

Hasran; Gupta, Krisna; Aaron, Rasya Athalla

Research Report

The impact of the commodity balance system on trade bureaucracy and food price in Indonesia

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Policy Paper No. 64

The Impact of the Commodity Balance System on Trade Bureaucracy and Food Price in Indonesia

by Hasran, Krisna Gupta, and Rasya Athalla Aaron

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**The Impact of the Commodity Balance System
on Trade Bureaucracy and Food Price in Indonesia**

Authors:

Hasran, Krisna Gupta, and Rasya Athalla Aaron
Center for Indonesian Policy Studies (CIPS)

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GLOSSARY

ARDL:

Autoregressive Distributed Lag

CEPA:

Comprehensive Economic Partnership Agreement

CMEA:

Coordinating Ministry for Economic Affairs

CMFA:

Coordinating Ministry for Food Affairs

F&B:

Food and Beverage

HS Code:

Harmonized System Code (used for classifying traded products)

IMF:

International Monetary Fund

KPPU:

Komisi Pengawas Persaingan Usaha or KPPU (Indonesian Commission for Supervision of Business Competition investigation)

LOESS:

Locally Estimated Scatterplot Smoothing

MoA:

Ministry of Agriculture

MoI:

Ministry of Industry

MoT:

Ministry of Trade

MSMEs:

Micro, Small and Medium Enterprises

NK:

Neraca Komoditas (Commodity Balance)

OECD:

Organisation for Economic Co-operation and Development

PIHPS:

Pusat Informasi Harga Pangan Strategis Nasional (National Strategic Food Price Information Center)

Rakornis:

Rapat Koordinasi Teknis (Technical Coordination Meeting)

Rakortas:

Rapat Koordinasi Terbatas (Limited Coordination Meeting)

SINAS NK:

Sistem Nasional Neraca Komoditas (National Commodity Balance System)

SOE:

State-owned Enterprise

EXECUTIVE SUMMARY

The Indonesian government faces a persistent conundrum: on one hand, it wants to help industries access affordable raw materials, including through imports. On the other hand, it faces pressure to protect domestic farmers and industries. To address this challenge, the Indonesian government believes that a quota restriction mechanism is the best policy approach. However, the implementation of quota restrictions are riddled with issues due to the system's vulnerability to data inaccuracies, a lengthy process, and corruption and rent seeking. To tackle these problems, the government introduced a new quota management system in 2022 called the Commodity Balance (*Neraca Komoditas* or NK). NK was designed to fix the issues occurring in the previous system by making the quota-setting process more data-driven, transparent, and integrated across ministries.

This paper tries to evaluate the implementation of the NK system in Indonesia to facilitate the bureaucratic import processes for certain commodities. First, this paper reviews the old quota system as a form of quantitative restriction and highlights its key drawbacks. Second, it qualitatively assesses whether the NK system is able to address these issues. Third, it provides a quantitative analysis to examine whether the NK system has made import processes more efficient and reduced uncertainty in quota allocation.

The findings suggest that the old quota system suffered from lack of data integration, supply data inaccuracy, uncertainty in quota allocations, inefficiency and lack of transparency in the import permit process, and corruption and rent seeking. NK is a dataset containing information on the demand and supply of specific commodities within a certain period meant to address these issues.

NK succeeded in ensuring data integration between ministries and making bureaucracy governing import processes less vulnerable to corruption and rent seeking behavior. This integrated data system enables all technical ministries to access the same information, which helps accelerate the processes of *Rakortas* and *Rakornis*. Moreover, because the data is integrated, recommendation letters from technical ministries are no longer required. This reduces opportunities for corruption and rent seeking under the NK.

Despite these improvements, this policy paper identifies several shortcomings in the implementation of the NK system. First, the system still does not provide sufficiently detailed data for effective export and import policy. Supply data is not disaggregated to the HS Code level and lacks usage specifications, making it difficult to match domestic supply with quality-sensitive industrial demand. Second, quota uncertainty persists because inaccurate supply data leads to underestimated quotas, while the revision process is slow and unresponsive to market changes, creating delays when industries urgently need adjustments. Third, bureaucratic efficiency has not improved. While the requirement for a recommendation letter has been removed, the process of issuing import permits often takes longer than under the previous system. Fourth, transparency remains limited, as importers who receive lower quotas than requested are not given clear explanations for the reductions.

Moreover, at the end of the day NK is still essentially a quota system. This necessarily reduces flexibility for domestic industries, including micro and small medium enterprises (MSMEs) in accessing essential inputs for their production. While MSMEs rarely import directly, they rely heavily on imported intermediate inputs supplied by larger firms. When import flow is interrupted, the resulting cost increases are likely passed down to MSMEs, shrinking their profit margins and limiting their ability to expand. For farmers, the system also risks harming them as food becomes more expensive—two thirds of farmers are net consumers of food. Hence, instead of providing protection, the quotas can worsen the economic conditions of farmers.

Quantitatively, there is little evidence from import flow trends and prices that the NK system has ensured quota allocation and increased efficiency of import processes. The trend in import volumes did not change after the commodities were regulated under the NK system. Imports under the NK scheme also appear to have failed to transmit international prices to the domestic market. Since its implementation, the gap between domestic and international prices has widened as international prices declined while domestic prices continued to rise. In terms of price stabilization, findings vary depending on the analytical method. A synthetic control method analysis suggests that NK may fail to stabilize the price of rice and sugar but succeed in stabilizing the price of beef. Meanwhile, the autoregressive distributed lag (ARDL) analysis finds no statistically significant effect of NK on prices across analyzed commodities.

This policy paper offers several key recommendations. The government should consider eliminating quota restrictions completely, including both the old quota system and NK, as the basis for issuing export and import licensing. The old quota system has been hindered by several issues and NK does not solve most of these issues. Supply data in the old quota system and NK are often inaccurate and unlikely to be improved to the level of detail required. Relying on such flawed data for quota decisions creates risks and can harm industries. A market-based import regime would be more effective, allowing industries advocate for their own needs, sources, and timing.

However, while the NK system remains in place, substantial reforms are needed to reduce its issues. First, the Ministry of Trade (MoT) should accelerate and automate import permit issuance, given the cross ministerial verification is now already built into the SINAS NK system. Second, the Coordinating Ministry for Economic Affairs (CMEA) and the Coordinating Ministries for Food Affairs (CMFA) should refrain from adding more commodities into the NK system, especially more complex goods. Third, these coordinating ministries should also carry out firm-level surveys to track the time required for import quota and import license processing to identify bottlenecks. Fourth, the NK revision process must be simplified, without requiring additional formalities or repeated approvals from the coordinating ministries once *Rakortas* has taken place.

INTRODUCTION

Trade has been essential to Indonesian economic development (Hill, 2018). However, Indonesia has always been reluctant to embrace globalization, particularly to let imports increase when facing a current account deficit and support for protectionism (Gupta et al., 2024; Hill and Pane, 2018; Patunru, 2023). Imports are critical for sourcing important materials for downstream production and industrialization (Pane & Patunru, 2022). Moreover, imported inputs, particularly agricultural products, help domestic food services and industry. This empowers micro, small, and medium enterprises (MSMEs) that employ many workers, especially women (Hasran & Gupta, 2023).

Imports are critical for sourcing important materials for downstream production and industrialization. Moreover, imported inputs, particularly agricultural products, help domestic food services and industry.

The Indonesian government, therefore, faces a conundrum. On the one hand, imports are important to industrialization and helping MSMEs scale up their business (Hasran et al., 2024). On the other hand, the government wants to protect local industries and farmers while maintaining a positive trade balance. One of the measures adopted by the Indonesian government to solve this problem is quota restrictions. These involve forecasting certain goods' aggregate supply and demand, then using the estimate to decide how many imports are allowed for each good. Agricultural products are particularly affected by this system (Amanta, 2021).

The old quota system has been mired in problems such as data inaccuracy, time-consuming bureaucracy, and corruption (Gupta et al., 2022). In 2022, the government introduced a new quota system called *Neraca Komoditas* (hereinafter referred to as NK), which translates to "commodity balance" (Patunru, 2023). This system was expected to cut red tape, improve the speed and certainty of quotas, guarantee availability of manufacturing raw materials, and increase the accuracy of data (Gupta et al., 2022). At its implementation in 2022, the system applied to sugar, salt, beef, rice, and fish. Maize, garlic, oil, and gas were added in 2024 and 2025 (Figure 1). The old quota system, however, is still being implemented to other commodities outside those that are regulated under the NK system.

