

National Industrial Policy (KIN) 2026-2030:

A Priority List Alone Is Not Enough



2026

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Key Messages:

- 1** Indonesia has substantial room for diversification, but without developing domestic industrial capabilities, this potential risks being underutilized. The country's 7th-place global ranking in the Complexity Outlook stands in stark contrast to its 69th-place ranking in the 2024 Economic Complexity Index (ECI), indicating that Indonesia's economic diversification has not yet been fully accompanied by an increase in export complexity. Downstreaming must not stop at the addition of physical processing facilities; rather, it must deepen technological capabilities, research, and the competitiveness of domestic suppliers.
- 2** Government fiscal support remains stronger in driving physical investment than in building innovation capabilities and technology transfer. This disparity is evident in the 2024 tax expenditures: tax holiday incentives reached IDR 6.25 trillion, whereas superdeduction incentives for research activities amounted to only IDR 3 billion. Therefore, every public facility should be accompanied by measurable performance requirements (conditionalities) to ensure that fiscal incentives result in enhanced industrial capabilities, rather than merely serving as a transfer of benefits to corporations.
- 3** The drafting of the 2026-2030 National Industrial Policy (KIN) in 2026 must be utilized as a binding instrument for cross-sectoral policies, rather than a mere compilation of priority industry lists. The new KIN needs to consolidate fragmented ministerial instruments, ranging from investment incentives to the procurement of goods and services, into measurable mission targets, supported by the establishment of an integrated Mission Board, and equipped with a sunset clause mechanism for programs yielding no public benefit.

Diversification Opportunities Have Not Yet Become an Industrial Capability



Figure 1: Illustration of industry. (Source: Canva)

Indonesia's industrial structure reveals a gap between diversification opportunities and established capabilities. The Atlas of Economic Complexity ranks Indonesia 69th on the 2024 ECI, a drop of six places over the past decade. At the same time, Indonesia ranks 7th worldwide in the Complexity Outlook. Research by PRAKARSA also identified 188 products with a Revealed Comparative Advantage (RCA) above one. These positions indicate that Indonesia has several diversification pathways relatively close to its production capability base, but has not yet been fully able to enter higher-value-added and higher-complexity activities (Growth Lab, 2026; PRAKARSA, 2026).

The government must revamp the benchmarks for industrial policy success, shifting from a focus on the mere accumulation of physical investment to the mastery of domestic capabilities. Increased investment, the addition of production facilities, and the expansion of downstream processing remain important, but are insufficient to signal structural transformation. Transformation is also determined by domestic companies' ability to produce more complex components, master technology, strengthen engineering and design activities, improve supplier productivity, and create jobs that enable skills accumulation.

Diversification Opportunities Have Not Yet Become an Industrial Capability

The composition of exports highlights these challenges. Low-complexity products, primarily coal, palm oil, and certain mineral products, still occupy a large share of the export basket. At the same time, the presence of vehicles and several higher-complexity manufactured products indicates a starting point for diversification. The challenge is to expand the share of exports supported by more complex technological and production capabilities.





CHAPTER 1

Diversification Opportunities Have Not Yet Become an Industrial Capability

Limited innovation capacity exacerbates these challenges. National research and development spending, or Gross Expenditure on Research and Development (GERD), reached only 0.28 percent of GDP in 2020, compared to the ASEAN average of approximately 1.07 percent. Indonesia also has around 400 R&D personnel per million population. This figure is lower than Malaysia (726), Vietnam (779), Thailand (2,024), and Singapore (7,225) (OECD, 2024). Given the limited knowledge base and pool of experts, investment must be viewed not only as a source of capital, but also a means for technological learning and building new capabilities.

The experience of the 2020-2024 KIN shows that challenges are not solely due to limitations in policy instruments. Various forms of support for investment, technology acquisition, and human resource development are already available, but have not yet been fully bound by a mission framework that provides directionality and conditionality, linking support to measurable contributions or capability outcomes.

Another lesson learned is the importance of strengthening monitoring and evaluation as part of policy design. The 2020-2024 KIN lacks adequate mechanisms to track implementation progress and use it as feedback in drafting the 2026-2030 KIN. Therefore, the 2026-2030 KIN needs to establish outcome indicators from the outset to show whether various instruments are indeed developing industrial capabilities, while also providing mechanisms to adjust policies based on evaluation results.

