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How Japan Should Engage with “Resource Nationalism without Excluding Foreign Investment”

—Insights from the Indonesian Case—

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Introduction

In recent years, Indonesia has encouraged foreign investment in upstream oil and natural gas development while placing greater emphasis on the domestic use of its own resources and strengthening government involvement in their sale and export. Since the beginning of 2026, a series of noteworthy developments have emerged in Indonesia’s resource policy. These include the conclusion of contracts with foreign companies for upstream blocks and the announcement of new block tenders, alongside tighter controls on resource exports and revisions to domestic sales prices.

Traditionally, resource nationalism has primarily been discussed in terms of policies aimed at restoring resource sovereignty through nationalization or the exclusion of foreign capital. What is currently taking place in Indonesia, however, is a more pragmatic form of policy management: The government draws on foreign capital and technological capabilities in upstream development, while domestic demand and industrial policy are prioritized downstream through the management of resource allocation and exports. In this sense, Indonesia’s resource policy can be regarded as a new form of resource nationalism, which does not exclude foreign investments. It is also important to note that one of the drivers behind this policy is Indonesia’s strategy to increase the value added of its resources and upgrade its industrial structure.

This paper focuses on the development of energy resources, particularly oil and natural gas, in Indonesia. First, it reviews developments in resource nationalism in Indonesia, considering the differences between its current approach and conventional forms of resource nationalism. Second, it analyzes the factors behind this new resource nationalism, including stagnant supply capacity, industrial upgrading policies, and changes in the international political and economic environment. Third, based on this analysis, it examines how the Japanese government and Japanese companies should engage with these developments.

1. New Developments in Resource Nationalism in Indonesia

(1) Resource Nationalism and Its Historical Development

Resource nationalism has emerged as a movement through which resource-rich countries seek to strengthen state control over their natural resources and expand government revenues generated by their development. Its principal arena of contention has long been the upstream sector, which encompasses the exploration, development, and production of resources.

Since the middle of the twentieth century, oil- and gas-producing countries have increasingly sought to restore sovereignty over their own resources through state control, state participation in projects, nationalization, and other measures targeting oil and natural gas development that had previously been led by foreign companies. Representative examples include Mexico's nationalization of the assets of foreign-owned oil companies in 1938, Venezuela's introduction of a profit-sharing system in 1948, and the nationalization of the assets of the Anglo-Iranian Oil Company by the Mossadegh government in Iran in 1951. In particular, Venezuela's profit-sharing system allowed foreign companies to continue oil development while ensuring, through royalties and taxation, that at least half of the profits generated by projects accrued to the state. This system later influenced oil-producing countries in the Middle East.¹

Amid this broader trend toward the restoration of sovereignty by resource-rich countries, United Nations General Assembly Resolution 1803, "Permanent Sovereignty over Natural Resources," was adopted in 1962. The resolution affirmed that the peoples of resource-rich countries possess permanent sovereignty over their natural resources.² However, the establishment of resource sovereignty does not necessarily imply the exclusion of foreign companies. Rather than rejecting foreign investment, the resolution set forth the idea that the acceptance of foreign investment and the distribution of benefits derived from it should be placed under the sovereignty of the resource-owning country. On this basis, many oil-producing countries, particularly in the Middle East, have developed systems in which the state or state-owned enterprises retain leadership in resource development while selectively incorporating foreign capital.

That said, there have also been counter movements toward excluding foreign investment. Venezuela, which nationalized its oil industry, promoted the introduction of foreign investment during the 1990s. Since the 2000s, however, it has once again strengthened state control over oil operations, leading to conflicts with foreign companies and prolonged investment disputes.^{3,4} Russia likewise utilized the capital and technology of foreign companies from the 1990s onward. However, following Russia's invasion of Ukraine, amid sanctions against Russia and the withdrawal of foreign companies, state-led restructuring of the oil and gas sector has proceeded.

Thus, resource-rich countries have repeatedly reviewed their relationships with foreign companies in response to changing political and economic circumstances. Through nationalization, state or state-owned enterprise leadership in projects, increases in taxes and royalties, and other measures, they have sought to secure and expand control over resources as well as government revenues derived from resource development.

¹ Yoshikazu Kobayashi, The Institute of Energy Economics, Japan (IEEJ), "The Reemergence of Resource Nationalism", October 3, 2006.

² United Nations General Assembly, "Resolution 1803 (XVII): Permanent Sovereignty over Natural Resources," December 14, 1962.

³ Yoshikazu Kobayashi, The Institute of Energy Economics, Japan, "Venezuela: Has the Dream of Resource Nationalism Been Shattered?", January 8, 2026.