Figure 1.
Commodities Regulated Under the NK System

Year	Year	Year
2022	2024	2025
Beef	Beef	Beef
Rice	Rice	Rice
Fish	Fish	Fish
Salt	Salt	Salt
Sugar	Sugar	Sugar
	Maize	Maize
	Natural Gas	Natural Gas
	Crude Oil	Crude Oil
		Garlic

Source: Government's official documents

This paper aims to evaluate the implementation of the NK system. First, it discusses the theoretical improvement intended through the NK and its timeline. It focuses on whether the system improves the bureaucratic processes for imports, quota certainty, and data accuracy. Second, this policy paper looks at the potential impact of the NK system on prices. Prices serve as indicators to evaluate whether the NK has succeeded in ensuring the availability of goods at stable and affordable levels for consumers and businesses alike. This paper employs trend analysis, a counterfactual using the synthetic control method, and autoregressive distributed lag (ARDL) analysis to see whether the prices of goods are affected by the NK system.

In addition, the paper serves as a guide for ongoing deregulation initiatives. The Indonesian government is currently streamlining regulations to improve the ease of doing business, access to Organisation for Economic Co-operation and Development (OECD), expand its Comprehensive Economic Partnership Agreement (CEPA), and to strengthen its position in trade negotiations, including with the United States under the Trump administration. In this context, the paper highlights the NK as one of the potential areas for deregulation in international trade.

This paper begins with a short description of the Indonesian quota management system to provide the rationale for a better system. It then discusses how well the new system improves the situation, followed by a quantitative analysis of its impact on prices. This paper ends with a conclusion and policy recommendations.

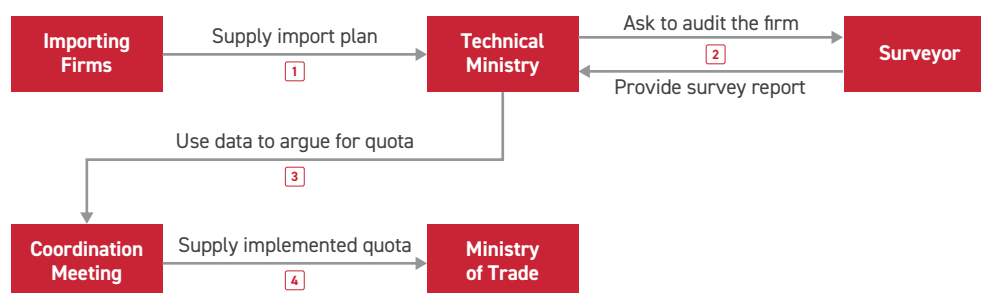
THE RATIONALE FOR THE COMMODITY BALANCE SYSTEM

The Old Quota System and Its Problems

Typical quota restriction policy in Indonesia is implemented in two stages: the planning stage and the implementation stage (Gupta et al., 2022), as seen in Figure 2. The quota is set during planning, which takes place a year prior to the implementation stage. During planning, meetings are conducted between the technical ministries: the Ministry of Trade (MoT), the Coordinating Ministry for Economic Affairs (CMEA), and the Coordinating Ministry for Food Affairs (CMFA). Technical ministries vary depending on the goods in question. For example, sugar involves the Ministry of Agriculture (MoA) and the Ministry of Industry (Mol). For fish and salt, the Ministry of Marine Affairs and Fisheries (MoMAF) is in charge instead of the MoA.

Typically, the upstream technical ministry (i.e., MoA or MoMAF) provides domestic production data (i.e., the supply side) while Mol and MoT provide forecasts of industrial use of raw materials and household demand based on submissions from importing firms. Using this information, the ministries set the quota for the next year—the implementation stage. These meetings are hosted by the CMFA or CMEA. Data discrepancies are a common problem at this stage, leading debates between technical ministries (Gupta et al., 2022).

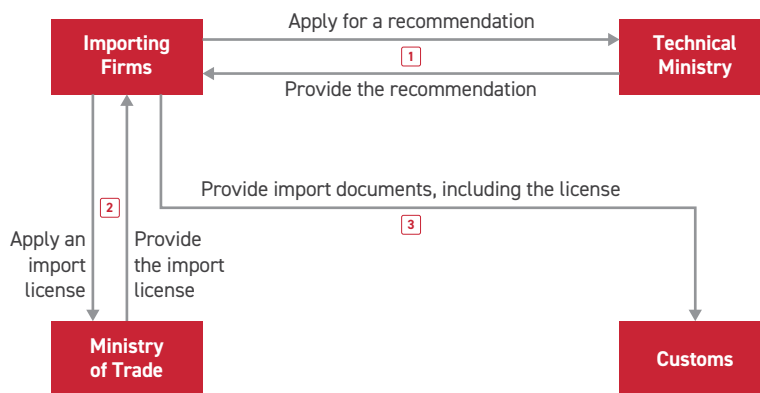
Figure 2.
First Stage Implementation of Import Licensing Procedures



Source: Gupta et al (2022)

The quota is then used as the basis for the implementation stage in the following year, as seen in Figure 3. Businesses seeking import quotas and permits were required to first obtain an Import Recommendation Letter from the relevant technical ministry. Importers inform the technical ministry of their import plan and their quota needs. The technical ministry then provides a technical recommendation letter with information about how large a quota is permitted. This recommendation served as a prerequisite to apply for an import permit (*persetujuan impor*, PI) from the MoT.

Figure 3.
First Stage Implementation of Import Licensing Procedures



Source: Gupta et al (2022)

The old quota system has been criticized for having some weaknesses:

- Lack of Data Integration:** The absence of an integrated database in the old quota system creates major challenges for inter-ministerial coordination, especially for commodities regulated by multiple ministries. Conflicting datasets often lead to disputes as ministries advance different stakeholder interests (Gupta et al., 2022; Hasran & Gupta, 2023). Salt imports, for example, have been a recurring point of contention between the MoI, which advocates for higher import quotas to meet manufacturing demand, and the MoMAF, which seeks to protect local salt farmers. Without a unified dataset, the resulting import quotas frequently failed to capture actual national needs (Interview 3).
- Data Inaccuracy:** The old quota system suffers from significant data inaccuracies. Supply data from the technical ministries often does not match the level of detail required by industry. When industries submit their demand plans, they are highly specific, down to HS code digits. For example, rice import demand can be reported as HS 1006.30.10 (Parboiled rice) or HS 1006.30.90 (Other semi-milled or wholly milled rice). In contrast, supply data from the technical ministry only distinguishes between broad categories such as “premium” or “medium” rice. This mismatch lead to an overestimation of domestic supply and, consequently, inaccurate quota allocations.
- Uncertainty in Quota Allocations:** It is often unclear whether importers will receive a quota even after submitting their demand plan and obtaining recommendations from the relevant technical ministries. The final decision rests with the MoT, which actually issues the import permits. Even after coordination meetings and the issuance of technical recommendations, the MoT may still apply its own considerations in determining the final quota. As a result, importers may receive a smaller quota than recommended, or no quota at all (Interview 3, Interview 5). These problems emerge because technical ministries and MoT do not use an integrated dataset as the basis for issuing quotas and import permits (Interview 4).

“Right now, producer data shows one thing, agricultural data says another, BPS data is different, and trade data is something else entirely. How can we plan effective policy when the data isn’t unified?”

“Right now, producer data shows one thing, agricultural data says another, BPS data is different, and trade data is something else entirely. How can we plan effective policy when the data isn’t unified? There’s been talk and some push in that direction, but it’s not strong enough: it simply hasn’t happened.”

Interview 4, with a former MoT official

- **Lack of Transparency:** In the old quota system, the quotas recommended by technical ministries and those approved by the MoT can be different from the amounts requested by importers (Interview 3). Neither the MoT nor the technical ministries provides explanations for these reductions, and the calculation process remains non-transparent.
- **Lengthy Bureaucracy:** Under the old quota system, importers are required to submit a demand plan and obtain a recommendation letter from the relevant technical ministry before applying for an import permit from the MoT. Securing these recommendation letters often consume valuable time, particularly for newer firms. The system was also burdensome because importers have to repeat the entire process, from preparing demand plans to applying for import permits, every time they wanted to import, even within the same year. This repetitive and time consuming process creates inefficiencies and adds uncertainty for businesses.
- **Corruption Behavior:** The uncertainty, lengthy bureaucracy and lack of transparency under the old quota system creates opportunities for corrupt behavior. Faced with unpredictable timing and quotas, businesses often seek to use informal networks to expedite the import permit administrative process and influence quota allocations (Hasran & Gupta, 2023). For example, in the case of salt imports, corruption in the form of bribery led officials from the MoI to set import quotas higher than what was actually needed by the industry (Dirgantara, 2022). Similar cases have been documented in various sectors, including the imposition of illegal fees in garlic imports (Aryan, 2022), corruption in beef importation (Patunru & Rahardja, 2015), lobster seed exports (Nindita, 2021), and a high-profile case involving crude palm oil exports (Achmad & Ni'am, 2023).