CHAPTER 2

Industrial Support Has Not Been Directed Toward the Same Outcomes

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The proliferation of industrial instruments currently issued by the government has not been effective in driving transformation due to the absence of integrated capability targets. Various investment incentive schemes, licensing, and skills training programs still function separately at the administrative level, each with its own sector-specific indicators. Consequently, the provision of public facilities has failed to foster the convergence of expertise and technology transfer across sectors.

In the process of strengthening the industrial structure, improvements in the investment climate have not always been accompanied by deeper production linkages. Research by PRAKARSA shows that partnerships between large industries and small and medium-sized enterprises (SMEs) remain heavily concentrated in the supply of raw materials, construction, civil work, and support services with relatively low value added. Domestic companies remain limited in component production, engineering activities, technology mastery, and high-value-added functions (PRAKARSA, 2026).

A similar pattern is evident in technology policy. The government has provided tax holiday, tax allowance, import facilities, and superdeduction for research and development. However, these instruments have not yet been fully linked to mechanisms for technology learning, the commercialization of research, the strengthening of industry-university ties, or the creation of demand for domestic innovation. Incentives can improve the viability of investment, but they do not, by themselves, ensure that knowledge and technical capabilities diffuse throughout the economy.



Figure 3: Illustration of industry. (Source: Canva)

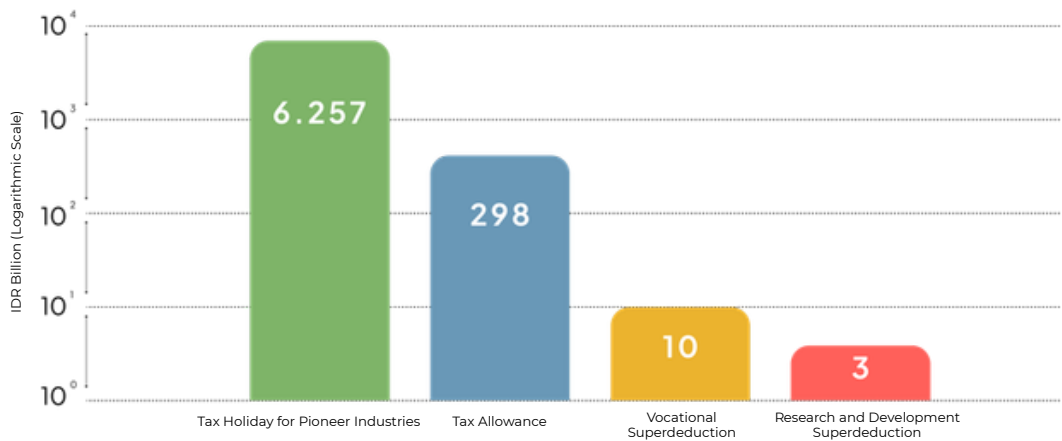


Tax expenditure policies reveal a sharp imbalance between the pampering of physical capital and funding for innovation capabilities. The 2024 Tax Expenditure Report estimates tax expenditures for tax holiday for pioneer industries at IDR 6.257 trillion and tax allowances at IDR 298 billion. In the same year, estimates for vocational superdeductions amounted to IDR 10 billion and for R&D superdeductions to IDR3 billion (Ministry of Finance, 2025). The disparity of IDR 6,2 trillion in investment incentives versus IDR 3 billion in R&D support is a warning sign. Our current fiscal policy continues to favor physical capital investment while neglecting to demand the creation of domestic innovation. Without capability requirements (conditionality), beneficiaries enjoy fiscal rent while the public bears the risks of development.

Table 1. Estimated Tax Expenditures Related to Investment and Capability Building, 2024	
Instrument	Estimated Tax Expenditure
Tax holiday industri pionir	IDR 6.257 trillion
Tax allowance	IDR 298 billion
Superdeduction vokasi	IDR 10 billion
Superdeduction penelitian dan pengembangan	IDR 3 billion

Source: Ministry of Finance (2025).

Figure 4: Differences in the Utilization of Investment Fiscal Facilities and Capacity Building, 2024



Source: Ministry of Finance (2025). Note: The vertical axis uses a logarithmic scale so that smaller values remain visible.

CHAPTER 2

Industrial Support Has Not Been Directed Toward the Same Outcomes

This discrepancy should be understood as a policy design issue, rather than a basis for automatically reducing investment incentives or shifting budgets from one facility to another. The challenge is to ensure that investment support also fosters R&D activities, supplier capacity building, tiered training, technology acquisition, and the creation of quality jobs. Therefore, public support does not stop at the recipient's investment decision, but generates broader benefits for workers, domestic companies, and the regions where industries operate.