⁴ United Nations Conference on Trade and Development, (UNCTAD), "ConocoPhillips v. Venezuela," Investment Dispute Settlement Navigator, case initiated in 2007.

(2) New Resource Nationalism in Indonesia

In recent years, Indonesia has pursued a clear national strategy and policy framework characterized by the following: (1) actively inviting foreign companies into the upstream sector; (2) strengthening government involvement in the export, domestic allocation, and sales terms of produced resources, in order to address growing domestic demand and support industrial upgrading.

The defining characteristic of resource nationalism in Indonesia is the coexistence of “active openness to foreign investment in the upstream sector” and “strengthened control over exports and sales.” Moreover, (3) this approach extends beyond oil and natural gas to a broader range of resources, including critical minerals such as nickel.

1) Active Attraction of Investment in Upstream Projects

In 2019, the Indonesian government set targets of producing 1 million barrels per day of crude oil and 12 billion standard cubic feet per day (approximately 340 million cubic meters per day) of natural gas by 2030. However, partly because foreign companies withdrew in response to contractual conditions and licensing procedures, progress toward these targets has remained limited.⁵ The government has therefore been improving the upstream investment environment to attract capital and technology from overseas.

One such measure is the increased flexibility of Production Sharing Contracts (PSCs). For example, institutional reforms in 2024 raised the base share available to contractors, including foreign companies, under the Gross Split scheme. The scheme was also redesigned so that contractors may receive a larger overall share in projects involving difficult development conditions, such as deepwater fields, areas without adequate infrastructure, or small reserves.^{6,7} In addition, the discretion of the Minister of Energy and Mineral Resources to grant additional contractor shares according to project-specific circumstances was expanded, enabling more flexible terms to be established in accordance with project economics. These measures demonstrate the government’s willingness to actively utilize the capital, technology, and risk-bearing capacity of contractors, including foreign companies, in upstream development.

In May 2026, PSCs were signed for four upstream blocks involving foreign companies among the blocks awarded in the second and third bidding rounds of 2025. This can be viewed as evidence that the government’s efforts to improve the investment environment are beginning to yield results.⁸ In the 2026 tender for 13 new blocks, contractors are also allowed, with the

⁵ Special Task Force for Upstream Oil and Gas Business Activities (SKK Migas), Laporan Tahunan 2019: Meningkatkan Investasi Menuju Produksi 1 Juta BOPD [Annual Report 2019: Increasing Investment toward Production of 1 Million BOPD], 2019.

⁶ Gross Split scheme: A system in which production interests are predetermined and contractors bear the cost-recovery risk. In principle, contractors select the most appropriate scheme based on risk and return between the Gross Split scheme and the Cost Recovery scheme, under which contractors recover development and operating costs from production revenues before sharing the residual profit with the government.

⁷ Ministry of Energy and Mineral Resources (ESDM), “Keputusan Menteri Energi dan Sumber Daya Mineral Republik Indonesia Nomor 230.K/MG.01/MEM.M/2024 tentang Pedoman Pelaksanaan dan Komponen Kontrak Bagi Hasil Gross Split”, September 19, 2024.

⁸ ESDM, “Total Komitmen Eksplorasi USD 57,9 Juta, Kontrak 8 Wilayah Kerja Hasil Lelang Tahap II dan III Tahun

exception of certain blocks, to select the contract scheme most appropriate to the risk-return profile of each project.⁹ The government continues to seek to stimulate exploration and development and expand foreign participation by enhancing the attractiveness of upstream investment.

2) Controls on Oil and Natural Gas Exports

While revising upstream-sector institutions to encourage foreign participation, the Indonesian government has strengthened its control over the sale and export of produced resources.

With respect to crude oil, exports have traditionally been permitted only for grades that are difficult to process at domestic refineries. In recent years, however, the government has indicated a policy of enhancing domestic refining capacity through facility upgrades and the blending of different crude grades, thereby directing domestically produced crude oil to domestic demand as far as possible.

Natural gas is likewise to be prioritized for domestic use, with exports to be gradually reduced. In 2025, the government presented a supply-demand outlook under which, by 2035, 97% of gas allocation would be directed to domestic use and 3% to exports. Gas that could not be utilized by domestic consumers was assumed to be exported under spot contracts.¹⁰

i) Domestic Market Obligations and Priority Supply to the Domestic Market

The foundation for this government outlook is the Domestic Market Obligation (DMO) system, which is based on PSCs and related laws and regulations. Under this system, upstream contractors are required to contribute to meeting domestic demand and, in principle, must supply 25% of their entitlement share to the domestic market.¹¹

In recent years, contractors have also increasingly been required to redirect products originally intended for export to the domestic market in accordance with domestic supply-demand conditions, in addition to the volumes required under the DMO system.

