

THE IMPACT OF ECONOMIC NATIONALISM POLICIES ON GLOBAL COOPERATION: A CASE STUDY OF THE COVID-19 PANDEMIC

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Abstract

This study analyzes the impact of Indonesia's economic nationalism policy on global cooperation during the COVID-19 pandemic. By implementing policies such as import restrictions, domestic sector incentives, and local product promotion, Indonesia aims to protect the national economy and reduce dependence on foreign products. Although these policies help strengthen the domestic economy, their impact on international trade relations and foreign direct investment (FDI) is quite significant. The decline in FDI in 2020 and tensions with trading partners related to protectionist policies are major challenges for Indonesia's global economic cooperation. This study uses a qualitative approach with data collection techniques through literature studies and analysis of government policy documents, as well as secondary data from scientific articles and international reports. The results of the study indicate that Indonesia's economic nationalism policy provides short-term benefits for economic stability, but poses risks to international competitiveness and long-term economic cooperation.

Keywords: *Economic nationalism, Global cooperation, COVID-19 pandemic*

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1. Introduction

The COVID-19 pandemic has had a major impact on the global economy, including Indonesia, with disruptions to the trade, investment and product demand sectors (Sihombing et al., 2022). Restrictions on international and national mobility have resulted in a significant decline in tourism and global trade. Indonesia's economy has contracted sharply, with economic growth declining to -2.1% by the end of 2020, while unemployment has increased from 5.23% to 7.07%, and the poverty rate has risen to 10.19%. The micro, small and medium enterprise (MSME) sector has also been hit hard, with most businesses experiencing a significant decline in revenue (Bate'e et al., 2022). In response to the economic impact of the pandemic, the Indonesian government has implemented economic nationalism policies to protect the domestic economy. These policies include import restrictions to reduce dependence on foreign products, as well as providing incentives and business capital assistance to support the MSME sector. In addition, the government is focusing on strengthening strategic sectors such as health, education, and information technology to strengthen economic resilience. These policies aim to support post-pandemic economic recovery and maintain national economic stability in facing global challenges (Pati, 2020; Ssenyonga, 2021).

During the COVID-19 pandemic, Indonesia has implemented a more protectionist economic nationalism policy, with the aim of protecting domestic industries and reducing dependence on imports. This policy includes the implementation of local content requirements and "downstreaming" policies to increase the added value of domestic products (Fossati, 2021). The government is also trying to increase the competitiveness of local products through product

nationalism branding (Gede Wahyu Wicaksana, 2021). Although this policy supports the domestic economy, its impact on global economic cooperation is quite significant, especially in international trade. Increased protectionism can cause tensions with trading partners and international organizations such as the WTO, although Indonesia remains active in regional economic cooperation forums such as ASEAN to maintain a balance between nationalist policies and global economic integration (Wicaksana, 2018).

On the other hand, this economic nationalism policy can also reduce Indonesia's attractiveness to foreign investors, due to regulatory uncertainty and tighter protectionism. However, the government is trying to attract investment by offering incentives and improving infrastructure (Anwar, 2023). Indonesia's international cooperation in dealing with the pandemic, such as the procurement of vaccines and medical equipment, shows a selective approach that continues to try to reduce dependence on imports. However, the pandemic has also highlighted Indonesia's dependence on global supplies of goods and services, which remains a major challenge in maintaining economic stability and the sustainability of domestic industry (Wie, 2018).

This study aims to explore the impact of economic nationalism policies implemented by Indonesia during the COVID-19 pandemic on global cooperation. This study will analyze how policies such as import restrictions, incentives for the domestic sector, and prioritization of local products affect Indonesia's economic relations with its trading partner countries. In addition, this study also aims to understand how these policies affect Indonesia's participation in international cooperation, both in the context of global economic recovery and collaboration to deal with the pandemic.

This research is very relevant to provide a deeper understanding of the relationship between domestic economic policies and international cooperation in dealing with global crises such as the pandemic. In the Indonesian context, the economic nationalism policy implemented during the pandemic created new dynamics in international economic relations, which need to be analyzed to understand its impact on the global economy and Indonesia's international partnerships. This research contributes to the literature that discusses the role of economic nationalism in the context of globalization, providing insight into how developing countries such as Indonesia navigate global challenges with economic policies that focus on domestic interests.