Without clear requirements, the benefits of support may be concentrated among recipient companies, while the fiscal costs and various development risks are borne more broadly by the public. Therefore, policy considerations should not stop at simply how much investment is realized. The government also needs to assess what capabilities are formed, in whom those capabilities reside, and whether the public benefits are commensurate with the resources deployed.



Figure 5: Illustration of industry. (Source: Canva)

KIN Needs to Redirect Industrialization Toward Operational Missions

The Ministry of Industry has introduced the New National Industrialization Strategy (SBIN), with a focus on natural resource-based downstreaming, the development of industrial ecosystems and technologies, green industry, and the reinforcement of industrial human resources. These directions provide a foundation for industrial policy, but they do not, in and of themselves, explain how various government instruments should be integrated and what metrics should be used to assess their success. The 2026-2030 KIN needs to fill this operational gap.

A mission-oriented approach can be used to translate the SBIN's into a set of targeted and measurable development challenges. The mission is not synonymous with priority sectors or single projects. The mission defines the problem to be solved, such as mastering green industrial technologies, decarbonizing production processes, strengthening energy and food security, or creating quality industrial jobs, and then organizes the contributions of various sectors, technologies, and institutions to achieve them.

This approach has at least four functions. First, *directionality* establishes the direction of change and the public outcomes to be achieved. Second, the policy portfolio combines instruments, such as fiscal, investment, procurement, R&D, vocational education, financing, infrastructure, and supplier development instruments in response to the constraints faced. Third, *conditionality* links government support to verifiable contributions. Fourth, adaptive *monitoring* and evaluation create room to scale up effective instruments, refine designs that have not been effective, and discontinue support that no longer generates public benefits (Mazzucato & Rodrik, 2023).

Economic complexity has a more specific function within the architecture. Analysis of the *product space*, *distance*, *complexity levels*, and *opportunity gain* can help identify products or technologies that are relatively close to existing capabilities, as well as options that require larger capability leaps. This analysis can help shape the portfolio, but it does not replace strategic decisions regarding economic resilience, decarbonization, quality employment, domestic market needs, and social-environmental impacts. Thus, the missions determine the direction of industrialization, while economic complexity helps identify the capability base from which transformation can begin.

CHAPTER 4

Industrial Transformation is Also Determined at the Regional Level

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Capability building does not occur solely through national policies. The PRAKARSA's research on Regional Industrial Development Plans (RPIP) across seven provinces shows a relatively consistent pattern: all documents continue to link industrial development primarily to the utilization of comparative advantages in natural resources. Diversification toward more complex activities, policy experimentation, and the strengthening of innovation and R&D have not yet received the same level of attention (PRAKARSA, 2026).

Local governments also have not yet fully utilize the available instruments to shape demand and drive the enhancement of industrial capabilities. Local government procurement, regional fiscal incentives, streamlined licensing, the provision of a skilled workforce, and socio-environmental requirements have not been clearly positioned as part of a capability-building strategy. As a result, the RPIP risk becoming lists of priority industries that reflect existing economic structures, rather than instruments for driving structural transformation in the production structure.

The KIN needs to establish missions and a results framework at the national level, while local governments translate them according to the industrial base, supplier capabilities, workforce, universities, research institutions, infrastructure, and diversification opportunities of each region. This approach would allow national targets to be pursued through different pathways in each region. The measures of regional investment success should also be broadened: not only whether factories are established and employment is generated, but by the ability of local workers and companies to move up the production value chain.



Figure 6: Illustration of industrial workers. (Source: Canva)

2026 Policy Window: An Opportunity for the KIN to Align Cross-Ministerial Instruments



Figure 7: Illustration of governance. (Source: Canva)

The formulation of the 2026–2030 draft presidential regulation (RPerpres) on the KIN in 2026 represents a critical window for aligning cross-ministerial policy instruments that have so far remained fragmented. The new KIN should not merely serve as an administrative compilation of existing programs, such as the risk-based licensing regulations or procurement regulations. The strategic value lies in the political mandate to align all government support and facilities with mission-oriented targets and a common framework of public accountability.

The new KIN is not being formulated in a vacuum. The Ministry of Industry's 2026–2030 Strategic Plan (Renstra) has been in effect since December 31, 2025. The business licensing system operates under Government Regulation No. 28 of 2025 on the Implementation of Risk-Based Business Licensing. Presidential Regulation No. 46 of 2025 also updates government procurement policy, including the mandatory use of Domestic Products under Article 66. At the same time, investment incentives, downstreaming programs, vocational policies, and various ministry programs are already underway.

