PUNGGAWA
GLOBAL RESEARCH:
JURNAL MULTIDISIPLIN

Punggawa Global Research: Jurnal Multidisiplin
Volume 1, Nomor 3, 2026
E-ISSN: 3164-0117
Open Access: punggawajournal.com/pgr

Analyzing the Economic and Legal Impacts of Foreign Vessel Dominance in Indonesia's Trade Activities

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Article Info

Article history:
Received July 25th, 2026
Revised August 1th, 2026
Accepted August 6th, 2026

Keyword:
Cabotage principle; Foreign vessels; International trade; Legal Harmonization; Maritime law.

ABSTRACT

This study analyzed the economic and legal impacts of foreign vessel dominance in Indonesia's international trade and evaluated the effectiveness of maritime regulation in strengthening the national shipping industry. Using normative legal research that combined statutory and conceptual approaches, the study examined relevant maritime legislation, trade data, and law-enforcement mechanisms. The findings revealed a striking paradox in the implementation of the cabotage principle. Although domestic cabotage had enabled the national fleet to secure 99.9% of the domestic market, international trade remained heavily dominated by global shipping companies, which controlled more than 90% of export-import cargo. This imbalance produced substantial annual capital outflows, estimated at between IDR 190 trillion and IDR 380 trillion in freight payments. The legal analysis indicated that this underperformance was rooted in regulatory loopholes, particularly ambiguous exemption clauses for foreign vessels, weak enforcement, the absence of integrated real-time data, and high commercial lending rates that constrained domestic fleet expansion. The study concluded that comprehensive regulatory harmonization, stricter exemption criteria, targeted fiscal incentives, and integrated digital maritime supervision were required to safeguard national maritime sovereignty.

INTRODUCTION

Indonesia's international trade activities depend heavily on maritime shipping as the principal means of distributing export and import goods. As the world's largest archipelagic state with a strategic geographical position, Indonesia has considerable potential to develop a strong national shipping industry. In practice, however, most cargo associated with Indonesia's international trade continues to be transported by foreign vessels. This condition is reflected in the extensive use of foreign fleets for export and import activities compared with the national fleet, which remains constrained in terms of vessel numbers, carrying capacity, technology, and competitiveness. Foreign-vessel dominance causes a large share of shipping-service foreign exchange earnings to flow abroad and reduces the shipping sector's contribution to the national economy.

Foreign-vessel dominance is important to examine because it concerns not only economic matters but also legal questions and state sovereignty in the maritime domain. Economically, dependence on foreign fleets may result in the loss of potential foreign-exchange earnings, higher logistics costs, and slower development of the national shipping industry. Legally, the issue is connected to the implementation of the cabotage policy under Law No. 17 of 2008 on Shipping, which requires domestic sea transportation to prioritize Indonesian-flagged vessels crewed by Indonesian nationals.

The effectiveness of the applicable legal framework and its influence on national trade activities therefore warrant closer analysis.

Against this background, this study analyzes the economic and legal impacts arising from the dominance of foreign vessels in Indonesia's trade activities and examines the effectiveness of maritime regulation in supporting the strengthening of the national shipping industry. The discussion focuses on the effects of foreign-vessel use on shipping-related foreign-exchange earnings, the development of the national shipping industry, and the implementation of the cabotage principle within Indonesia's maritime legal system.

RESEARCH METHODS

This study employs normative legal research focused on examining the legal norms governing shipping and maritime trade activities within the Indonesian legal system. It applies a statutory approach and a conceptual approach. The statutory approach examines regulations relating to shipping activities, the use of foreign vessels, and national maritime trade policy, including Law No. 17 of 2008 on Shipping and its implementing regulations. The conceptual approach is used to analyze the economic and legal consequences of foreign-vessel dominance by examining state sovereignty in maritime affairs, the cabotage principle, legal certainty, and the protection of the national shipping industry.

Legal materials were collected through a literature review comprising primary and secondary legal materials. Primary legal materials include Law No. 17 of 2008 on Shipping, the 1982 United Nations Convention on the Law of the Sea (UNCLOS), legislation concerning trade and maritime transportation, provisions governing the cabotage principle, and ministerial regulations governing the use of foreign vessels in national shipping activities. Secondary legal materials were obtained from maritime-law literature, shipping-law books, scholarly articles, journals, and previous studies addressing foreign-vessel dominance, the national shipping industry, and the resulting economic and legal impacts on Indonesia's trade activities.

The materials were analyzed using grammatical, systematic, and teleological interpretation. Grammatical interpretation was used to identify the meaning of legal norms governing shipping, foreign-vessel use, state authority over maritime trade, and the cabotage principle. Systematic interpretation examined the relationship between national shipping and maritime-trade regulations and international law, particularly UNCLOS 1982, as well as their respective positions within the hierarchy of laws and regulations. Teleological interpretation was used to evaluate the objectives of national shipping regulation in safeguarding maritime sovereignty, improving the competitiveness of the national shipping industry, and addressing the economic and legal consequences of foreign-vessel dominance in Indonesia's trade activities.