2. Literature Review

a. The Concept of Economic Nationalism

Economic nationalism can be defined as a set of practices aimed at creating, strengthening, and protecting a national economy in the world market. The theory of economic nationalism combines the political and economic power of the nation-state, where economic modernization, especially industrialization, requires a strong state, which derives its power from the nation itself (Nakano, 2004; Pryke, 2012). Economic nationalism policies often include protectionism, industrial policy, and Keynesian policies aimed at strengthening the domestic economy. The main goal is to create a strong state that can determine economic priorities and formulate appropriate policies, in response to global economic imbalances and increasing competition (Reznikova et al., 2018).

Although often associated with protectionism, economic nationalism is not identical to protectionism. Protectionism is only one instrument in economic nationalism, which also includes industrial policy and domestic demand stimulation. Economic nationalism policies aim to protect and strengthen the domestic economy through trade and industrial policies, such as tariffs and import quotas to protect domestic industries, and subsidies and incentives to increase industrial competitiveness in the global market. In addition, this policy also focuses on stimulating domestic demand through fiscal and economic policies to strengthen the foundations of the national economy and increase competitiveness in the international market (Chow, 2020; Rizopoulos, 2020)

b. Indonesia's Economic Nationalism Policy During the COVID-19 Pandemic

During the COVID-19 pandemic, the Indonesian government implemented various economic nationalism policies to maintain national economic stability. Large economic

stimulus policies were allocated to handle the pandemic, including restructuring the budgets of ministries and institutions to focus on handling COVID-19 (Olivia et al., 2020). The government also provides support for Micro, Small, and Medium Enterprises (MSMEs) that have experienced a drastic decline in income. In addition, Indonesia has implemented import restrictions to reduce dependence on foreign products and encourage domestic production, which aims to ensure the availability of essential goods and strengthen national economic resilience amid global supply chain disruptions (Sihombing et al., 2022).

In addition to import restrictions, other policies taken are to encourage domestic production and consumption. The government promotes local products and provides incentives for domestic industries to increase production. Social assistance and economic stimulus programs are also implemented to support domestic consumption of people affected by the pandemic (Jiuhardi et al., 2021). In facing global challenges, the Indonesian government has implemented Large-Scale Social Restrictions (PSBB) and Enforcement of Community Activity Restrictions (PPKM) to control the spread of the virus, although this has an impact on economic activity. The government is also trying to gradually reopen the economy by implementing strict health protocols in the 'new normal' era, as part of its commitment to maintaining national economic resilience amidst the uncertainty of the pandemic (Saputra & Ariutama, 2021).

c. The Impact of Economic Nationalism on Global Cooperation

Economic nationalism has a significant impact on global cooperation, especially in terms of international trade and investment flows. Protectionist policies implemented by some countries can hinder global trade and reduce foreign investment flows. This is reflected in the inability of the World Economic and Monetary Conference in London to reach a significant agreement, indicating increasing tensions between countries. In addition, economic nationalism has the potential to create global systemic risks, where protection of national interests can increase instability in the international financial system, thereby affecting global interdependence that is crucial for economic growth (Borlini, 2020; Obstfeld, 2021).

On the other hand, economic nationalism also affects international collaboration in tackling the COVID-19 pandemic, hindering fair and equitable distribution of vaccines. Rising nationalist sentiment can reduce trust between countries, hindering cooperation in the health and technology sectors. For example, initiatives such as China's Belt and Road (BRI) show how nationalist sentiment can affect countries' views on international cooperation. Therefore, it is important to find a balance between national interests and the need for global cooperation, so that global challenges such as the pandemic can be addressed together more effectively (Bonifai et al., 2022; Ertug et al., 2024; Liu & Parenti, 2019).

d. Theory of International Cooperation and Global Economy

The theories of interdependence, economic cooperation, and globalization offer important frameworks for understanding the impact of economic nationalism policies on international cooperation. Interdependence theory emphasizes that countries are interdependent on each other in economic and political aspects, which can affect global stability. Although economic nationalism policies tend to prioritize domestic interests and can hinder international cooperation, high economic interdependence still encourages countries to cooperate. Countries need each other's cooperation to maintain economic and political stability, especially in the face of global challenges such as climate change or health crises. The process of globalization also creates mechanisms for transnational interaction that mediate internal state debates and can reduce tensions between states, reducing the risk of military conflict (Farrell & Newman, 2014; Gartzke et al., 2001).

