

## Policy Brief No. 29

# Unlocking Indonesia's Economic Potential Through OECD Accession<sup>1</sup>

by Biyan Shandy, Deasy Pane, Fresa Yuriza, Hasran, Krisna Gupta, Leony Fadila, Maria Dominika, Naura Nabila, and Wahyuni Bahar



## Key Messages

- Accession to the OECD will pave the way for Indonesia to boost its gross domestic product (GDP), strengthen its trade balance and attract greater investment, thereby supporting sustained economic growth by aligning Indonesia's governance, economic policies and trade standards with international best practices, enhancing investor confidence, improving market efficiency and strengthening trade relations.
- The computable general equilibrium (CGE) model estimates that OECD accession will bring notable benefits to Indonesia's macroeconomic performance. If Indonesia joins the OECD, the country is projected to receive investment inflows totalling USD 87.7 billion in 2028, equivalent to 0.1% of Indonesia's GDP in that year. The maximum share of this investment (25%) is expected to come from OECD countries.
- In terms of macroeconomic indicators, investment is projected to be 1.2 percentage points higher than the baseline (scenario without OECD accession) in the short term (2028–2030) and 1.8 percentage points higher in the medium term (2031–2035). However, in the long term (2036–2045), the investment growth rate is projected to be 0.38 percentage points lower than the baseline as the Indonesian economy stabilises after the initial boost from OECD accession.
- Indonesia's GDP growth rate per year is expected to be 0.8 percentage points higher than the baseline scenario in the short run (2028–2030) and 0.9 percentage points higher in the medium run (2031–2035). However, in the long run, the annual GDP growth rate is expected to be 0.7 percentage points lower than the baseline, following the slowdown of investment growth.
- A narrowing of the Indonesian trade surplus is anticipated in the short and medium term, driven by increased investment that boosts import demand beyond current domestic production capacity. However, in the long term (2036–2045), the trade balance is projected to recover and strengthen. Maintaining an open and adaptive trade regime is crucial to supporting this adjustment.

<sup>1</sup> This policy brief summarises key findings and recommendations from the recently concluded study *Unlocking Indonesia's Economic Potential Through OECD Accession*, conducted by the Center for Indonesian Policy Studies (CIPS) and supported by the Foreign, Commonwealth & Development Office, Government of the United Kingdom. The study provides preliminary insights on the potential macroeconomic implications of Organisation for Economic Co-operation and Development (OECD) accession for Indonesia.

# Background

Indonesia aims to become a high-income economy by 2045, as outlined in its Indonesia Golden Vision 2045. As part of the strategy to achieve this ambition, Indonesia has sought membership in the Organisation for Economic Co-operation and Development (OECD) by 2027 and is now an official accession candidate. If successful, Indonesia would become the first country in South-east Asia and the third Asian nation after Japan and South Korea, to join the OECD. Indonesia may also experience improvements in its macroeconomic conditions, as seen in other OECD members such as Mexico, Costa Rica and Colombia.

However, as a prerequisite for membership, the OECD requires Indonesia to align its policies with OECD standards, best practices and recommendations. This entails comprehensive regulatory reforms across multiple sectors. The Indonesian government undertook a self-assessment in 2024 to identify regulations that may not align with OECD instruments.

This policy brief summarises the findings from CIPS' study titled "Unlocking Indonesia's Economic Potential Through OECD Accession", providing a set of preliminary insights and findings on how accession to the OECD, along with the required regulatory reforms, potentially affect Indonesia's macroeconomic conditions, including GDP, trade balance and investment. For the purpose of the analysis, the study employed desk research to outline the current economic situation, applied regulatory impact assessment to identify potential reforms aligned with OECD accession and used CGE modelling to project the economic implications of joining the OECD.