With respect to crude oil, separate from the domestic supply obligation under the DMO provisions of PSCs, a Minister of Energy and Mineral Resources regulation requires contractors to offer their entire entitlement volume planned for export first to domestic refinery companies, such as Pertamina. Purchases are then negotiated through tenders or on a commercial basis before exports can take place.¹² Based on this regulation, the Minister of Energy and Mineral Resources

2025 Ditandatangani”, May 22, 2026.

⁹ ESDM, “Genjot Investasi Hulu Migas, Pemerintah Umumkan Lelang 13 Wilayah Kerja dengan Skema Kontrak Fleksibel”, May 22, 2026

¹⁰ Yusuf Hasan Habibie and Enny Ingketría, Ministry of Energy and Mineral Resources, Republic of Indonesia, “Update on OIL AND GAS SECURITY: INDONESIA,” presented at the 8th Oil and Gas Security Network Forum, Hong Kong, China, April 8, 2025.

¹¹ ESDM, Directorate General of Oil and Gas, “Pelaksanaan Kewajiban Pemenuhan Kebutuhan Migas Dalam Negeri Oleh KKKS”, February 14, 2008.

¹² ESDM, “Peraturan Menteri Energi dan Sumber Daya Mineral Nomor 18 Tahun 2021 tentang Prioritas Pemanfaatan Minyak Bumi Untuk Pemenuhan Kebutuhan Dalam Negeri”, July 9, 2021.

announced in January 2025 a policy to redirect all crude oil from the government's share that had been scheduled for export to domestic use. The policy also called for more than 40% of the crude oil volume scheduled for export in that year to be redirected to domestic refineries, including crude grades that did not match the specifications of existing refineries, by improving refining capacity and blending crude oils.¹³

Although the measure is positioned as one limited to emergencies, the government issued Presidential Regulation No. 26 of 2026 in April 2026 amid heightened energy supply concerns arising from the ongoing conflict involving Iran. The regulation provides that the government may freeze or suspend exports of crude oil and by-products produced domestically to protect national energy security. In May, it was further reported that the head of SKK Migas had stated that all export permits for crude oil and condensate had been frozen.^{14,15}

With respect to natural gas, whether or not the gas is subject to the DMO, domestic and export supply plans for individual projects are specified through the involvement and approval of the government agency SKK Migas, in accordance with the Ministry of Energy and Mineral Resources' allocation policy.¹⁶ Consequently, contractors cannot freely determine the destination of their sales.

In 2025, some LNG cargoes under long-term contracts were redirected to the domestic market in order to prioritize domestic demand, with shipment schedules adjusted in consultation with overseas customers.^{17,18} In April 2026, it was also reported that nine cargoes from Tangguh LNG would be redirected for domestic use, while the corresponding sales and deliveries to overseas customers would be postponed until the following year.¹⁹

ii) Government Control over Sales Prices

Government involvement is becoming stronger not only in the quantitative allocation of domestically produced resources, as described above, but also in the prices at which those resources are sold domestically.

For crude oil subject to the DMO, prices are set based on the Indonesian Crude Price (ICP), the domestic crude oil sales price benchmark calculated monthly by the government, except in certain cases such as production from newly developed fields for which quality assessments have not yet been established.²⁰ Since codifying the ICP calculation methodology in 2012, the government

¹³ ESDM, "Kelola Minyak Mentah Dalam Negeri, Pangkas Impor dan Tingkatkan Kemandirian Energi", January 27, 2025.

¹⁴ Government of the Republic of Indonesia, "Peraturan Presiden Nomor 26 Tahun 2026 tentang Pengadaan Minyak Bumi, Bahan Bakar Minyak, dan/atau Liquefied Petroleum Gas untuk Ketahanan Energi Nasional", April 30, 2026

¹⁵ Dunia Energi, "Mulai 1 Mei Seluruh Izin Ekspor Minyak Mentah Dibekukan", May 2, 2026.

¹⁶ ESDM, Directorate General of Oil and Gas, "Kebijakan Penetapan Alokasi dan Pemanfaatan serta Harga Gas Bumi", December 2023

¹⁷ Reuters, "Indonesia to divert LNG cargoes to local buyers in April-May, adjust Singapore exports," April 9, 2025.

¹⁸ Bloomberg Technoz, "Ekspor LNG RI Makin Drop pada 2025, Akibat Dialihkan ke Domestik", July 22, 2025.

¹⁹ Reuters, "Indonesia asks LNG, crude oil producers to prioritize domestic market," April 6, 2026, reprinted by Gas Processing & LNG.