Quota uncertainty and import permit delays can also lead to supply constraints in the market, which drive commodity prices up (Amanta, 2021). In early 2020, Indonesian Commission for Supervision of Business Competition's investigation (Komisi Pengawas Persaingan Usaha or KPPU) found that delays in issuing garlic import permits caused garlic prices to shoot up 49% in retail markets (KPPU, 2020). KPPU attributed delays to the process of verifying the mandatory planting requirement before issuing the import recommendation and import permits.

The NK System and Its Objectives

The problems presented in the previous section justify the need for a better system. In 2022, through Presidential Regulation No. 32/2022, Indonesia introduced a new quota system known as the Commodity Balance System or NK (*Neraca Komoditas*). The NK is a dataset containing information on the demand and supply of specific commodities within a certain period, determined and applied nationally, for both final consumption needs and manufacturing inputs. If NK data show that demand exceeds supply, Indonesia will allow imports. Conversely, if supply exceeds demand in terms of both quantity and quality, imports will not be permitted (Gupta et al., 2022).

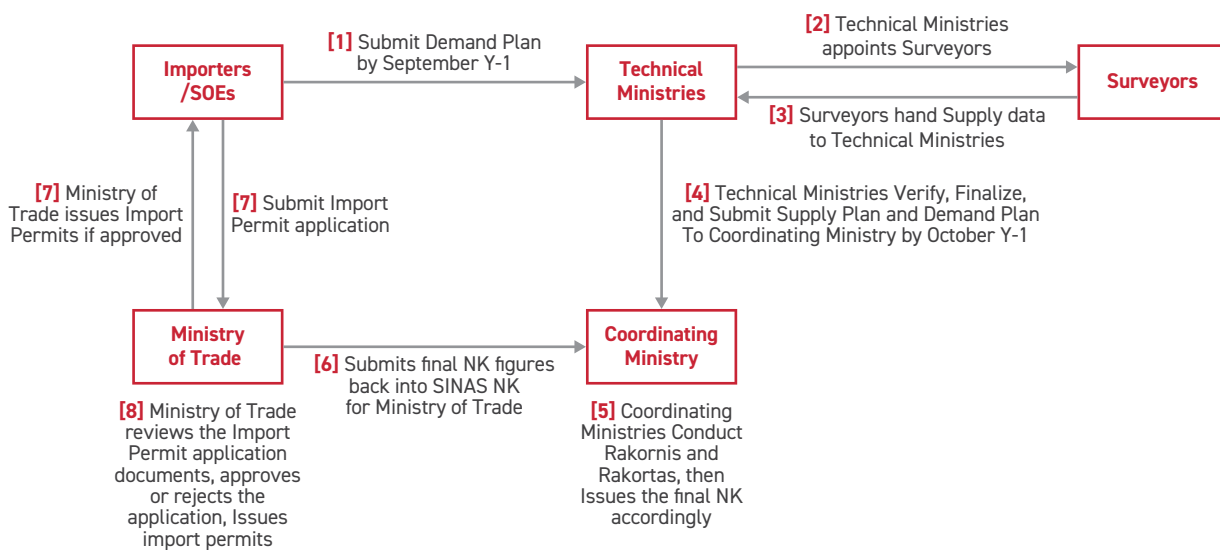
The process of quota and import permit application under NK is mostly similar to the old quota system. Figure 4 provides an overview of this process. One difference is that NK eliminates one stage in the import permit application process, a requirement for a recommendation letter from technical ministries. The requirement for this letter has long been criticized for lacking transparency, being inefficient, and creating rent-seeking opportunities (Hasran & Gupta, 2023). Another difference is that NK operates through a digital platform called SINAS NK (*Sistem Nasional Neraca Komoditas*), which is connected to all related ministries' electronic systems. In this way, all technical ministries and MoT have access to an integrated dataset that should help

shorten the import administration process, increase transparency and accuracy of import quota determination, and enable a more efficient *Rakortas* process (Interview 3).

“In the past, coordination meetings were just about reading out data. Each ministry would simply present its own figures, like the MoA or the Mol. Now, everything is recorded in the system. For example, Indonesia’s fish production or maize output is formally entered into the database. Ministries are more cautious about what they enter, compared to when they’re just asked to report something during a meeting. That has been our experience at the coordinating level.”

Interview 3, with CMFA

**Figure 4.
Standard Operating Procedure for the NK System**



Source: Presidential Regulation No. 7/2025, modified by the authors

There is also a mechanism for NK revision (*NK Perubahan*), which can be initiated under certain conditions such as (but not exclusively) natural disasters, non-natural disasters, new investments, and government priority programs.¹ NK revisions can be conducted once every three months or at any time if necessary (*ad hoc* submission). These *ad hoc* submissions must be initiated by the relevant technical ministries by considering input from businesses. The revision process follows the same steps as the initial NK submission: starting with the revised demand plan, then the revised supply plan, followed by *Rakornis*, and ultimately the *Rakortas*, before being approved by either the CMEA or the CMFA, depending on the regulated commodities. The key difference is that NK revisions do not have fixed deadlines. Businesses can submit their revised demand plan at any time it is needed. Technical ministries will then choose when to request *Rakortas* coordination, usually once they decide that there are enough firms requesting quota revisions (Interview 3). The coordinating ministries (CMEA and CMFA) will only approve the *Rakortas* revision when the number of requests from technical ministries is considered sufficient, as determined by the technical ministries.

¹ Article 24 of Presidential Regulation No. 7/2025 outlines specific conditions, including new submissions; changes to the proposed quantity in the demand plan, whether for commodities subject to or not subject to quarantine inspection; and resubmission of previously rejected demand plan proposals.

Despite being designed to address the problems of the old quota system, NK still operates as a quota system and can therefore be classified as a non-tariff measure (NTM) for restricting trade. Specifically, it represents a quantitative restriction on trade. Such restrictions often distort trade and reduce market efficiency. In practice, this means the NK system may continue to create uncertainty for businesses and limit competition. As a result, it risks harming the very stakeholders it is meant to protect, namely farmers and domestic industries, including MSMEs. These impacts will be discussed further in the next section.

QUANTITATIVE RESTRICTIONS: POTENTIAL IMPACT ON FARMERS AND DOMESTIC INDUSTRIES

The quota system is a type of quantitative restriction used by the Indonesian government to regulate trade in certain commodities, primarily agriculture. The quota system aims to control import volumes to ensure raw material availability for downstream industries, including MSMEs, while also protecting farmers' interests (Amanta & Wibisono, 2021).

Currently, Indonesia is transitioning between two quota systems. The NK system is used for commodities like beef, rice, salt, sugar, maize, fishes, garlic, and fuels, while the old quota system is used for remaining commodities outside what have been covered by NK. The old quota system requires importers to secure permits based on technical recommendations from sectoral ministries. This system is widely criticized for its lengthy bureaucratic procedures, lack of transparency, and rent-seeking practices (Gupta et al., 2022). Meanwhile the NK system is introduced as a reform to address these inefficiencies.

While the NK marks a structural improvement in Indonesia's trade governance by reducing the scope for rent-seeking, it is still essentially a quota system. As such, challenges like import delays and shortages are likely to persist.

If the risk of import delays and shortages persists under the NK system, the policy may undermine the industries it aims to protect. Shortages of affordable and high-quality imported intermediate inputs due to quota restriction will raise production costs and, in turn, weaken firms' competitiveness in the market. The food and beverage sector, which contributed 6.7% to Indonesia's gross domestic product in 2021 (Amanta, 2021; Hasran and Gupta, 2023), is among the most affected by such restrictions. Despite its scale, the industry continues to depend on imported raw materials, as domestic supply often cannot fulfill quality and quantity standards.

This negative impact will not be limited to large firms, but also affect MSMEs. While MSMEs rarely import directly, they rely heavily on imported intermediate inputs supplied by larger firms. As Hasran and Gupta (2023) emphasize, small firms typically source inputs from domestic suppliers who are direct importers. MSMEs are "price takers"—they do not have direct access to international markets and depend on the availability and affordability of imported goods within the domestic supply chains (Hasran & Gupta., 2023). When import flow is interrupted, the resulting cost increases are likely passed down to MSMEs, shrinking their profit margins and limiting their ability to expand.

This also means that MSMEs will not enjoy the full benefit of imports. Hasran and Gupta (2023) found that a 1% increase in imported intermediate inputs is associated with a 2.73% increase in output for small firms and a 4.53% increase for micro firms in the subsequent year. Value-

While the NK marks a structural improvement in Indonesia's trade governance by reducing the scope for rent-seeking, it is still essentially a quota system. As such, challenges like import delays and shortages are likely to persist.

added increases are even greater: 3.25% for small firms and 4.92% for micro firms, signaling substantial productivity improvements.