This sequence creates an institutional risk. If the KIN merely summarizes pre-established programs, the document will fail to provide any meaningful additional direction. The strategic value of the KIN lies precisely in its ability to align existing instruments around a common set of missions, division of responsibilities, requirements, and performance indicators. Therefore, the 2026 KIN formulation should be used to structure the relationship between the SBIN, the Ministry of Industry's Strategic Plan, cross-ministerial instruments, and the RPIP, rather than to add another list of new programs.

CHAPTER 6

Building Governance for a Mission-Oriented Approach

Building Governance for a Mission-Oriented Approach

A mission-oriented approach requires stronger coordination but does not necessarily require the creation of a new permanent bureaucracy. The Coordinating Ministry for Economic Affairs and the Ministry of Industry could establish a Mission Council mechanism for each priority mission. This mechanism would bring together the ministries responsible for relevant policy instruments, including the Ministry of Finance, Bappenas, the Ministry of Investment and Downstream Industry/BKPM, LKPP, the Ministry of Manpower, the ministries responsible for higher education, BRIN, the Ministry of Home Affairs, and local governments to agree on outcomes, intervention portfolios, division of responsibilities, and evaluation schedules.

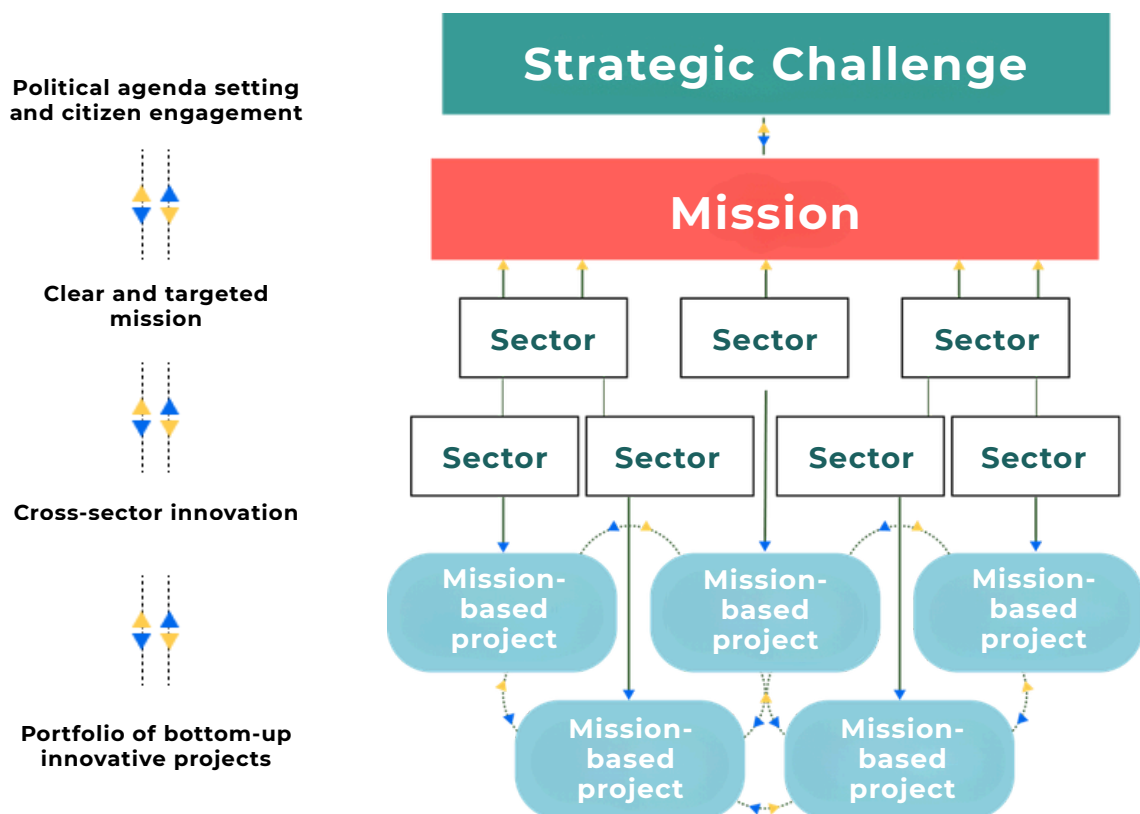


Figure 8: Governance of mission-oriented industrial policy. (Source: Mazzucato, 2024)

CHAPTER 6

Building Governance for a Mission-Oriented Approach

Monitoring and evaluation should also move beyond administrative input and output indicators. Investment, output, exports, and employment levels still require monitoring, but these indicators alone are insufficient to assess capability development. Each mission requires a scorecard covering technological capabilities, productivity and supplier upgrading, R&D intensity, skill levels, job quality, knowledge diffusion, and socio-environmental performance. The indicators should be selected according to the specific characteristics of each mission rather than being standardized across all sectors.