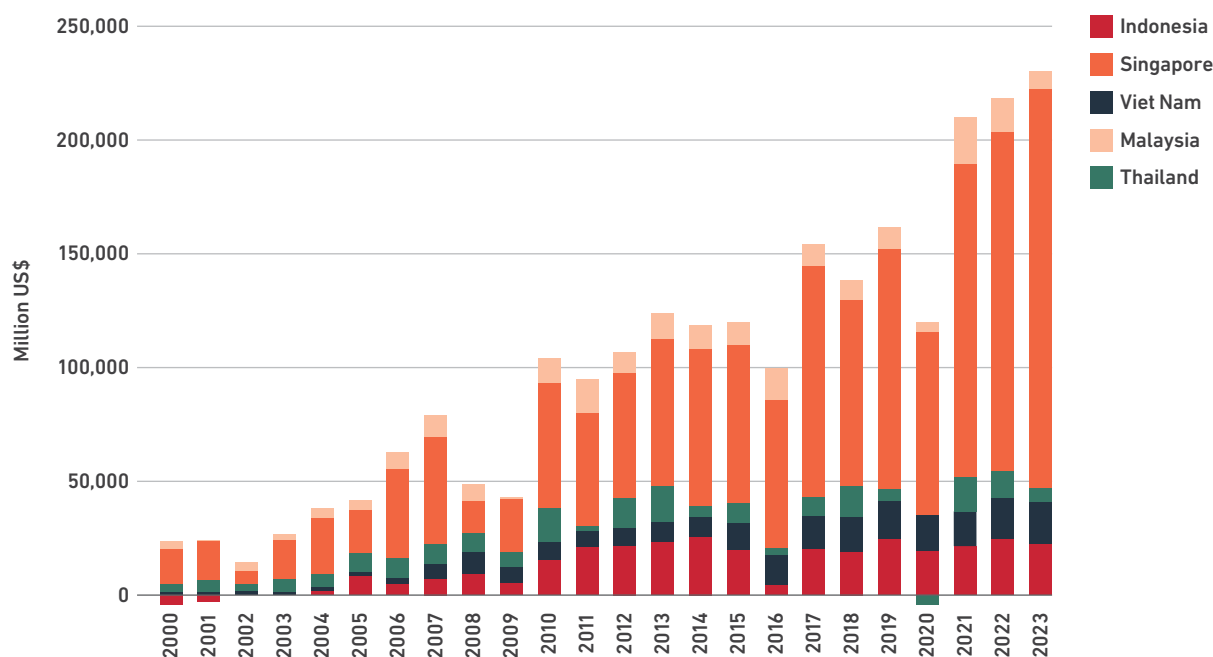
## OECD Accession Matters for Indonesia's Economic Agenda

Indonesia has made significant progress in maintaining macroeconomic stability and reducing poverty, with its GDP growth averaging between 5% and 6% over the past two decades (World Bank, 2023). As the largest economy in Southeast Asia, Indonesia is well-positioned to strengthen its role in the global economy. However, between 2005 and 2019, the country's total factor productivity growth was negative, averaging -0.7%. This productivity shortfall stems from various factors, including poor human capital, weak institutional frameworks, underperforming sectors and limited innovation capacity. Indonesia's productivity levels lag behind not only major global economies such as China and India but also regional peers like Viet Nam, Thailand and Malaysia. Indonesia's trade, investment and productivity growth have yet to reach their full potential (Law No. 59/2024; IMF DataMapper, 2025; United States Department of State, 2022), constrained by regulatory inefficiencies, complex non-tariff measures (NTMs) and limited integration into global value chains (Hill & Pane, 2018).

Moreover, Indonesia's economic performance varies depending on the sector:

- Indonesia's export base remains heavily reliant on natural resources such as coal and palm oil (Laksono, Oktiyanto & Vadila, 2024). While these commodities continue to play a vital role in economic growth, long-term resilience will require greater emphasis on downstream processing and value addition of these natural resources.
- In the manufacturing sector, Indonesia has established a strong presence in resource-based industries and food and beverage processing. Still, there remains untapped potential in advanced sectors such as electronics, automotive components and pharmaceuticals.
- Meanwhile, Indonesia's services sector, particularly logistics and telecommunications, is growing but remains underutilised. Unlocking its full potential will require efforts to streamline regulations, strengthen human capital, invest in research and development and expand international cooperation (OECD, 2024).
- The renewable energy sector also presents a major opportunity. Indonesia holds vast potential in geothermal energy, solar energy and bioenergy, yet these resources remain underutilised (IESR, 2024). Enhancing policy and regulatory certainty to attract green investment could position Indonesia as a leader in the regional energy transition.

**Figure 1.**  
**Foreign Direct Investment Inflow around Southeast Asia**



Source: World Development Indicators DataBank, 2025

In this context, accession to the OECD offers a strategic pathway to accelerate Indonesia's transformation. Aligning with OECD standards would allow Indonesia to benchmark progress against global best practices, attract higher-quality investment and improve regulatory consistency across key sectors. More importantly, OECD engagement opens access to technical expertise, peer learning and international cooperation that can support Indonesia's reform agenda. Countries like Mexico, Costa Rica and Colombia have shown that accession to the OECD can significantly enhance policy quality and economic performance. Indonesia can replicate this success by committing to the necessary reforms and leveraging OECD membership as a catalyst for sustainable and inclusive growth.