These gains also translate into higher wages, with a 1% increase in imports raising average wages by 4.4% for small firms and 5.07% for micro firms. While the study finds no significant change in the number of firms or workers, it clearly shows that imports enhance the efficiency and output of existing businesses and their employees.

Additionally, restrictions such as import quotas limit MSMEs' opportunities to learn and innovate. Innovation often arises from competitive pressure and the ability to replicate successful features of foreign products (Hasran et al., 2024). Exposure to imports enables MSMEs to benchmark against global standards, identify shortcomings in their own products, and adopt better practices through knowledge spillovers. Seker, Rodriguez Delgado, and Ulu (2018) emphasize that such learning processes can significantly improve product quality and operational efficiency. Improving import access equips MSMEs with better adaptability and efficiency to compete in the domestic market and expand internationally.

Two-thirds of farmers are net consumers of agricultural goods, spending more on food than they receive from their harvest.

Policymakers commonly claim that quantitative restrictions protect farmers. There is a common perception that Indonesian farmers cannot compete with Vietnamese or Thai counterparts due to higher production costs, and so imports from these more competitive sources must be restricted. However, Greenville (2018) found that removing NTMs from the Indonesian rice market will only reduce Indonesia's rice self-sufficiency from close to 100% to 90%. Hence, the argument that farmers will lose out if NTMs are eliminated is unwarranted. A 90% self-sufficiency rate indicates that the vast majority of domestic consumption can continue to be met by domestic production, in which farmers can actively participate.

Furthermore, farmers are also hurt by the high price of food. Two-thirds of farmers are net consumers of agricultural goods, spending more on food than they receive from their harvest. Studies estimate that 90.55% of rice farmers spend more on food than what they earn from selling their crops, meaning the quotas can worsen their economic conditions through higher food prices rather than providing protection (Amanta & Wibisono, 2021).

ASSESSING THE EFFECTIVENESS OF THE NK SYSTEM

As mentioned above, the NK system was introduced to address the weaknesses of the old system, and the government is optimistic about its success. In this section, we will assess whether this optimism has been warranted and examine what improvements have been made. The analysis will be based on an evaluation of whether the NK system has addressed the old quota system issues identified in the previous section.

Does NK Resolve the Lack of Data Integration?

Yes, it does. As under the previous regime, firms are required to submit their demand plans to technical ministries for verification. The key improvement under NK is that submissions are now made through SINAS NK, a centralized system accessible to all relevant ministries. This shared platform reduces the risk of selective interpretation or data manipulation by ministries (Interview 3). However, the transparency benefit is limited by the lack of visibility into whether technical ministries can change the submitted data, as was possible prior to NK (Interview 3). If companies truly receive quotas aligned with their verified submissions, then the system would mark a major improvement in policy predictability.

Furthermore, in the *Rakortas* under the NK system, all ministries now rely on the same verified dataset submitted and finalized in SINAS NK (Interview 5). This significantly reduces data fragmentation and minimizes the likelihood of opaque, behind-the-scenes negotiations over quotas among ministries with competing interests. Because data from all technical ministries originates from the same source, the SINAS NK, the coordination process becomes more efficient and less time consuming compared to the previous regime (Interview 2, Interview 3). In short, *Rakortas* under the NK system are more transparent and streamlined than those conducted before its implementation.

Does NK Address Data Inaccuracy in Bureaucratic Import Processes?

No, it does not. The NK system cannot ensure that the supply data provided by technical ministries accurately reflects supply at the national level. Although the data is collected by technical ministries based on input from producers and authorized statistical agencies, it is not presented in the HS Code structure. This creates a mismatch with the eight-digit HS codes used in demand data submitted by industries. In the HS system, each additional digit provides a more specific classification of the commodity. For example, the first four digits represent the general category (such as "raw sugar"), while the sixth and eighth digits provide further details such as type, form, or intended use.

"While export and import activities are already detailed on HS code, our domestic production is not yet capable of that level of detail. Our supply data remains aggregated. We are trying to collaborate with other ministries to overcome this detail, but reaching an 8-digit classification may not be feasible. For our farmers, for example, breaking down products into categories such as frozen meat or specifying paper by size is still very difficult."

Interview 3, with CMFA

Moreover, past supply data does not always reflect future supply. Real supply numbers can be influenced by external factors such as extreme weather or pest outbreaks, which may significantly reduce supply compared to initial projections. Although the government may try to anticipate these conditions, the accuracy of such forecasts is limited. If actual supply turns out to be lower than expected, the import quotas approved earlier may not be enough to meet industry needs. Since the NK system operates on an annual basis, industries must submit a revised NK application to adjust quotas, a process that is often lengthy and time-consuming.

In addition, when deciding quota allocation, the Rakortas does not take price into account. This means that no imports will be allowed if domestic supply is deemed sufficient to meet industry demand, even if domestic prices are relatively high (Interview 5). Access to more affordable raw materials would allow businesses to produce more competitive goods, both in the domestic market and for export.

Does NK Reduce Uncertainty in Quota Allocations?

No, it does not. Even though an industry may apply the quota once in a year under NK, there is still uncertainty of quota allocation due to data inaccuracy and quota revision problems. If the supply data inaccuracy causes overestimation of domestic supply, a quota may be reduced. Worst case, firms will not get their quotas.

Quota uncertainty under NK also occurs due to a problematic quota revision process under NK. While the NK revision serves as a corrective instrument to accommodate post-cycle changes, the process mirrors the rigidity of the main NK cycle. Each revision requires resubmission of demand and supply plans, followed by inter-ministerial verification, *Rakornis*, *Rakortas* approvals, and final authorization by the coordinating ministers. In effect, the NK revision process reactivates the entire bureaucratic chain, significantly reducing its responsiveness. For firms experiencing urgent input shortages or delayed project timelines, the wait for a revision can mean months of operational stalling with no guaranteed outcome.

A critical structural flaw here arises from the incentives of technical ministries, who are ultimately responsible for initiating revisions. Since *NK Perubahan* demands the same administrative effort as the annual cycle with no procedural shortcuts, ministries are reluctant to act on isolated firm requests. As mentioned earlier, revisions are often postponed unless multiple firms from the same industry raise complaints. This creates a threshold effect in which firms must wait for widespread disruption before ministries consider taking action. In doing so, technical ministries shift from proactive coordination to reactive gatekeeping, in opposition to NK's intended role as a responsive, data-driven tool.

"We submitted the demand plan revision back in December, but to this day it still hasn't been approved. We checked with the ministry, and they said it's because there hasn't been another Rakortas. From our perspective, the NK system makes things quite difficult since the approval process is too layered. We have to wait for the Rakortas, then for the quota to be issued, and only after that can we submit the import permit."

Interview 2, with Multinational Business in the Snack and Beverage Industry

In this case, the firm's only recourse is to wait for a quarterly NK revision to be convened by the technical ministries (Interview 2). However, such revisions are discretionary and may not be initiated if ministries deem the industry request to be too minor. As a result, technical ministries are implicitly incentivized to wait until complaints accumulate from multiple firms before justifying the administrative effort of initiating a revision process. This undermines the responsiveness of the system, forcing firms to endure prolonged input shortages that can halt production and delay market entry, despite having complied with all regulatory and investment requirements. Moreover, it introduces policy uncertainty, as firms cannot predict whether or when their demands will be acted upon.

Does NK Address Inefficiencies in Import Permits?

No, it does not. NK does not necessarily make trade bureaucracy more efficient. It is true that NK removed one step in the import permit application process—acquiring a recommendation letter from technical ministries (Gupta et al., 2022). In this way, NK eliminated one channel for rent-seeking through the trade bureaucracy.

NK does not necessarily make trade bureaucracy more efficient.

However, industries believe that the process of applying for an import permit under NK is still long enough to be burdensome. Industrial stakeholders interviewed for this policy paper mentioned that after the quota is granted, it takes around 10 to 30 days for the import permit to be issued, which is longer than the old quota system timeline (Interview 1, Interview 2, Interview 5). Industries argue that this waiting period is unnecessary because the MoT no longer needs to verify the data, as all processes from submitting demand plan and supply plan to *Rakortas* are already transparent and involve all technical ministries using a shared dataset (Interview 5).

“Over the past three years, it has taken between 10 and 34 working days from the conclusion of Rakortas to the issuance of import permits. This process should be faster through automatic import permit issuance, especially since there is nothing left for the MoT to review or revise. The earlier stages, from the submission of demand plans to the Rakortas are already thorough. In addition, the MoT does not have the authority to adjust the quota volume at this point.”

Interview 5, with Multinational Business in the Agricultural Trade and Services Industry

Does NK Address the Lack of Transparency in Import Bureaucracy?