RESULTS AND DISCUSSION

1. Effectiveness of the Cabotage Principle and the Economic Implications of Foreign-Fleet Dominance in International Trade

Indonesia has applied the cabotage principle as a foundation of national maritime law since the issuance of Presidential Instruction No. 5 of 2005 on the Empowerment of the National Shipping Industry. The principle was subsequently reinforced through Article 8 of Law No. 17 of 2008 on Shipping, which requires domestic sea transportation to be conducted by national sea-transportation companies using Indonesian-flagged vessels crewed by Indonesian nationals. The framework is supported by technical regulations, including Minister of Transportation Decree No. KM 71 of 2005 on the Transportation of Oil and Natural Gas Between Domestic Ports and Minister of Transportation Regulation No. PM 92 of 2018 on the Requirements and Procedures for Approving the Use of Foreign Vessels for Certain Sea-Transportation Activities.

In the domestic sphere, implementation of the cabotage principle, supported by national shipping businesses, has been highly effective in promoting investment in sea transportation. This success is empirically reflected in the increase in the share of domestic cargo carried by the national fleet, from 55.5% in 2005 to nearly complete control at 99.9% by 2017 (Luthfi, 2025). Domestic dominance developed in parallel with the expansion of national carrying capacity. The number of national vessels increased by 294.36%, from approximately 6,041 units in 2005 to 23,823 units in 2017. The quantitative expansion of the fleet was accompanied by corporate growth in the maritime sector, with the number of national shipping companies reaching 3,760 in 2017, while the number of foreign-chartered vessels declined sharply during the same period (DPP INSA, 2016).

This success, however, has not extended to international shipping. Data from the Directorate General of Sea Transportation show that, among vessels carrying export-import goods in Indonesian waters during 2017-2022, 63% were foreign-flagged and only 37% were Indonesian-flagged. In 2022 alone, 9,458 of the 10,534 vessels recorded as active were foreign-flagged (Logistik News, 2023). In terms of cargo value, foreign dominance was even greater. National shipping stakeholders have stated that more than 90% of Indonesia's export-import cargo is controlled by global shipping companies such as Maersk, MSC, CMA CGM, COSCO, ONE, and Evergreen. Other policy studies have reported that less than 5% of export-import cargo is transported by Indonesian-flagged vessels, even though Indonesia controls four of the world's seven strategic straits and is crossed by approximately 40% of global maritime trade (RMOL, 2026).

Conceptually, the gap between the success of domestic cabotage and its failure in the international sphere can be explained by limitations in financing structures and the competitiveness of the national fleet in the ocean-going segment. Domestic banks impose commercial interest rates of approximately 8-10% with short tenors for financing large container vessels. By contrast, Singapore, China, and South Korea provide long-term capital at interest rates of approximately 2-3%. National operators therefore enter international routes at a structural cost disadvantage (Republika, 2023). As a consequence, national logistics costs remain at approximately 14.29% of gross domestic product, nearly twice the level recorded in several other ASEAN states (Monoarfa, 2023).

Foreign-vessel dominance directly contributes to national foreign-exchange leakage. Indonesia's continued use of Free on Board (FOB) terms for exports and Cost, Insurance, and Freight (CIF) terms for imports places control over cargo transportation in foreign hands, causing shipping revenue that could otherwise accrue to national companies to flow to global carriers (Logistik News, 2026). Based on Statistics Indonesia trade data and an assumed freight cost of 5-10% of import value, an estimated IDR 190 trillion to IDR 380 trillion leaves the country each year to pay foreign maritime-transportation providers (Badan Pusat Statistik [BPS], 2026). This estimate is consistent with earlier government records indicating annual losses of approximately IDR 96.6 trillion to IDR 97 trillion arising from the use of foreign vessels and international-trade transaction patterns that did not favor domestic shipping (Liputan6, 2019).

The loss of potential international cargo for national vessels also eliminates potential tax revenue and employment opportunities for national shipping companies and their supply chains. The Indonesian National Shipowners' Association has estimated that the state may lose IDR 6-8 trillion in annual tax revenue from foreign vessels that fail to meet tax obligations (Media Indonesia, 2025). These losses contribute to limited employment absorption across the maritime sector, from seafarers to supporting shipyard industries, while foreign vessels continue to control approximately 90% of export cargo (CNBC Indonesia, 2018).