²⁰ ESDM, "Keputusan Menteri Energi dan Sumber Daya Mineral Nomor 98.K/MG.03/MEM.M/2026 tentang Harga

has gradually revised the framework. Since 2016, it has used Dated Brent, a widely referenced international price benchmark, to determine prices according to crude grade and quality.^{21,22}

Contractors may determine the price of their entitlement crude oil volumes exceeding the DMO requirement through tenders involving domestic refinery companies or through commercial negotiations.¹³ Because internationally traded prices are referenced for DMO crude oil and contractors retain discretion in price determination for crude oil exceeding the DMO volume, the economic impact on contractors of increased domestic sales is relatively limited.

Natural gas, by contrast, is subject to government price review regardless of whether it falls under the DMO. The government examines prices proposed by upstream contractors through SKK Migas and determines a project-specific natural gas price, Harga Gas Bumi. Supplies to government-designated consumers in specific sectors—including power generation, fertilizer, petrochemicals, steel, and other designated sectors—are subject to a policy price known as the Specific Natural Gas Price (Harga Gas Bumi Tertentu, HGBT), which is often below normal commercial prices.²³

Under the system, revenue losses arising from the application of HGBT are adjusted through mechanisms such as a reduction in the government's share. Nevertheless, the system undermines contractors' predictability regarding sales prices and reduces their upside opportunities when market prices rise. In June 2026, price-suppression measures were also announced for part of the LNG supply to industrial users that had not previously been covered by HGBT.²⁴ This indicates that the scope of government involvement in price formation is expanding.

iii) Recent Developments in Export Controls

In July 2026, a groundbreaking ceremony for the Abadi LNG Project was held with President Prabowo attending online. On the same day, the Indonesian government announced that at least 60% of gas production from the project would be allocated to domestic demand and that exports would be limited to a maximum of 40%.²⁵

For this project, a development plan based on floating LNG (FLNG) production was submitted in 2015. However, placing importance on spillover effects for the domestic economy, the Indonesian government requested that the project be revised to an onshore LNG production scheme. The development plan was subsequently modified into the current scheme, which

Minyak Mentah Indonesia Bulan Januari 2026", February 12, 2026.

²¹ ESDM, "Peraturan Menteri Energi dan Sumber Daya Mineral Nomor 23 Tahun 2012 tentang Tata Cara Penetapan Metodologi dan Formula Harga Minyak Mentah Indonesia," August 13, 2012.

²² ESDM, "Keputusan Menteri Energi dan Sumber Daya Mineral Nomor 6171 K/12/MEM/2016 tentang Penetapan Formula Harga Minyak Mentah Indonesia Periode Juli 2016 sampai dengan Juni 2017," July 26, 2016.

²³ Government of the Republic of Indonesia, "Peraturan Presiden Republik Indonesia Nomor 40 Tahun 2016 tentang Penetapan Harga Gas Bumi," May 3, 2016, as amended by "Peraturan Presiden Nomor 121 Tahun 2020 tentang Perubahan atas Peraturan Presiden Nomor 40 Tahun 2016 tentang Penetapan Harga Gas Bumi," December 28, 2020.

²⁴ ESDM, "Selamatkan Industri, Menteri ESDM Turunkan Harga LNG Industri," June 29, 2026.

²⁵ Kementerian Sekretariat Negara Republik Indonesia, "Setelah Penantian 28 Tahun, Presiden Prabowo Mulai Pembangunan LNG Abadi Masela," July 16, 2026.

includes pipeline supply to the domestic market.²⁶ Although exports were not restricted at that time, in March 2026 the government, seeking to accelerate the project's Final Investment Decision (FID), proposed that state-owned investment institution Danantara purchase the entire LNG output if sufficient offtakers could not be secured.²⁷

INPEX, which leads the project, aims to reach FID around the middle of 2027. Attention will therefore focus on how specific conditions concerning export approval and domestic supply will be established going forward.

3) Export Controls Covering Resources More Broadly

Indonesia has also strengthened controls at the export stage for major resources other than oil and natural gas. In May 2026, the government introduced a system to centrally manage exports of strategic natural resources through a designated state-owned enterprise, PT Danantara Sumberdaya Indonesia (DSI). In the first phase, coal, palm oil, and ferroalloys²⁸ were designated as subject to this system.²⁹ The government has expressed concerns about the under-invoicing of export prices and tax avoidance. From 2027 onward, DSI will become the export entity and will strengthen control over resource exports by determining purchasers, export volumes, and price formation for the covered resources.

Oil and natural gas are not currently covered by this system. Nevertheless, government involvement in the sales and export of oil and natural gas, as already discussed, shares an important common feature with the new system's involvement in export destinations, volumes, and price formation. Although the specific methods differ, in both cases the government is strengthening control over where domestically produced resources are supplied and under what terms.