No, it does not. While the NK has integrated data and streamlined the application process for import permits, it has not resolved the issue of transparency. It is still possible for firms to receive quotas smaller than their initial requests, and the NK provides no explanation for these reductions. This situation mirrors the shortcomings of the old quota system, leaving businesses uncertain about the basis of quota allocation.

“In the NK system, we may receive quotas lower than what we submitted in demand plans. There is a revision mechanism intended to increase quotas, but we are not given clarity on how quotas are calculated or why our requests were reduced.”

Interview 5, with Multinational Business in the Agricultural Trade and Services Industry

Does NK Reduce Opportunities for Corruption and Rent Seeking?

Yes, it does. Under the previous quota system, firms were required to obtain import recommendation letters from technical ministries before applying for permits at the MoT. This additional step created discretionary power, opening the door for corruption and rent-seeking and increasing the cost of doing business. Most corruption cases related to import-export quotas have been detected at this stage of the process. By eliminating the requirement for recommendation letters, the NK has removed one of the main entry points for corrupt rent-seeking behavior.

Nonetheless, the system is not fully safeguarded. Import permits are still issued manually by the MoT, allowing space for discretion in final decision-making. Unless the issuance of import permits is made automatic once quotas are approved, the potential for corruption and rent seeking will remain. Automating this process would close loopholes, strengthen transparency, and enhance business confidence in Indonesia's trade governance.

Table 1 provides an overview of the success of the NK in addressing the problems with the old quota system.

Table 1.
Summary Assessment of NK's Implementation

Problem in Old Quota System	Does NK Solve the Issues?
Lack of data integration – Led to long <i>Rakortas</i> and inaccurate quota allocation	Yes. Through SINAS NK, all technical ministries and MoT share the same data. This reduces <i>Rakortas</i> time and improves quota allocation.
Data inaccuracy – Supply data from technical ministries is not detailed enough to match industry demand (HS code level).	No. Supply data remains nonspecific and is unlikely to reach HS code detail, leading to continued quota inaccuracy.
Uncertainty in quota allocations – Industry needed to apply for quota and PI every time they import, with uncertain approvals.	No. Quota can now be applied annually, but inaccurate supply data still results in underestimated quotas. Quota revision is also more problematic under NK.
Inefficiency of bureaucratic processes – Importers had to obtain recommendation letters from technical ministries.	No. NK removed recommendation letters, but import permit (PI) issuance now takes longer (10–34 days).
Lack of transparency – Industries often received less quota than requested without explanation.	No. The problem persists; importers still do not know why their quota is reduced.
Rent-seeking opportunities – Arising from recommendation letters and PI issuance.	Yes. NK removed the recommendation letter, reducing rent-seeking potential. However, PI issuance remains discretionary and should be automated.

A qualitative assessment makes it clear that the NK system only partially addresses the issues in the old quota system.

The next section will examine whether this qualitative assessment is supported by a quantitative assessment. Specifically, it will test whether the NK system improves efficiency in bureaucratic

import processes and reduces quota uncertainty by using prices as the main indicator. The logic is that if NK makes import procedures more efficient, importers can bring in goods earlier, before prices rise during critical periods such as Ramadan or the New Year. This capacity would help stabilize prices and reduce volatility. In addition, if NK addresses quota uncertainty, the allocated quota should be higher than under the old quota system, which in turn is expected to further reduce price volatility.

NK POTENTIAL IMPACT ON MARKET PRICES

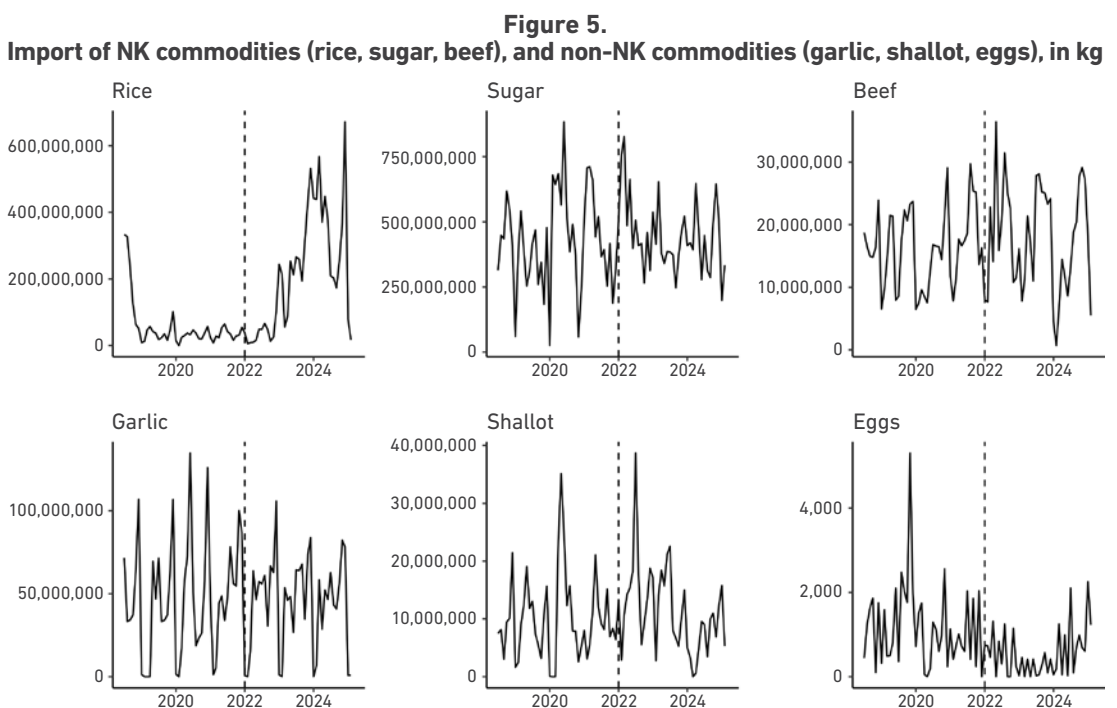
An examination of market prices based on the trends in import flows and price dynamics shows little indication that the NK system has improved the efficiency and quota certainty. The trend in import volumes did not change after the commodities were moved to regulation under the NK system. While rice imports appear to have increased post-regulation, this was largely driven by external factors such as El Niño.

Imports under the NK scheme also appear to have failed to transmit better international prices to the domestic market. Since NK implementation, international prices have declined while domestic prices continued to rise.

When it comes to the impact on price stability, different analytical approaches yield different conclusions.² Synthetic control analysis finds that rice and sugar prices failed to stabilize following the implementation of the NK scheme, while beef prices appear to have stabilized after its introduction. The autoregressive distributed lag (ARDL) analysis results find that NK has no clear effect on price levels.

Import Volumes Remain Unchanged Despite NK

It is important to observe how NK shapes the goods market, if it does so. One way to observe this is through the quantity of imported goods, comparing it before and after NK implementation, as well as with other goods not affected by NK. Figure 5 shows the import volume of six selected commodities, sourced from Statistics Indonesia (*Badan Pusat Statistik - BPS*), all in kilograms. The dashed vertical line indicates the start of NK, with a note that garlic, shallot, and eggs are not affected.



Source: BPS, processed by authors.

² Code and quantitative data supporting this study are available at <https://github.com/imedkrisna/nk2>

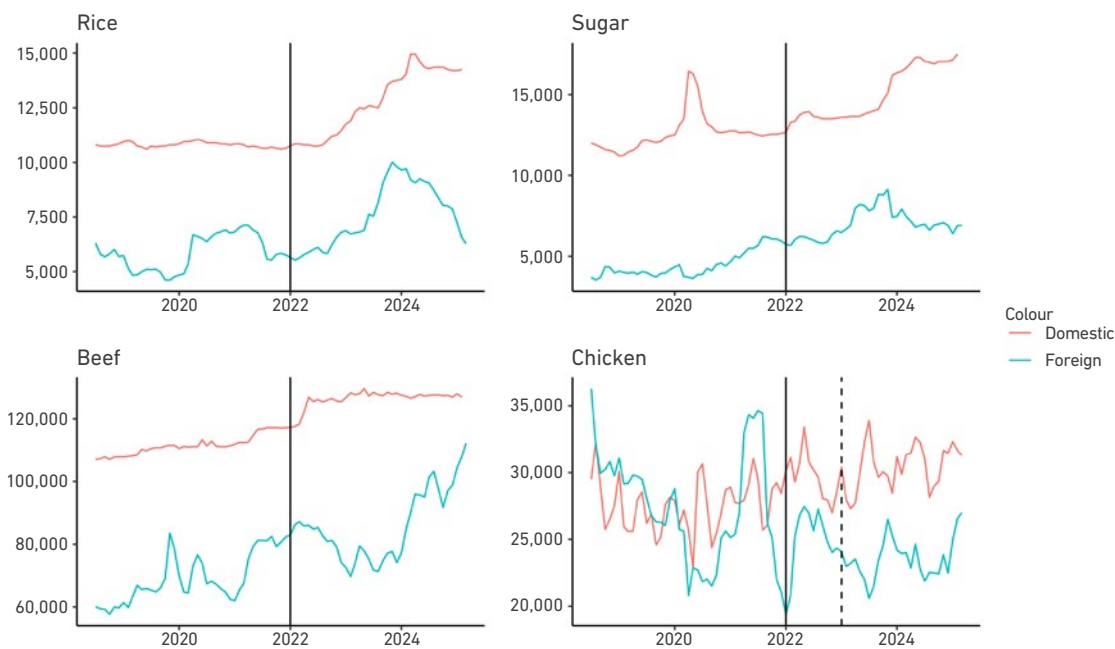
The figure shows no noticeable difference between NK goods and non-NK goods, nor between pre- and post-NK for NK-affected goods. As such, no quasi-experimental effect can provide insight into the effects of NK.