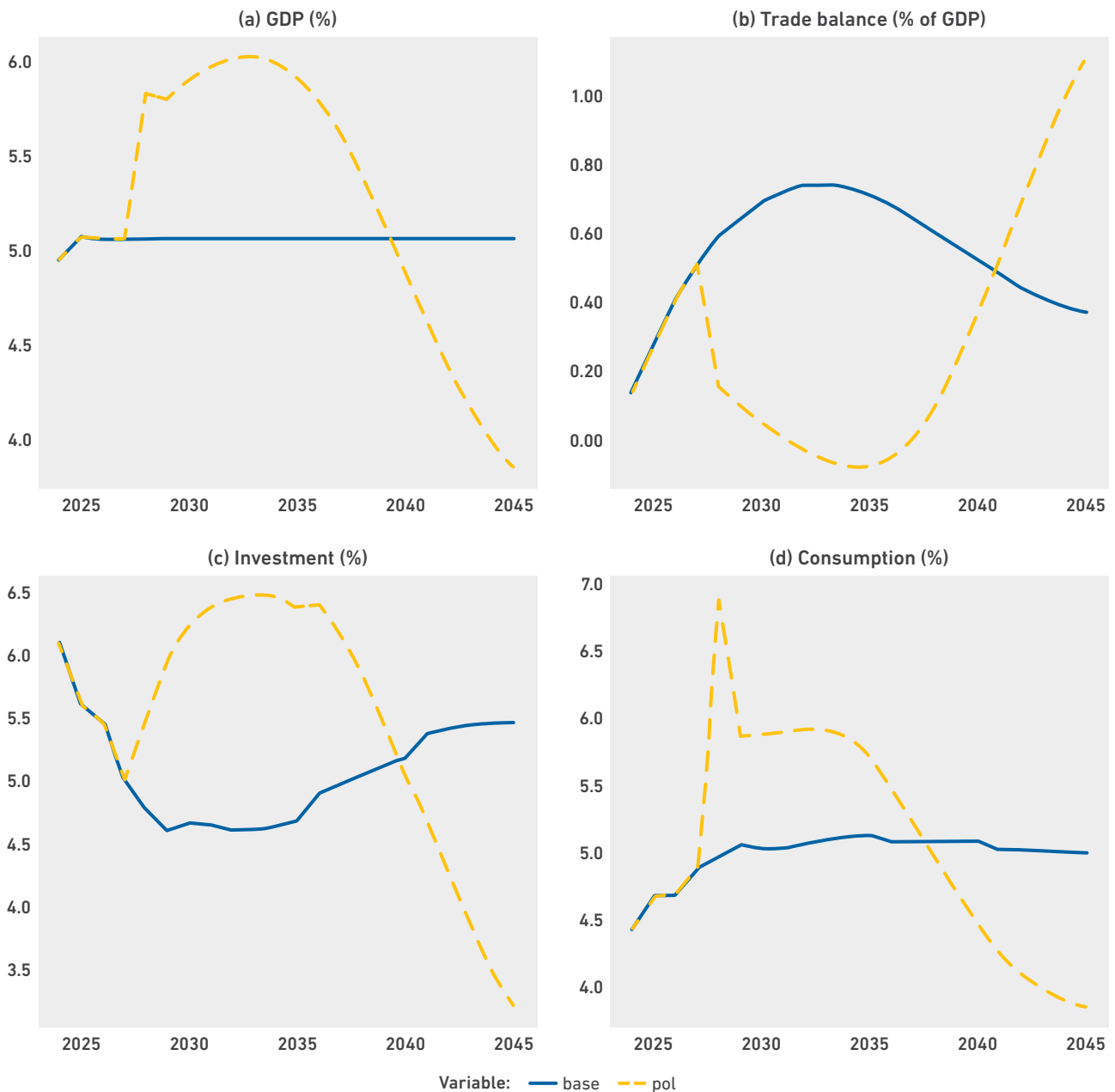
## OECD Accession can Boost Macroeconomic and Sectoral Performance

The study used the CGE model to estimate the impacts of Indonesia's accession to the OECD on the country's macroeconomic indicators. These results were compared with the current scenario in which Indonesia is not part of the OECD. In formulating these scenarios, we assume that OECD accession will happen in 2027, with the economic impacts coming into effect starting from 2028. We group these effects into the short term (2028–2030), medium term (2031–2035) and long term (2036–2045).