Evaluation findings should have clear policy consequences. Support can be expanded when it demonstrates results, redesigned when constraints change, and terminated through sunset mechanisms when it no longer generates public benefits. In this context, program failure does not necessarily constitute government failure, as long as the information generated is used to improve the portfolio. The problem arises when support persists without evidence of results, without adjustments to its design, and without a clear exit mechanism.



Figure 9: Illustration of industry. (Source: Canva)

Policy Recommendations

The formulation of the 2026–2030 National Industrial Policy (KIN) needs to focus on operationalizing the direction of industrialization, rather than merely updating the list of priority industries. The following four measures should form part of the finalization of the draft presidential regulation (RPerpres) on KIN and its implementing arrangements.

01 **Translate the SBIN's direction into a limited number of measurable transformation missions.**

The Ministry of Industry should formulate missions that clearly define the challenges, the capabilities to be developed, the intended public outcomes, indicators, and target timelines. Economic complexity analysis should be used to develop a portfolio of products and technologies, while final decisions should also take into account economic resilience, decarbonization, quality employment, and socio-environmental impacts. The portfolio should be reviewed periodically to prevent the KIN from becoming a static list of priorities.

02 **Formulate a policy mix and action plan for each mission.**

The Planning Bureau of the Ministry of Industry, together with the Ministry of National Development Planning (Bappenas), the Ministry of Manpower, and the Ministry of Finance as holders of relevant policy instruments, should integrate fiscal incentives, investment, licensing, procurement, financing, research and development, vocational education, supplier development, and regulation into a single portfolio. Each mission should be accompanied by an action plan specifying projects, responsible institutions, financing, implementation stages, indicators, and evaluation schedules. Presidential Regulation No. 46 of 2025 can be leveraged to develop strategic procurement, without making the Domestic Component Level (TKDN) the sole measure of success.



03 **Link public support to verifiable outcomes.**

The Ministry of Finance and the Ministry of Industry should link the continuation of support and incentives to milestones such as R&D investment, technology transfer, the development of domestic suppliers, tiered training, quality employment, productive reinvestment, and socio-environmental performance. Requirements should also include access to technologies developed with public support and proportionate benefit-sharing mechanisms. Evaluation results should determine whether support is expanded, adjusted, reduced, or discontinued.

04 **Establish a Mission Council and adaptive monitoring and evaluation mechanisms linked to the RPIP.**

The Coordinating Ministry for Economic Affairs and the Ministry of Industry need to form an inter-ministerial Mission Council without creating a new permanent bureaucracy. The mechanism should involve relevant ministries, local governments, state-owned enterprises, industry stakeholders, research institutions, universities, and workers' organizations. Each mission should have a capability scorecard and results framework translated into the RPIP. Evaluation findings should be used to scale up effective policies, refine policy designs that are not yet working, and discontinue support that no longer generates public benefits.

Credits

Authors:

Yuanda P. Harahap,
Bintang Aulia Lutfi,
Emma Seruni Ketaren,
R. Imam Kartaatmadja

Reviewer:

Roby Rushandie

Person in Charge:

Dr. Victoria Fanggidae

Translator:

Azahrah Rilies Nabila

Layout and Design:

M. Pandu Agung S.

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PRAKARSA,
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Pasar Minggu
Jakarta Selatan, DKI
Jakarta, Indonesia 12520

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We believe that this multi-stakeholder approach will strengthen our works and initiatives in the knowledge production and dissemination as well as the evidence-based policymaking process. We also believe that networking will facilitate and reinforce one another. Therefore, we have received support from various donors and participated in multifarious initiatives with The PRAKARSA partners.

www.theprakarsa.org

Komplek Rawa Bambu 1
Jl. A No. 8E Kel. Pasar Minggu,
Kec. Pasar Minggu, Jakarta Selatan

 +62 21 7881 798

 perkumpulan@theprakarsa.org

    The PRAKARSA

  PRAKARSA Podcast