There is a significant jump in rice imports from 2022 onwards, but this is a reflection of the rice market condition more than the effects of NK. The El Niño weather phenomenon likely drove the import hike, as domestic production experienced disruptions (Meylinah, 2023). In other words, changes in market conditions likely matter more than NK to imports. This is the main challenge in examining the quantitative impact of the NK system on Indonesian commodity markets.

NK Fails to Transmit Global Price Trends in Domestic Market

Indonesian domestic commodity prices are typically more stable compared to international prices. Figure 6 compares domestic prices (red line) and international prices (blue line) across four key commodities. The domestic price uses National Strategic Food Price Information Center (PIHPS) wholesale market prices, while the international prices use the IMF Commodity Prices database and the World Bank Commodity Prices. The international prices are converted to Indonesian Rupiah per weight to make them comparable to the PIHPS price, using the median currency price from Bank Indonesia. The choice of commodities was made based on data availability.

Figure 6.
Comparison of Domestic versus International Prices for Rice, Sugar, Beef, and Chicken in Indonesia



Source: PIHPS, World Bank, and IMF, processed by authors.

Before the implementation of the NK system in 2022, domestic and international prices followed similar trends, reflecting a degree of market integration. However, this trend changed after 2022: where international prices began to fall, domestic prices continued to rise, particularly for rice and sugar in 2024. This divergence suggests the inability of NK to transmit declining international prices into the domestic market, weakening its role in dampening high and volatile domestic price.

The pattern looks even more striking in beef prices during 2022 and 2023. Domestic beef prices spiked in early 2022, coinciding with the Ramadan month. However, the decline in international beef prices soon after does not reduce the local price. This indicates that the timing and efficiency of imports under the NK system may be suboptimal, likely due to administrative delays or rigidities in the permit process.

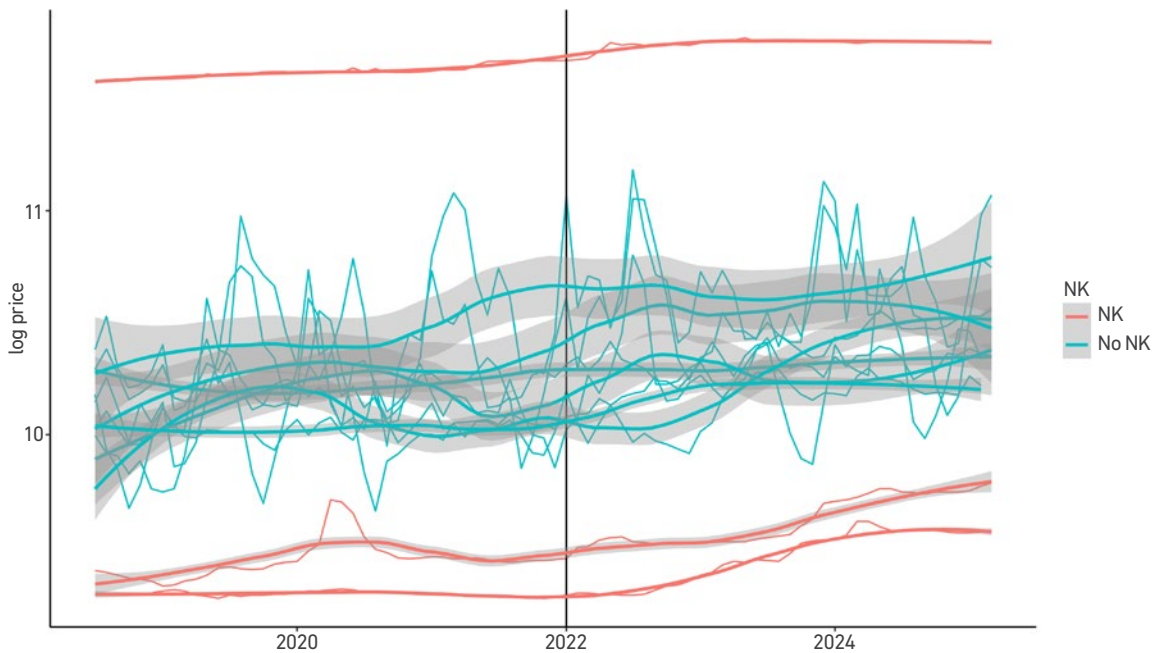
In contrast, the price movement of chicken meat, which is still imported under the old quota system, closely followed international prices before 2022. Since then, international prices have declined while domestic prices slightly increased, widening the gap. Note that Indonesia's chicken imports are very limited due to the domestic chicken industry's competitiveness. However, the poultry industry's production costs are heavily impacted by chicken feed price, which uses various imported products like maize and soybean. Maize was added to the NK system in 2023 (the dashed line), which is a major contributor to the price of domestic chicken. The divergence between the domestic and international price of chicken may well be caused by an increase in the maize price under the NK system.

No Evidence That NK Stabilizes Commodity Prices

The impact of the NK system on price stability can also be assessed by examining the level of price volatility for goods subject to the regulation. This analysis is then compared with the volatility of goods not covered by the NK during the same period. If the regulated goods exhibit lower volatility, it may suggest that the import arrangement under the NK system contributes to more stable prices.

Figure 7 illustrates price dynamics for selected agricultural products recorded in the PIHPS database. These products are categorized into two groups: those regulated under the NK system and those that are not. The topmost line represents beef prices, reflecting its position as the commodity with the highest price per kilogram. The bottom line shows rice prices, the middle red line represents sugar prices. The chart displays two types of price trends: actual observed prices and smoothed trends using the locally estimated scatterplot smoothing (LOESS) method, allowing for clearer visualization of longer-term price movements and volatility patterns (Cleveland & Devlin, 1988).

Figure 7.
Actual and Smoothed (LOESS) Price Trends of Selected Agricultural Products



Source: PIHPS, processed by authors.

At first glance, NK commodities such as beef, rice, and sugar, represented by red lines, display lower price volatility compared to the blue lines representing non-NK products. However, this lower volatility had already been observed prior to 2022, before these goods were regulated under the NK system. In other words, the implementation of NK does not appear to have altered the price volatility of these commodities.

On the contrary, this may have been a case of selection bias. These goods may have been selected for piloting NK because their prices are stable, suggesting a relatively mature import quota administration and a lower risk of failed migration to the new system. It is highly possible that sugar, rice, and beef trade administration has matured sufficiently to ease monitoring. Migrating the administration of these goods to the new system may simply transfer existing price stability.

This selection bias may lead to reverse causality in policy analysis: that NK may not cause price stability, but rather, commodities with more stable prices are prioritized for NK. If this is indeed the case, claiming that NK is “successful” in managing the goods trade is a misleading argument for expanding the system. The expansion of NK to commodities with inherently higher volatility and more complex market dynamics could pose great risks, as these products are more difficult to monitor and regulate.