However, the main challenge in international cooperation amidst economic nationalism policies is the inability of countries to reach mutually beneficial agreements. Unilateral policies and uncoordinated decisions can increase the risk of conflict and reduce the effectiveness of international cooperation (Nadtochey, 2020). However, opportunities remain because global challenges cannot be solved by one country alone, such as climate change and the global health crisis. Closer cooperation and better coordination can help countries address common problems more effectively (Delabarre, 2021; Suzuki, 1994).

Therefore, although economic nationalism may create obstacles, the need to address larger global challenges may encourage countries to coordinate and cooperate within a global framework.

3. Method

This research method uses a qualitative approach with data collection techniques through literature studies and document analysis. Primary data is obtained from the official policies of the Indonesian government regarding economic nationalism during the COVID-19 pandemic, while secondary data is taken from scientific articles, reports from international institutions, and previous studies relevant to the research topic. The researcher will analyze how economic nationalism policies impact international cooperation and Indonesia's global trade relations during the pandemic. Data sources also include policy reports from related ministries, such as the Ministry of Finance and the Ministry of Trade, as well as international organizations such as the WTO and ASEAN to gain an understanding of global reactions to Indonesia's protectionist policies (Alunaza et al., 2023; Jannah Dinonasih et al., 2023).

In data analysis, the researcher will use thematic analysis, which aims to identify key themes emerging from the literature related to economic nationalism and global cooperation. This analysis will focus on how import restriction policies, domestic incentives, and reducing dependence on foreign products affect Indonesia's economic relations with its trading partners. This study will also explore the impact of these policies on foreign direct investment (FDI) and Indonesia's attractiveness to global investors. Thus, this study provides not only descriptive but also interpretive analysis, exploring the implications of economic nationalism in the context of globalization and post-pandemic economic recovery.

4. Results and Discussion

During the COVID-19 pandemic, Indonesia's economic nationalism policy is reflected in a series of regulations and strategic steps aimed at protecting the domestic economy and strengthening national economic resilience. One of the main policies implemented is Presidential Regulation No. 54 of 2020 concerning the Acceleration of Handling COVID-19 (Presidential Regulation No. 54 of 2020 concerning Changes in the Posture and Details of the 2020 State Budget., 2020). This regulation aims to increase economic resilience by focusing the state budget on handling the pandemic in various sectors, including health, economy, social, and state stability. Through this regulation, the government also allocates a large amount of funds to support Micro, Small, and Medium Enterprises (MSMEs) affected by the pandemic, with various stimulus policies to strengthen this sector.

In addition, the government also issued Government Regulation No. 23 of 2020 concerning National Economic Recovery (PEN)(Government Regulation (PP) Number 23 of 2020 Concerning the Implementation of the National Economic Recovery Program in the Framework of Supporting State Financial Policy for Handling the Corona Virus Disease 2019 (COVID-19) Pandemic and/or Facing Dangerous Threats, 2020), which aims to provide assistance to sectors affected by the pandemic and protect domestic industries from the negative impacts of the global crisis. Through this policy, the government allocates a large budget for economic recovery programs that include direct support for critical sectors, as well as providing subsidies to reduce the burden on MSMEs. On the other hand, Law No. 11 of 2020 concerning Job Creation is here with the aim of simplifying regulations to increase domestic investment and accelerate domestic economic development. Although controversial, this law includes policies that support reducing regulatory barriers and provide incentives for strategic industries and MSMEs to grow (Law (UU) Number 11 of 2020 concerning Job Creation, 2020).