Thus, in Indonesia today, the government is incorporating private capital and technology, including foreign investment, in the upstream sector in order to promote resource development. At the post-production stage, however, it is increasingly directing resource flows toward domestic policy priorities through such measures as domestic supply obligations, decisions on domestic and overseas allocations and export volumes, and price controls. This coexistence of active openness to foreign investment in the upstream sector and strengthened control over exports and sales is what characterizes resource nationalism in Indonesia today.

2. Background to the New Resource Nationalism Observed in Indonesia

(1) Growing Domestic Energy Demand

This section examines the background against which the current form of resource nationalism

²⁶ INPEX Corporation, "Update Regarding Notice from Indonesian Government Authorities Concerning Revised Plan of Development of Abadi LNG Project, the Masela Block, Indonesia," April 4, 2016.

²⁷ ESDM, "Sepakati Investasi USD20 Miliar, Bahlil Percepat Proyek Masela," March 15, 2026.

²⁸ Ferroalloys: A general term for alloys in which one or more metallic elements other than carbon are added to iron. They are used for purposes such as deoxidation, desulfurization, improving strength, and enhancing corrosion resistance in steel.

²⁹ ESDM, "Tekan Praktik Penyimpangan Tata Niaga Ekspor SDA, Pemerintah Bentuk BUMN Khusus," May 20, 2026.

has emerged in Indonesia.

The first factor is the expansion of domestic energy demand accompanying economic growth. In Indonesia, energy consumption has risen markedly because of population growth and urbanization, as well as expanding transportation, logistics, and industrial activities. Final energy consumption increased from 810 million barrels of oil equivalent (boe) in 2014 to 1.29 billion boe in 2024—approximately 1.6 times the 2014 level.³⁰ Furthermore, according to the long-term energy supply and demand outlook released by the government in 2024, final energy consumption in 2034 is projected to reach 2.47 billion boe under the Reference Scenario, which assumes current policies. Even under the Green Scenario, which considers the goal of net-zero emissions by 2060, final energy consumption is projected to rise to 2.16 billion boe. This represents approximately 1.7 to 1.9 times compared with 2024.³¹

Regarding electricity demand, the state-owned power utility PLN projects in its 2025–2034 Electricity Supply Business Plan that electricity sales will increase by approximately 1.7 times over the next decade.³² Coal-fired power generation remains the main source of electricity generation at present. However, the government has adopted a policy of curbing new coal-fired power plants and expanding renewable energy, while positioning natural gas as an important transition fuel for power generation and industry.³³ The government is also advancing plans to develop small-scale LNG terminals, transportation, storage, and regasification infrastructure for power plants, including those in island regions, in order to replace petroleum products—particularly diesel—with LNG as a power-generation fuel.^{34,35}

Through these efforts, Indonesia seeks to increase the capacity to transport and supply natural gas for domestic power generation and industrial demand, thereby responding to rising domestic energy consumption.

(2) Decline in Domestic Oil and Supply Capacity

The second factor is that crude oil and natural gas production has declined significantly from peak levels. Crude oil production fell from 830,000 barrels per day in 2016 to 580,000 barrels per day in 2024. Although it recovered to 610,000 barrels per day in 2025, this has not been sufficient to reverse the long-term decline. Natural gas production has followed a similar trend.³⁶

Many of Indonesia’s oil and gas fields responsible for existing production are in the mature stage. Even maintaining existing output through continued drilling of development wells, well workovers, enhanced oil recovery (EOR), and other measures require substantial investment and

³⁰ ESDM, *Handbook of Energy and Economic Statistics of Indonesia 2024*, July 11, 2025.

³¹ Secretariat General of the National Energy Council (DEN), *Outlook Energi Indonesia 2024*, 2024.

³² ESDM, “Menteri ESDM Umumkan RUPTL PLN 2025–2034, Serap Lebih dari 1,7 Juta Tenaga Kerja Baru,” May 26, 2025.

³³ Government of the Republic of Indonesia, “Peraturan Presiden Nomor 112 Tahun 2022 tentang Percepatan Pengembangan Energi Terbarukan untuk Penyediaan Tenaga Listrik,” September 13, 2022.

³⁴ Reuters, “Indonesia embarks on long-stalled LNG push to displace diesel in power plants,” March 7, 2025.

³⁵ ESDM, “Pemerintah Resmikan Mini LNG Plant di Jawa Timur, Dukung Optimalisasi Sumber Energi Domestik,” June 25, 2026.

³⁶ ESDM, “Pertama Kalinya dalam 9 Tahun, Lifting Minyak Bumi Lewati Target APBN,” January 8, 2026.

human resources. For domestic companies, the burden of simultaneously maintaining existing production and pursuing new exploration and development is considerable.

