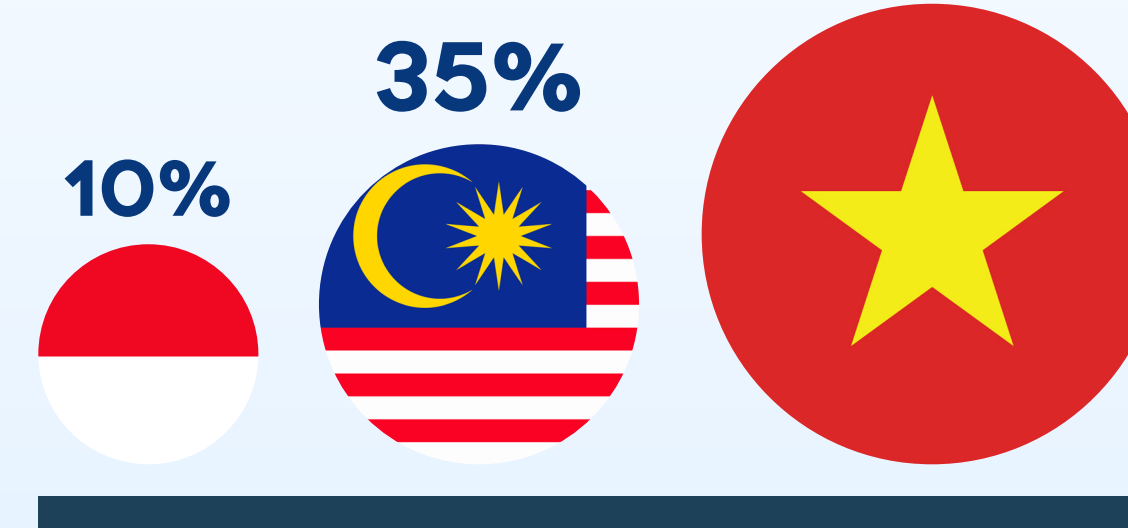


Geo-Economic Fragmentation and Global Protectionism Inward-looking policies, trade wars, and geopolitical fragmentation have disrupted supply chains and weakened the competitiveness of developing economies

2

Indonesia's Weak Position in GVCs. Indonesia's backward participation is only around 10%, far below Vietnam (45%) and Malaysia (35%).

Backward Participation in GVC **45%**



3

Exports are still dominated by low complexity commodities such as coal and CPO.

4

Low SME Participation. SME exports contribute only 15.7% of total national exports.

**SME**  
**15,7%**

Indonesia's  
Total  
Export



# SMEs Challenges in Participating in GVC

**Limited Access to Finance**

**Compliance with Global Standards**

**Low Digital Literacy**

**High Logistics Costs**



# EXPERT QUOTES



**Shandre M. Thangavelu**

Head, Jeffrey Cheah Institute  
on Southeast Asia,  
Sunway University

“Global disruptions—from geopolitical tensions to digital transformation—are reshaping the very structure of trade. For Indonesia, this is not a setback but a strategic opportunity to redefine its role in global value chains. By embracing digital and green transitions, strengthening ASEAN cooperation, and investing in human capital, Indonesia can transform itself from a reactive player into a proactive leader in the regional and global economy.”



**Eric Sugandi**

ASEAN-China Research Center,  
School of Strategic and Global  
Studies, University of Indonesia

“China’s experience teaches us that sustained progress in global value chains is not about low wages, but about a clear vision, consistent industrial policy, and massive investment in research, innovation, and talent. Indonesia can follow this path by building strong institutions, fostering technology transfer, and ensuring that every policy supports long-term competitiveness rather than short-term protectionism.”



**Dr. Ebi Junaidi**

Chief Economist,  
Samudera Indonesia  
Research Initiative

“A resilient and inclusive value chain begins with coherent trade policies that connect innovation, industry, and people. Indonesia’s competitiveness will depend on how well we empower MSMEs, integrate sustainability, and ensure that every layer of the economy—large or small—benefits from globalization. Inclusivity and foresight must guide the nation’s trade strategy toward lasting growth.”



**Dr. Fithra Faisal Hastiadi**

Expert, Government Communications  
Agency of the Republic of Indonesia

“Indonesia must move beyond its comfort zone of commodity exports. To compete in today’s interconnected economy, we need to strengthen innovation, improve the quality of our institutions, and invest deeply in human capital. Only then can Indonesia climb to higher value segments of global production networks and escape the middle-income trap that has held us back for decades.”



# POLICY RECOMMENDATIONS

## 1. Enhance Regional and Global Integration



Maximize utilization of ASEAN centrality as production base prior to enhance broader regional trade in RCEP and ASEAN+1 FTA

## 2. Promote Innovation and R&D



Increase R&D; investment from 0.24% to at least 1% of GDP. Strengthen university–industry collaboration in high-tech, green economy, and digital manufacturing sectors.

## 3. Empower MSMEs and Human Capital



Expand access to export financing, promote MSME–corporate partnerships, and provide vocational and digital skills training across ASEAN.

## 4. Digital Transformation and Servicification



Align digital trade policies with the ASEAN Digital Economy Framework Agreement (DEFA). Foster digital inclusion and boost technology-based service exports.

## 5. Institutional Reform and Governance



Implement Regulatory Impact Assessment (RIA) to ensure evidence-based policymaking. Strengthen cross-ministerial coordination to align MSME, industry, and export policies.

# CONCLUSION

Active participation in global value chains is a long-term national strategy. Through innovation, digitalization, and MSME empowerment, Indonesia can transform from a commodity-based exporter to a regional hub of production and innovation in Southeast Asia.

**“From exporting commodities to exporting knowledge and value.”**

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