Another policy that is also important in the context of Indonesian economic nationalism during the pandemic is the Regulation of the Minister of Trade No. 25 of 2020 concerning Import Restrictions (Minister of Trade Regulation Number 25 of 2020 concerning the Company's Annual Financial Report, 2020). The goal of this policy is to reduce dependence on foreign products and encourage domestic production, with a focus on increasing incentives for

industrial sectors that support the availability of domestic essential goods. Finally, Presidential Instruction No. 6 of 2020 concerning the Procurement and Distribution of COVID-19 Vaccines is an important part of the economic nationalism policy by reducing dependence on vaccine imports. This instruction prioritizes efforts to produce domestic vaccines through collaboration with local pharmaceutical companies, as well as ensuring equitable distribution of vaccines throughout Indonesia (Presidential Instruction (Inpres) Number 6 of 2020 Concerning Improving Discipline and Law Enforcement of Health Protocols in the Prevention and Control of Corona Virus Disease 2019, 2020). Through these policies, the Indonesian government seeks to optimize domestic potential and strengthen economic competitiveness amidst global challenges due to the pandemic. To be clearer, it is presented in the following table:

Table 1: Indonesia's Economic Nationalism Policy during the COVID-19 Pandemic

No.	Regulations/Laws	The main purpose	Policy Contents
1.	Presidential Decree No. 54 of 2020	COVID-19 response and economic stability	Allocation of funds for pandemic response and economic recovery.
2.	PP No. 23 of 2020	National Economic Recovery (PEN)	Assistance for affected sectors, subsidies for MSMEs, and support for critical sectors.
3.	UU no. 11 of 2020 (Job Creation)	Economic reform and ease of investment	Simplification of business permits, incentives for strategic industries, and reduction of regulatory barriers.
4.	Minister of Trade Regulation No. 25 of 2020	Import restrictions and increased domestic production	Restrictions on imports of certain goods and incentives for domestic production.
5.	Presidential Instruction No. 6 of 2020	Domestic vaccine production and vaccine distribution	Encourage domestic vaccine production and ensure equitable distribution.

These policies overall focus on efforts to strengthen national economic resilience, protect domestic industries, and reduce dependence on imports during the COVID-19 pandemic. While these policies are designed to meet domestic needs, they also seek to maintain a balanced relationship with global cooperation in dealing with the health and economic crisis.

The economic nationalism policy implemented by Indonesia during the COVID-19 pandemic has had a significant impact on global cooperation, especially in the context of international trade and foreign direct investment (FDI). The policy of restricting imports, incentives for the domestic sector, and promoting local products has indeed helped boost the domestic economy, but has also created challenges in trade relations with partner countries (Alunaza et al., 2023; Jannah Dinonasih et al., 2023).

a. Impact on International Trade

The economic nationalism policies implemented by the Indonesian government during the pandemic, such as import restrictions to reduce dependence on foreign products, have had a direct impact on the volume of international trade. Based on data from the Central Statistics Agency (BPS), imports of consumer goods fell by 17.3% in 2020 compared to the previous year, in line with the government's policy to increase the use of local products. On the other hand, Indonesia's exports also declined due to disruptions to the global supply chain and lockdown policies in major trading partner countries such as China and the United States.

Table 2: Data on the decline in Indonesia's imports and exports during the pandemic

Year	Imports (billion USD)	Exports (billion USD)
2019	170.72	167.68
2020	141.24	156.99
2021	196.20	231.54