Moreover, undeveloped blocks include fields located in deepwater or remote offshore areas, as well as large gas fields with high CO₂ content that require advanced gas-processing and carbon capture and storage (CCS) technologies. Large-scale gas developments involving LNG production require not only the construction and operation of liquefaction facilities, but also substantial capital, the capability to integrate and execute the entire project, and the securing of long-term buyers.

Accordingly, foreign companies' capital, technological and operational experience, and capacity to bear risks are highly important if Indonesia is to achieve a substantial and rapid increase in nationwide production. Securing new supply capacity is indispensable for meeting domestic demand while maintaining exports. For the Indonesian government, therefore, attracting foreign capital and technology into the upstream sector while prioritizing domestic use of produced resources is no longer a contradictory policy approach.

(3) Increasing the Value Added of Resources and Upgrading Domestic Industry

The third factor is that Indonesia's economic policy itself has shifted its emphasis from the extraction and export of resources toward the creation of added value through domestic processing and industrial clustering.

In the 2025–2029 National Medium-Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional, RPJMN), formulated in 2025, the government identified as one of its priorities the conversion of resources into competitive products through “downstreaming” and “industrialization,” thereby generating high-quality employment and domestic economic growth.³⁷ In this context, “downstreaming” can be understood as increasing the value added of resources by processing them domestically rather than exporting them in raw-material form. “Industrialization,” meanwhile, refers to the development of related industries starting from resource processing and their evolution into a manufacturing base with employment, technological capabilities, and export competitiveness.

In the mineral sector in particular, Indonesia has long promoted restrictions on exports of unprocessed ores and requirements for domestic processing and refining. The RPJMN goes further by seeking not only to upgrade domestic value chains based on resources, but also to create industrial ecosystems through the clustering of industries in industrial estates and special economic zones.

For example, in the nickel sector, downstreaming has thus far focused on products such as ferronickel, nickel pig iron, and stainless steel. The government now envisages further extension of the domestic value chain to include nickel sulfate, battery precursors, cathode materials, battery cells, and eventually battery packs. Indonesia's “Making Indonesia 4.0” initiative, announced in 2018, identified the automotive industry as one of the country's priority industries. In 2019, Presidential Regulation No. 55 institutionalized measures to promote battery electric vehicles

³⁷ Government of the Republic of Indonesia, “Peraturan Presiden Republik Indonesia Nomor 12 Tahun 2025 tentang Rencana Pembangunan Jangka Menengah Nasional Tahun 2025–2029,” February 10, 2025.

(BEVs).^{38,39} The RPJMN once again positions nickel downstreaming and the development of the battery industry as national development priorities.

In June 2026, a senior government official referred to the goal of making Indonesia one of the world's top five EV battery-producing countries by 2045. The government is also considering differentiated support for EV purchases according to battery type, with more favorable treatment for vehicles equipped with nickel-based batteries.^{40,41} Starting with its nickel resources, the government aims to strengthen and develop domestic industry by creating an EV ecosystem that includes battery materials, cells, finished vehicles, and charging infrastructure. It also seeks to promote exports of products and finished goods while reducing imports.

Similarly, the RPJMN indicates that oil and natural gas should not simply be supplied or exported in their produced form. Rather, they should be converted domestically into basic chemicals and other products and supplied to a broad range of manufacturing industries, thereby generating domestic value added and strengthening the industrial base.

With respect to oil, the government intends to advance the integration of the refining sector with the petrochemical industry, together with refinery upgrading and capacity expansion. Based on a three-phase roadmap—expanding infrastructure from 2025 to 2030, integrating industries from 2030 to 2040, and enhancing international competitiveness from 2040 to 2045—the government has indicated its intention to promote investment in refining and petrochemical businesses and foster export-oriented manufacturing based on domestic processing.

As one project embodying this policy direction, an integrated petrochemical facility using naphtha as its principal feedstock to produce ethylene, propylene, and other products began operations in 2025. By expanding domestic supplies of basic chemicals, the government aims to support the domestic production of plastic products, automotive components, medical equipment, and other goods, while promoting import substitution and export expansion.⁴²

With respect to natural gas, the government has indicated a policy direction of expanding domestic use and promoting industrial integration through the expansion of pipeline and distribution infrastructure and the development of integrated industrial areas. As part of its strategy for natural gas utilization, the government identifies downstreaming centered on the petrochemical industry. It has set out a policy to expand domestic gas use through a combination of an interconnected gas-transmission pipeline network and infrastructure to supply gas to areas without pipeline access.⁴³

³⁸ Ministry of Industry of the Republic of Indonesia, “Making Indonesia 4.0 Menuju Top 10 Ekonomi Global Tahun 2030,” *Media Industri*, No. 01/2018, 2018.