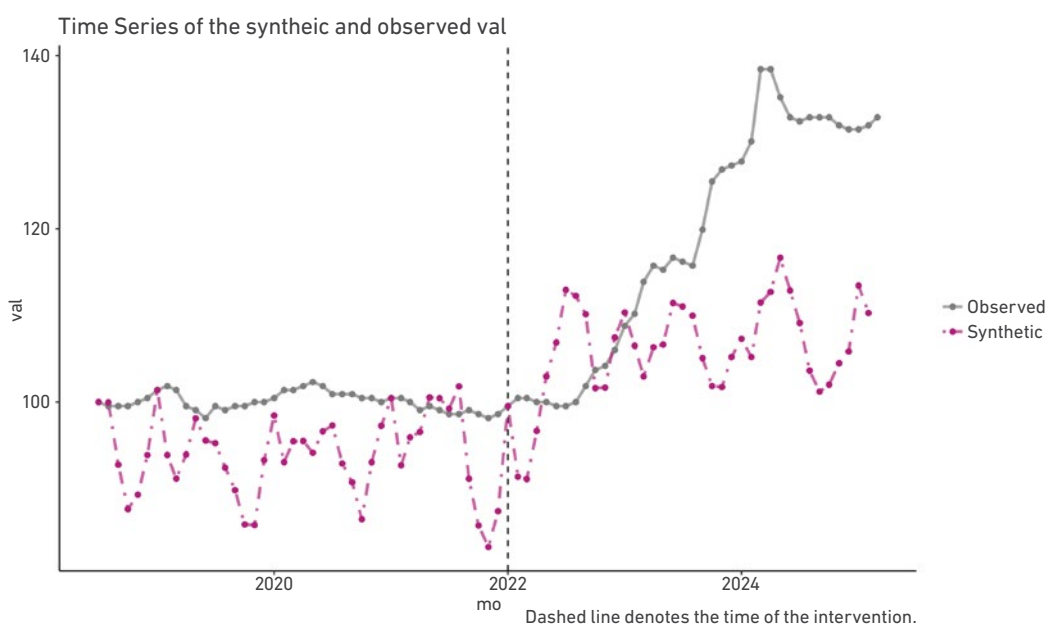
Without NK, Rice and Sugar Would Be Cheaper, While Beef Prices Would Be Higher

While useful, the previous illustrations do not decisively show how NK impacts Indonesian price stability. Cross-sectional variation in these markets may be too distinctive and with the available data and lack of an observable quasi-experimental effect, the before-after policy effect on prices cannot provide useful insight.

Employing the synthetic control method can mitigate this problem (Abadie, 2021). It allows for a comparison between the actual price trajectory of commodities after inclusion in NK and the estimated price trajectory had those commodities been excluded from NK during the same period. This method essentially creates a synthetic price of a given commodity from a combination of various commodity prices to mimic the behavior of the actual price of the commodity prior to the intervention—in this case NK implementation. The synthetic price acts as a counterfactual of what would have happened to the price of the commodity if it was not affected by NK. This price is compared with the price of the actual commodity affected by the NK. This method is applied to rice, sugar and beef. All prices are normalized to 100 at the beginning of the period, which starts in July 2017.

Figure 8 shows the synthetic control results for rice, where the synthetic price is represented by the purple line. If NK had a stabilizing effect on price, the actual price (shown by the dark-colored line) should remain similar to or lower than the synthetic price. However, the figure shows that prior to the implementation of NK, actual and synthetic rice prices closely followed the same trend while after NK came into effect, actual prices of rice began to rise faster than the synthetic trend. The lower synthetic line suggests that in the absence of NK, the price of rice would be lower and more stable.

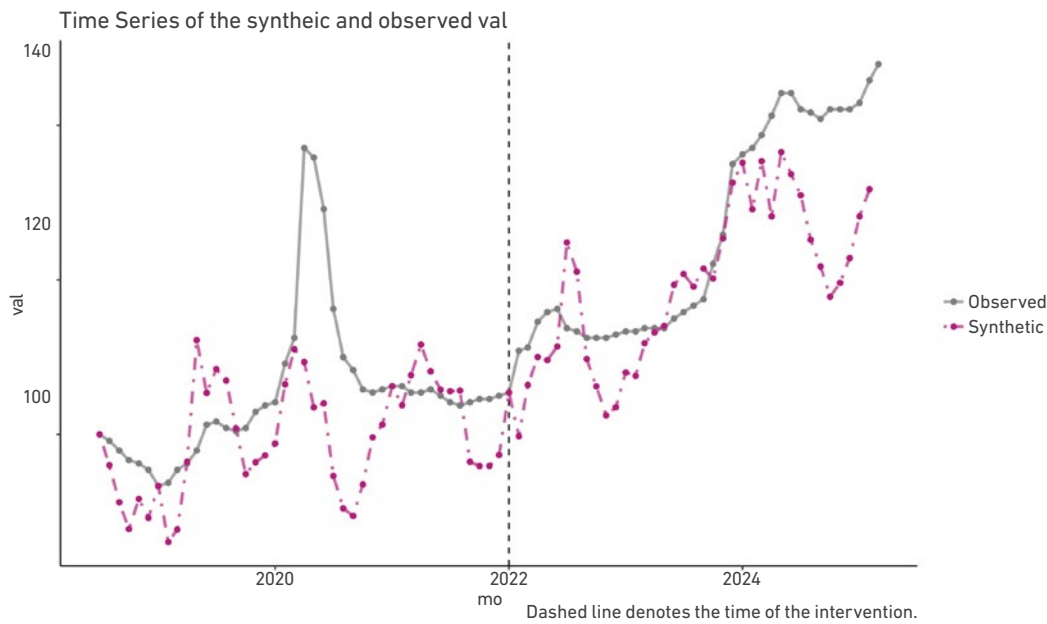
Figure 8.
Comparison of Actual and Synthetic Prices of Rice



Source: Authors' Calculation.

A similar pattern is observed in Figure 9, which compares the actual and synthetic prices of sugar. Before 2022, prior to NK implementation, the actual and synthetic price tracks closely, indicating that market conditions were relatively predictable. Following the introduction of NK in 2022, the synthetic price tracks the actual price of sugar closely, which signifies a neutral NK. However, in 2024, the actual price of sugar began to exceed the synthetic price.

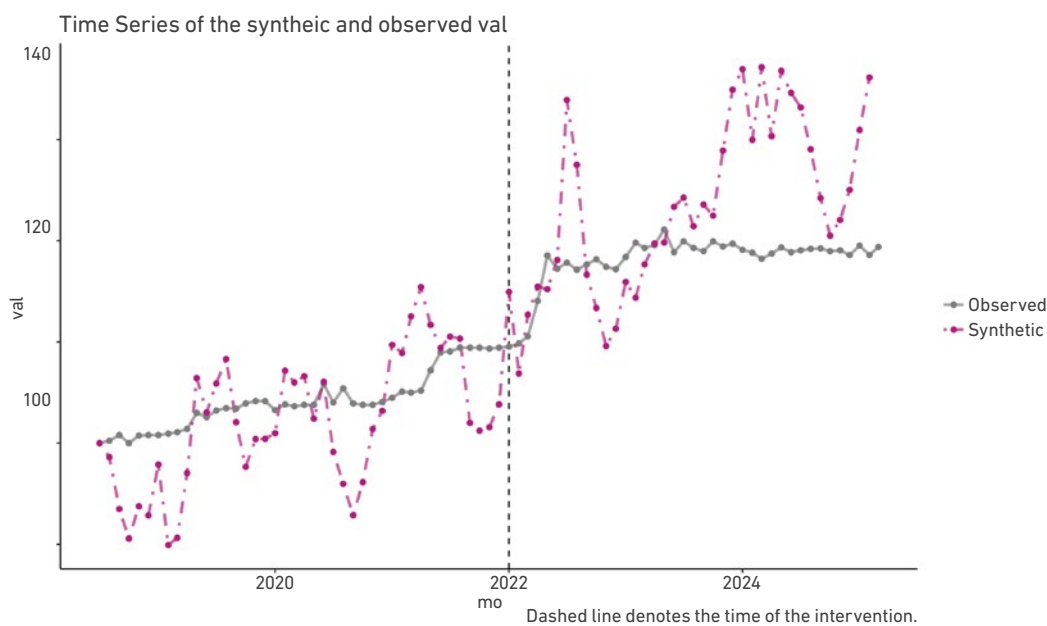
Figure 9.
Comparison of Actual and Synthetic Prices of Sugar



Source: Authors' Calculation.

A different observation is found in the case of beef. Figure 10 shows that NK has been more effective in controlling price volatility compared to the period before the NK regime. Prior to 2022, both actual and synthetic prices followed a similar upward trend. However, after NK was implemented in 2022, the actual price remained relatively stable, while the synthetic price, which reflects a scenario without NK continued to rise and fluctuate widely. This suggests that NK may have helped to curb price increases and volatility in the domestic beef market.

Figure 10.
Comparison of Actual and Synthetic Prices of Beef



Source: Authors' Calculation.

The synthetic price estimates for beef do not closely mirror the actual price trends before NK was implemented. The synthetic prices remain somewhat volatile and do not fully capture the observed historical patterns. This suggests that the variables used to construct the synthetic prices, such as other domestic commodity prices, international benchmark prices, exchange rates, and the consumer price index, may not be sufficient to produce an accurate counterfactual. Ideally, the model would include prices of the same commodity in other countries rather than relying on different commodities within the same domestic market. However, there is limited availability of detailed country level price data beyond international reference prices from open-access sources such as the IMF and the World Bank.