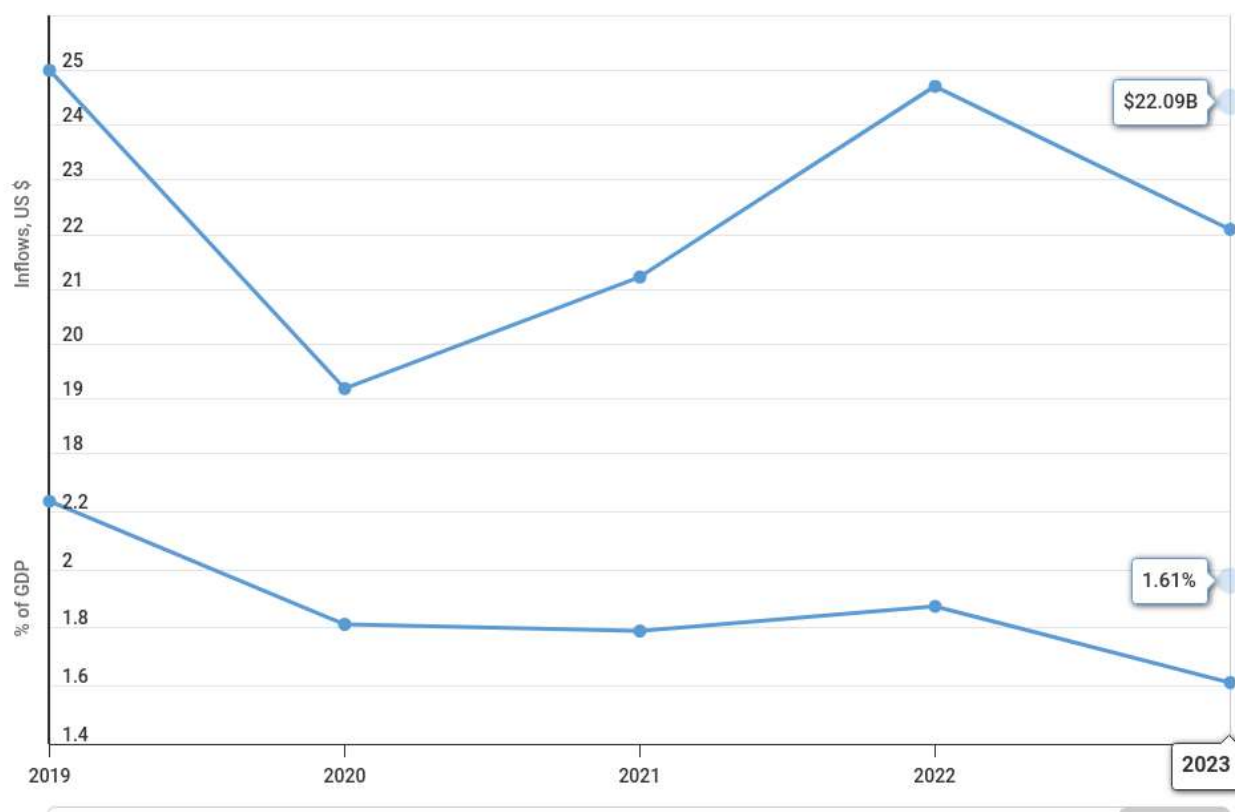
Source: (Central Bureau of Statistics., 2021, 2022a, 2022b)

From the table, it can be seen that the import restriction policy has succeeded in reducing Indonesia's dependence on imported products, but exports have also been negatively impacted by global market uncertainty. This decline in exports reflects the negative impact of protectionist policies on international economic cooperation.

b. Impact on Foreign Direct Investment (FDI)

Indonesia's economic nationalism also has an impact on the decline in the attractiveness of foreign direct investment (FDI). Increasing protectionism and stricter policies on local content in domestic products create regulatory uncertainty for foreign investors. In 2020, total FDI realization in Indonesia reached USD 28.67 billion, an increase of 1.62% compared to 2019 which was USD 28.21 billion (Central Bureau of Statistics., 2022c). Low FDI growth can hamper Indonesia's economic growth. In addition, the COVID-19 pandemic that has been going on since 2020 can hamper FDI expansion in Indonesia. Moreover, it is not yet known when the COVID-19 pandemic will end.