³⁹ Government of the Republic of Indonesia, “Peraturan Presiden Nomor 55 Tahun 2019 tentang Percepatan Program Kendaraan Bermotor Listrik Berbasis Baterai (Battery Electric Vehicle) untuk Transportasi Jalan,” August 8, 2019.

⁴⁰ ESDM, “Indonesia Bangun Industri Baterai Listrik Terintegrasi, Ini Rincian Proyeknya,” June 30, 2025.

⁴¹ ANTARA News, “Purbaya Siapkan Insentif Mobil Listrik Berupa PPN DTP 40–100 Persen,” May 5, 2026.

⁴² ESDM, Directorate General of Oil and Gas, “Visi Hilir Indonesia 2045: Langkah Strategis Perkuat Ketahanan Energi,” April 23, 2026.

⁴³ ESDM, Directorate General of Oil and Gas, “Dirjen Migas Tekankan Hilirisasi dan Modernisasi Infrastruktur untuk Wujudkan Ketahanan Energi Nasional,” October 9, 2025.

Natural gas is already used across a wide range of applications. Based on government documents, however, the advancement of downstreaming and industrialization is expected to increase domestic gas demand through several channels: (1) demand for gas-fired power generation; (2) direct demand as an industrial fuel; and (3) demand as a feedstock for fertilizer, petrochemicals, and other industries.³¹ Future industrial upgrading is therefore expected to raise the value of natural gas in the domestic market and intensify competition with exports.

(4) Transformation of the Free-Trade Paradigm

The fourth factor is the changing international political and economic environment. While the global economy continues to operate with the basic framework of a free-trade system that emphasizes market efficiency, it has entered a phase in which countries increasingly incorporate national objectives—such as economic security, resilient resource supply chains, and the development of domestic industries—explicitly into their investment and trade policies.

In the international economic order established after World War II, free trade based on market efficiency came to be regarded as a basic principle. These reflected lessons drawn from the prewar period, when protectionism and bloc economies caused world trade to contract and intensified international conflict. In response, importance was placed on securing fair and predictable conditions of competition under which countries could gain stable access to markets.

For this reason, one of the basic rules of the World Trade Organization (WTO) generally prohibits import and export bans or quantitative restrictions implemented through measures such as import and export licensing and quotas, except for customs duties, taxes, and other charges.⁴⁴ What the WTO regards as problematic is not a resource-producing country's prioritization of domestic use itself, but the distortion of market access and competitive conditions by creating disparities in raw-material procurement conditions between domestic and foreign businesses.

On this basis, the European Union brought a case against Indonesia at the WTO in 2019, arguing that Indonesia's ban on nickel ore exports violated WTO rules. The dispute remains ongoing.⁴⁵

However, it is also true that the expansion of economic sanctions and tariff barriers amid tensions among major powers in recent years—such as U.S. export controls and tariff policies toward China—has placed increasing strain on the free-trade principles underpinning the rule-based international trading system. As the United Nations Conference on Trade and Development (UNCTAD) has pointed out, the global investment environment has become “more uncertain, fragmented and politicized.”⁴⁶

⁴⁴ World Trade Organization (WTO), *General Agreement on Tariffs and Trade 1947 (GATT 1947)*, Article XI, “General Elimination of Quantitative Restrictions,” October 30, 1947.

⁴⁵ WTO dispute concerning Indonesia's nickel ore export restrictions (DS592): In 2019, the European Union requested WTO consultations regarding Indonesia's ban on nickel ore exports and domestic processing requirements. In 2022, a WTO panel found that both measures were inconsistent with Article XI:1 of the GATT and were not justified under Article XI:2(a), which provides an exception for export prohibitions in critical shortages, or Article XX(d). Indonesia appealed the decision; however, proceedings have not advanced because the Appellate Body remains non-functional. As of July 2026, the panel report has not been adopted.

⁴⁶ United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2026: International*

In particular, the global energy crisis that intensified following Russia's invasion of Ukraine in 2022 made energy a key issue of national security. As a result, government involvement in domestic supply and resource allocation on security grounds may have become more politically justifiable than before.

Furthermore, in February 2026, the United States and Israel launched an attack on Iran, and the effective closure of the Strait of Hormuz caused major disruption to global oil and LNG supplies. This again highlighted the vulnerability of supply systems premised on the assumption that resources can always be procured in an open international market on market principles as long as an appropriate price is paid. Diplomatic efforts by countries to reorganize and secure resource supply chains independently, as well as in cooperation with allies and trusted partner countries, are also becoming increasingly evident.