Statistically, NK Has No Significant Impact on Price Stability

The synthetic control analysis is then complemented with a time-series method. The focus here is on the time-series variation of each market, using food price index and currency as a vector of covariates for all commodities. A dummy variable is added to signify January 2022, the NK start for all commodities. This dummy variable should not be significant for NK goods, but significant for non-NK goods. The Autoregressive Distributed Lag (ARDL) model is applied amid different levels of stationarity across variables (Pesaran et al., 2001).

The ARDL regression results presented in Table 2 show that the NK variable has no statistically significant effect on the prices of the regulated commodities, namely rice, sugar, and beef. This indicates that the implementation of NK did not lead to a statistically measurable increase or decrease in the prices of these products. In other words, according to this analysis NK has not played a meaningful role in influencing prices in the domestic market, and its impact on stabilizing prices remains unproven based on the available data.

Table 2.
ARDL Result of Price Impact of NK system

Term	Statistic	Rice	Sugar	Beef	Chicken	Egg	Shallot	Chili
Intercept	estimate	-0.257 (0.393)	-1.896* (0.939)	0.819 (0.621)	8.103*** (2.159)	5.303** (1.569)	1.099 (4.570)	0.982 (6.670)
ihk	estimate	0.054 (0.059)	0.302* (0.116)	0.039 (0.035)	0.460 (0.609)	0.427* (0.181)	0.326 (0.560)	8.307** (2.619)
kurs	estimate	0.053 (0.049)	0.663*** (0.114)	-0.036 (0.033)	0.117 (0.222)	0.011 (0.179)	0.214 (0.544)	-0.703 (0.788)
nk	estimate	0.002 (0.007)	0.031 (0.024)	0.000 (0.007)	0.008 (0.023)	-0.099* (0.049)	0.010 (0.074)	-0.180+ (0.100)
Num.Obs.		78	78	76	77	78	78	79
R2		0.991	0.971	0.993	0.751	0.844	0.648	0.545
R2 Adj.		0.990	0.968	0.991	0.713	0.829	0.624	0.513

Note: Standard errors are reported in brackets

Source: Authors' Calculation

The summary of the estimated effect on prices and import volume of NK implementation is illustrated in Table 3.

Table 3.
Summary of the Impacts of the NK System

Aspect	Methods	Observation
Import Volumes	Trend analysis	<ul style="list-style-type: none"> • No significant change in import volume trend after NK implementation. • Rice import increased but due to El Niño, not NK.
Food Prices	Trend analysis	Prices have failed to stabilize post-NK regulation.
	Counterfactual	Mixed results: <ul style="list-style-type: none"> • Fail to stabilize rice and sugar prices • Succeed to stabilize beef price
	ARDL Analysis	No statistically significant impact of NK on rice, sugar, or beef prices.
Conclusion		Little evidence that NK improved administration of import/export or contributed to price stabilization.

CONCLUSION AND POLICY RECOMMENDATIONS

This paper evaluates the implementation of Indonesia's NK system as a reform to streamline bureaucratic import processes. The old quota system suffers from weak data integration, inaccurate supply information, quota uncertainty, inefficiency, lack of transparency, and opportunities for corruption and rent-seeking practices. NK is introduced as an integrated dataset on supply and demand for specific commodities, aiming to address these problems. It has improved inter-ministerial data integration, reduced opportunities for rent-seeking by eliminating recommendation letters, and helped accelerate decision-making in *Rakortas* and *Rakornis* meetings. These features make the system more resistant to rent-seeking practices compared to the old quota regime.

The government should consider ending quota restrictions, including the old quota system and NK, as the basis for issuing export and import licenses.

Despite these improvements, the NK system continues to face significant challenges. Data remains too general where supply figures are not detailed to the HS Code level and lack usage specifications, making it hard to align permits with industry demand. Quota uncertainty persists because supply estimates can underestimate demand, while revisions are slow and unpredictable. The permit issuance process is not consistently faster, and transparency remains limited as importers are rarely told why quotas are reduced. Ultimately, NK still functions as a quota restriction that reduces flexibility, raises risks of higher food prices, and affects MSMEs and farmers who are net consumers.

Quantitative analysis shows little evidence that NK has improved efficiency or stabilized prices: import flows remained unchanged, international prices were not transmitted to domestic markets, and econometric findings suggest mixed or insignificant effects across commodities.

This policy paper offers the following recommendations:

Ultimately, the government should consider ending quota restrictions, including the old quota system and NK, as the basis for issuing export and import licenses.

- The old quota system has been hindered by several issues and NK does not solve most of these issues, which are inherent to quota systems and cannot be eliminated by better design.
- Indonesia's accession to OECD, expanding CEPA network, establishing trade deals with the US, and efforts to diversify trade make quota restrictions like the NK increasingly irrelevant. Instead of facilitating trade, NK's rigid limits create uncertainty and inefficiency. This frustrates Indonesia's goals of openness, transparency, and competitiveness. To align with OECD standards and strengthen new trade partnerships, Indonesia should move away from quota-based restrictions toward policies that ease trade flows and support business certainty.
- Supply data in the old quota system and NK is often inaccurate and unlikely to be improved to the level of detail required. Relying on such flawed data for quota decisions creates risks and can harm industries. A market-based import regime would be more effective, as industries know their own needs, sources, and timing. They also have no incentive to over-import, since they would bear the cost of unused imports rather than only benefitting from higher availability.

While the NK system remains in place, substantial reforms are needed to reduce some of its issues:

- The MoT should make the issuance of import permits more automated. Given that the data submitted through SINAS NK is already integrated across ministries and has passed through *Rakortas*, the MoT should not conduct prolonged internal assessment to issue import permits. The demand plans submitted in the NK system are more comprehensive than those under the previous regime, reducing the need for extended verification. An automated issuance of import permits will significantly improve business certainty and reduce importers' burden. It will also make their system more resilient to rent-seeking behavior.
- The CMEA and the CMFA should refrain from adding more commodities into the NK system, especially more complex goods like electronics and automotive components, without thoroughly evaluating its current performance. The specifications of these products are diverse and complex, making them difficult products for the system to accommodate effectively. Assessing how the system has worked for the current batch of commodities is crucial before expanding its scope.
- Coordinating ministries and relevant technical ministries should conduct firm-level surveys to monitor the time it takes for companies to submit and receive import quotas and import permits. These surveys should identify which stages cause the most delays and which ministries are responsible for them. By diagnosing bottlenecks in a data-driven manner, the government can take targeted actions to improve the efficiency and accountability of NK implementation.
- The NK revision process must be simplified. Lengthy revision procedures, especially for firms investing in new production facilities, are highly inefficient and risk discouraging investment. Requiring coordinating ministries to sign off on revisions again after *Rakortas* is redundant and should be removed. Once quotas are approved through the inter-ministerial coordination process, they should not need to be revalidated at a higher level.

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ABOUT THE AUTHORS

Hasran is Senior Research and Policy Analyst at CIPS. He has worked as a Research Assistant for Domestic Economic Integration at the National Planning Ministry (Bappenas) and a Research Consultant for the Trade Attaché at the Indonesian Embassy in Canberra.

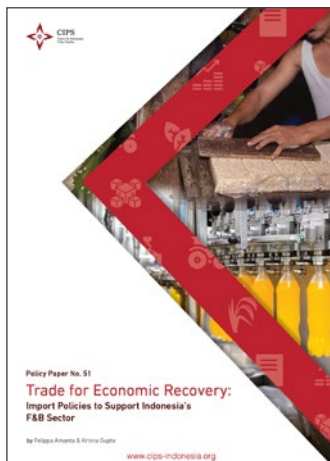
Krisna Gupta is Senior Fellow at CIPS. He is an economist who uses various types of panel data regressions and other quantitative tools to evaluate international trade and investment policies as well as Indonesian manufacturing growth. He holds a Ph.D. from Crawford School of Public Policy, Australian National University, and two Masters's degrees in economics from Universitas Indonesia and VU University Amsterdam. In 2019, he was awarded the Hadi Soesastro Prize by the Australian government for his outstanding academic excellence in Indonesian development research.

Rasya Athalla Aaron is Research and Policy Associate at CIPS. He graduated with a Bachelor of International Relations from Parahyangan Catholic University (UNPAR) in 2023. Before joining CIPS, he interned at CIPS on the research team and for the Badan Riset dan Inovasi Nasional's Deputy for Research and Innovation Infrastructure, worked freelance in the entertainment industry, volunteered for the Indonesian Deaf Basketball community, and actively served in his university's student executive body.

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