Chart 1: FDI trends to Indonesia during the period 2019–2023:



As seen in the diagram above, Indonesia experienced significant fluctuations in Foreign Direct Investment (FDI) inflows, with a sharp decline in 2020 due to the impact of the COVID-19 pandemic. FDI fell from around USD 25 billion in 2019 to below USD 20 billion in 2020, with the percentage of GDP also falling from 2.2% to around 1.8%. This decline was

caused by global lockdown policies and economic nationalism that prioritized the domestic market, creating uncertainty for foreign investors. However, in 2021, FDI began to recover as policies eased and the global economy recovered, with increased investment flows especially in the technology and digital sectors, reflecting a shift in foreign investment strategies that were more interested in sectors that had grown during the pandemic.

c. Impact on International Cooperation

Indonesia's economic nationalism policies, such as protectionism and "downstreaming," have had a significant impact on cooperation with international organizations and partner countries. Protectionist policies, including local content requirements and increased value-added of local products, have raised trade barriers for partner countries such as the European Union and Japan, which feel that these policies hinder free trade and reduce their access to raw materials from Indonesia. Countries importing raw materials from Indonesia have expressed their dissatisfaction with these "downstreaming" policies, which they consider detrimental to trade relations. Nevertheless, Indonesia remains active in international forums such as ASEAN, indicating that the country is trying to maintain good relations with other countries despite implementing more protectionist policies. On the other hand, Indonesia has a complex relationship with the World Trade Organization (WTO), where protectionist policies often conflict with the principles of free trade advocated by the WTO, which affects Indonesia's position in the organization. These policies reflect the ambivalence between efforts to protect local industries and the need to remain integrated into global value chains (Fahmid et al., 2022; Neilson et al., 2020; Patunru, 2023).

Indonesia has demonstrated a strong commitment to international cooperation in procuring COVID-19 vaccines through various bilateral and multilateral initiatives. In bilateral cooperation, Indonesia has established close ties with China, which includes vaccine development and making it a vaccine manufacturing hub for Southeast Asia (Wicaksono et al., 2022; Zulvianto & Badaruddin, 2021). In addition, the United Arab Emirates also provided a vaccine grant to Indonesia (Sari et al., 2022), while Indonesia also cooperates with other countries such as Australia, Russia, England and the United States (Wicaksono et al., 2022). On the multilateral cooperation side, Indonesia received a vaccine grant through the COVAX Facility, a global initiative aimed at ensuring equitable vaccine distribution, and is involved in cooperation with international organizations such as ASEAN and IORA to ensure vaccine supplies (Inayah et al., 2023; Wicaksono et al., 2022). This international cooperation has had a positive impact by decreasing the number of COVID-19 cases in Indonesia, especially after the peak of cases in July 2021 (Pratiwi et al., 2022), as well as strengthening national health security and health independence (Inayah et al., 2023). However, although Indonesia has secured around 300 million doses of vaccine, there is still a need for additional doses to achieve the target of vaccinating 70% of the population and effective coordination with various parties in international cooperation is essential to ensure timely and effective vaccine distribution (Inayah et al., 2023). In conclusion, although Indonesia has successfully utilized international cooperation in securing the supply of COVID-19 vaccines, the challenge related to the need for sufficient doses to achieve herd immunity remains a concern.

d. Thematic Analysis

The economic nationalism policy in Indonesia does provide domestic economic protection in the short term, but creates challenges in the long term, especially related to international competitiveness and foreign investment flows. In the short term, this policy focuses on protecting domestic productive assets and reducing dependence on foreign investment, which can provide economic stability and protect local industries from international competition (Gede Wahyu Wicaksana, 2021; Wie, 2018). However, in the long term, protectionist policies may reduce Indonesia's competitiveness in the global market by restricting international trade and foreign investment, so that Indonesia may lose opportunities to increase efficiency and innovation through global competition (Fossati, 2021). Restrictions on foreign investment could also reduce the flow of capital needed for infrastructure development and other critical sectors, potentially hampering long-term economic growth and reducing Indonesia's ability to compete in the global market (Fossati,

2021; Wie, 2018) In addition, the decline in international cooperation due to this policy could pose a risk of global economic instability, which would affect Indonesia's post-pandemic economic recovery, considering that the Indonesian economy is highly dependent on international trade and foreign investment for its growth (Gede Wahyu Wicaksana, 2021; Patunru, 2023).