These recent changes in the free-trade paradigm are likely to strengthen the incentives of resource-producing governments to exercise tighter export control over their own resources.

3. How Japan Should Engage with New Resource Nationalism —From “Securing Resources” to “Co-Creating Supply Capacity and Value”—

The developments observed in Indonesia are not unique to that country. In May 2026, the Australian federal government decided to introduce a domestic gas reservation scheme requiring LNG exporters to supply to the domestic market a volume equivalent to 20% of their LNG exports from July 2027 onward, while respecting existing export contracts. The government is currently developing the details of the system.⁴⁷

Behind this policy is concern that future gas shortages may arise in eastern Australia, a major demand center, as existing gas fields decline. The policy also aims to secure energy at stable and competitive prices to realize “Future Made in Australia,” a policy initiative designed to strengthen and enhance the competitiveness of domestic manufacturing by leveraging the transition to decarbonization as an opportunity. In several African countries that produce critical minerals domestically, including the Democratic Republic of the Congo and Zambia, there are also moves to prioritize domestic processing and higher value addition of national resources.⁴⁸

In such an environment, it will be important for Japanese companies not only to help increase supply capacity in resource-producing countries, but also to create business opportunities that contribute to achieving the policy objectives of those countries.

In Indonesia, in addition to providing financial and technological capabilities for large-scale projects, Japanese companies could, for example, pursue integrated initiatives involving the development of small- and medium-scale gas fields intended for domestic supply; modular LNG

Investment in a Turbulent Era, July 7, 2026.

⁴⁷ Australian Government, Department of Industry, Science and Resources, “Domestic Gas Reservation Scheme to Secure Supply for Australian Market,” May 11, 2026.

⁴⁸ JETRO, “Export Controls and Value Addition: Critical Minerals in Zambia, the DRC, and Zimbabwe (Part 2),” April 30, 2026.

facilities; coastal shipping; LNG receiving and regasification facilities; and domestic infrastructure such as pipelines.⁴⁹ There may also be room for continued involvement throughout the value chain through the supply of equipment, operation and maintenance services, participation in gas-consuming industries and petrochemicals, and the provision of energy-efficiency services to end users.

Through such initiatives, Japanese companies could contribute to Indonesia's supply capacity, employment, and maximization of resource value. At the same time, Japan could gain not only upstream interests but also new business opportunities and more diversified procurement options. This could create a mutually beneficial and complementary relationship.

Such initiatives, including local infrastructure development, nevertheless involve fixed investments that are difficult to redeploy. They may therefore create a "hold-up problem," in which conditions related to domestic supply obligations, pricing, export permits, or customers are changed after investment, thereby weakening investors' bargaining power.

Private companies need to define as clearly as possible in contracts the scope of domestic supply obligations, pricing and cost-sharing arrangements, adjustment and compensation mechanisms in the event of regulatory changes, and dispute-settlement procedures. At the same time, recognizing that policy or regulatory changes in resource-producing countries may exceed the negotiating capacity of individual companies, the Japanese government should continue to use regular intergovernmental dialogue to encourage prior consultation on institutional changes, transitional arrangements for existing contracts, and the establishment of transparent rules.

In particular, the Japanese government has set targets for Japan's "Self-development ratio" for oil and natural gas to reach at least 50% in fiscal year 2030 and at least 60% in fiscal year 2040.⁵⁰ This ratio is not based on the percentage of interests held by Japanese companies, but on actual offtake volumes attributable to those interests.

Therefore, where public support or Japanese companies' risk capital has been invested in a project, and a policy change by the host country could materially constrain offtake or sales and thereby undermine the practical value of the project, the Japanese government should take the lead in intergovernmental negotiations if individual companies are unable to address the matter effectively. It is important to help establish an arrangement that reconciles the host country's efforts to secure domestic supply with Japanese companies' contractual rights.

The fundamental premise—that resources are subject to the sovereignty of the countries in which they are located—remains unchanged. Japan's engagement must always respect resource-producing countries' policies regarding domestic supply. As resource-producing countries seek to maximize resource value by securing supply and expanding their industrial bases, the question for Japan is not simply how to procure resources, but where and how Japan can position itself in the value-adding process.

⁴⁹ Modular LNG: Small-scale, decentralized LNG facilities in which liquefaction equipment is manufactured as modules in factories and assembled on site. Such facilities can reduce construction periods and initial investment requirements and are suitable for expanding gas use in remote areas and island regions.

⁵⁰ Ministry of Economy, Trade and Industry, Strategic Energy Plan, February 2025

It will become increasingly important for the Japanese government and private sector to work together strategically to build relationships in which the growth of resource-producing countries contributes to Japan's security of supply, while Japan's investment, technology, and markets support the growth of those countries.

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