In 2028, Indonesia is expected to receive an investment inflow of USD 87.7 billion, equal to 0.1% of GDP in that year. The large share of this investment (25%) is projected to come from OECD countries, amounting to USD 22.6 billion. The investment growth rate per year is expected to be 1.2 percentage points above the baseline in the short term (2028–2030) and 1.8 percentage points higher in the medium term (2031–2035). An increase in investment is an expected outcome of the regulatory reforms that Indonesia will undertake. However, in the long term (2036–2045), the investment growth rate is projected to be 0.38 percentage points lower than the baseline as the economy stabilises after the initial boost from OECD accession.

This increased investment will serve as a key driver to stimulate GDP growth. The GDP growth rate per year is projected to be 0.8 percentage points higher than the baseline in the short term and 0.9 percentage points higher in the medium term. However, in the long term, annual the GDP growth rate is expected to be 0.7 percentage points lower than the baseline, following the slowdown in investment growth.

**Figure 2.**  
**Projection of baseline scenario vs OECD accession scenario on Macro indicators, 2024–2045**



Source: Author's Projection

The trade balance share of GDP is expected to be lower in the short to medium term compared to the baseline scenario. During these periods, trade contributes 0.1 percentage points less to GDP than the baseline in both the short and medium term. This decline is driven by a surge in investment, which increases demand for imports beyond the domestic economy's production capacity. However, in the long term (2036–2045), the trade account will recover where the trade balance share of GDP is expected to rise 0.1 percentage points higher than the baseline scenario.

Real wages are expected to rise under the OECD accession scenario as well, as driven by increased job availability and demand for labour. From the short run (2028–2030) through to the long run (2036–2045), wages will remain consistently higher than at the baseline as labour demand grows alongside the investment surge. In contrast, returns on capital will gradually decline over the same period due to an expanding capital supply, leading to greater competition in the capital market. This, combined with stable policies and market conditions, is expected to result in lower interest rates, as set by financial institutions.

# Policy Reforms Needed to Achieve High Growth Post-Accession

## Regulatory Reforms to Ensure Smooth Accession

The gap assessment of Indonesian regulations and OECD instruments shows that Indonesia needs regulatory reforms, similar to the formation of the Deregulation Task Force in response to tariffs imposed by the United States, in several aspects to smooth its accession into the OECD. Selected domestic regulations and OECD guidelines applicable to influential areas, which included trade, investment, corporate governance, market competition and environmental aspects, were reviewed through this horizontal gap assessment. While most of the Indonesian regulations within these areas are partially compliant with OECD instruments, several important changes to legislations will help the accession process:

- Indonesia is recommended to amend its consumer protection law (Law No. 8/1999). Despite accommodating several provisions in OECD legal instruments, it does not incorporate child consumer protection or consumer protection in e-commerce.
- Indonesia is recommended to re-evaluate its shipping law. This regulation might present challenges to free and fair competition, particularly in terms of foreign investment ownership in certain maritime business sectors.
- Indonesia is recommended to incorporate a holistic process for due diligence via a dedicated regulation that is applied across sectors. This is important to ensure that business actors in the agriculture sector implement end-to-end due diligence practices.
- Indonesia is recommended to update its law on the prohibition of monopoly practices and unhealthy competition (Law No. 5/1999). This revision should enable a freer and more merit-based market, and gradually dismantle its state-owned enterprise-centric market approach.
- The OECD legal instrument approaches the agriculture sector as an end-to-end industry. Since Indonesia's agricultural sector is heavily regulated, it is important for the country to align with the OECD's perspective and encourage cross-sector collaborations.
- Indonesia has yet to implement umbrella regulation covering renewable energy and climate integration. Indonesia is recommended to address this issue, since the OECD strongly emphasises the transition from coal use.

## Regulatory Reforms to Open Market Access

- Indonesia is recommended to focus on reducing NTMs to help lower trade-related compliance costs. In particular, streamlining NTMs in sectors closely connected to export and supply chain integration would contribute to a more predictable business environment.
- Indonesia may consider making its services sector more open to investment. Specifically, exploring ways to gradually enhance openness in the maritime services could support improved logistics and reduce costs over time.
- Indonesia is recommended to address its restrictive foreign direct investment policies by reviewing the minimum capital requirements for PT PMA (foreign-owned companies) and easing entry conditions for foreign workers in key positions within Indonesian legal entities.
- Indonesia is recommended to create a business environment that fosters efficiency rather than burdening industries with policies that raise operational costs. A key area for reform is local content requirements. Addressing this issue will ensure cost-effective access to intermediate goods to support competitiveness in export-oriented industries.

For further inquiries or to access the report, please contact CIPS at [contact@cips-indonesia.org](mailto:contact@cips-indonesia.org).