DISCUSSION

The COVID-19 pandemic has forced Indonesia to adopt an economic nationalism policy that emphasizes protection of the domestic economy and reduces dependence on the global market. Policies such as import restrictions and stimulus for the MSME sector reflect a protectionist approach to maintaining the country's economic stability (Sihombing et al., 2022). Presidential Regulation No. 54 of 2020, which allocates a large budget for handling the pandemic, reflects the government's efforts to overcome the impact of the pandemic by focusing on the recovery of critical sectors that have been affected. However, this policy also risks creating greater dependence on domestic production and reducing participation in global value chains (Reznikova et al., 2018).

However, this economic nationalism policy is not without challenges. Import restrictions implemented by the government (Minister of Trade Regulation No. 25 of 2020) to reduce dependence on foreign products have a direct impact on international trade. Data from the Central Statistics Agency (BPS) shows that in 2020, Indonesia's import value experienced a significant decline (BPS, 2021). However, the decline in Indonesia's exports in the same year shows that this policy hampers international trade relations, especially related to global market uncertainty caused by the pandemic (Borlini, 2020).

One of the significant impacts of Indonesia's economic nationalism policy during the pandemic is the decline in Foreign Direct Investment (FDI) flows. Although Indonesia experienced a slight increase in FDI in 2020, only around 1.62% compared to the previous year (BPS, 2022), this figure still shows that Indonesia is less attractive to foreign investors in a global context full of uncertainty due to COVID-19. Tighter protectionist policies in terms of local content in domestic products create uncertainty among foreign investors, who tend to seek more stable and open markets. As such, these policies have the potential to reduce Indonesia's attractiveness as an investment destination, which in turn could hamper the growth of important sectors that depend on foreign capital flows (Fossati, 2021).

In addition, the decline in FDI is also related to global difficulties in dealing with the pandemic, which has forced countries to adjust their policies to focus more on domestic needs (Chow, 2020). On the other hand, post-pandemic economic recovery can reopen opportunities for Indonesia to attract FDI, especially in the technology and digital sectors that experienced rapid growth during the pandemic (Jiuhardi et al., 2021).

Indonesia's economic nationalism policies, which include protectionism and import restrictions, have a major impact on international cooperation, especially in the context of trade and health cooperation. One of the most obvious examples is Indonesia's policy on vaccine procurement. In this case, although Indonesia is working with various countries and international organizations (such as the COVAX Facility and ASEAN) to secure vaccine supplies (Wicaksono et al., 2022), economic nationalism policies that increase dependence on domestic vaccine production could risk hindering faster and wider vaccine distribution.

Through policies such as downstreaming, which prioritize domestic processing and production, Indonesia seeks to strengthen economic resilience. However, this has drawn reactions from partner countries, such as the European Union and Japan, who consider the policy a barrier to free trade and their access to raw materials from Indonesia (Fahmid et al., 2022). This reflects the tension that occurs when economic nationalism policies meet demands for international cooperation, which require integration into global supply chains.

Although Indonesia's economic nationalism policy is designed to strengthen the domestic economy, in the future, the country may face challenges in maintaining a balance between national interests and the need to coordinate with other countries in addressing global issues, such as climate change and the health crisis. Although Indonesia is still active in international forums such as ASEAN

and the WTO, protectionist policies have the potential to damage trade relations with other countries and reduce the benefits of broader international cooperation (Nadtochey, 2020).

Conclusions

Indonesia's economic nationalism policies during the COVID-19 pandemic, which include import restrictions, incentives for domestic industries, and restrictions on dependence on foreign products, provide protection for the domestic economy in the short term. However, these policies also create challenges for Indonesia's competitiveness in the international market, foreign investment flows, and trade relations with partner countries. The protectionist policies implemented in the context of the pandemic demonstrate the ambivalence in international relations, where Indonesia remains involved in international cooperation but also faces criticism regarding policies that limit access to global markets. It is important for Indonesia to maintain a balance between strengthening the domestic economy and remaining involved in global cooperation, because global challenges such as the health crisis, climate change, and international economic instability require a collective response that cannot be solved by one country alone. Therefore, Indonesia must formulate a flexible and adaptive economic nationalism policy, which is able to face domestic challenges while maintaining mutually beneficial international relations.

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