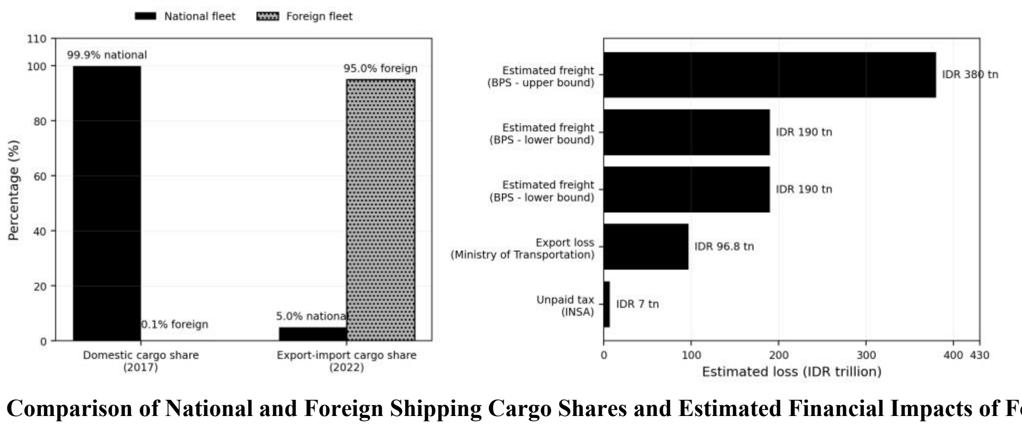

Figure 1 Comparison of National and Foreign Shipping Cargo Shares and Estimated Financial Impacts of Foreign-Fleet Dominance

Figure 1 summarizes these national maritime dynamics, which are consistent with earlier research identifying an empirical contradiction in the implementation of shipping-protection policy. On the one hand, the cabotage principle has secured the domestic market against foreign-vessel control. On the other hand, a regulatory concentration that is excessively focused on domestic protection has generated a new problem: competition governance within the domestic market remains underdeveloped. National shipping companies are placed in a dilemma. Protection has allowed them to remain within the comfort zone of the domestic market, but it has also weakened the impetus to expand into international shipping markets. This dilemma produces multiple consequences. Foreign-fleet dominance in export-import transportation continues and erodes national foreign-exchange earnings, the space available for national vessels to compete globally becomes increasingly limited, and local maritime employment cannot be optimized because the ocean-going national fleet remains weak (Delayori & Zen, 2022).

The scale of the economic effects and the actual imbalance caused by foreign-vessel dominance in external trade demonstrate that the issue can no longer be viewed solely through a macroeconomic lens. Further evaluation of its formal legal and structural dimensions is required to assess the effectiveness of current maritime-law enforcement and regulatory supervision and to identify the legal loopholes that continue to facilitate the operation of foreign-flagged vessels within Indonesian jurisdiction.

2. Juridical-Structural Analysis of Barriers to Cabotage Implementation and Strategies for Strengthening National Shipping Law

Article 8 of Law No. 17 of 2008 on Shipping expressly provides that domestic sea transportation must use Indonesian-flagged vessels crewed by Indonesian nationals. Normatively, this principle is intended to protect maritime sovereignty and the domestic shipping industry. In practice, however, foreign-vessel dominance persists in particular sectors, especially specialized sea-transportation activities such as offshore operations, drilling, and the transportation of energy commodities requiring advanced technical specifications. From the perspective of Hans Kelsen's hierarchy of norms, this condition reveals an operational inconsistency between the economic-sovereignty orientation of the statute and subordinate implementing regulations that continue to provide space for foreign vessels (Indriyani & Purwaningsih, 2012).

The most visible legal loophole arises from derivative regulations that provide dispensations or exemptions from the cabotage principle. Article 206A of Government Regulation No. 22 of 2011, which amended Government Regulation No. 20 of 2010 on Water Transportation, was substantively reinforced through Article 14A of Law No. 17 of 2008 as amended by Law No. 6 of 2023 on the Enactment of the Job Creation Government Regulation in Lieu of Law. These provisions allow foreign vessels to conduct activities other than the transportation of passengers or goods in domestic sea transportation within Indonesian waters when Indonesian-flagged vessels are unavailable or insufficiently available. The phrase 'unavailable or insufficiently available' functions as an elastic and ambiguous clause. Cargo owners or business actors may rely on it to claim that domestic fleets are unprepared, thereby continuing to charter foreign vessels. Exemptions consequently become routine rather than exceptional and gradually weaken the legal force of the cabotage requirement (Sirait, 2022).

Weak field enforcement further aggravates the problem. The Ministry of Transportation, particularly the Directorate General of Sea Transportation, holds primary authority for supervising shipping activities. Enforcement has nevertheless remained ineffective because the national data-integration system remains limited. Information on the specifications and availability of national vessels has not been fully integrated on a real-time basis, making it difficult to verify claims that the domestic fleet lacks the required capability. At the same time, supervision of foreign-vessel operations in internal waters and the exclusive economic zone continues to be constrained by limited patrol capacity and inadequate digital-surveillance facilities.

These regulatory difficulties operate alongside structural constraints that weaken the competitiveness of the national fleet. The national shipping industry is capital-intensive, while commercial interest rates for vessel procurement in Indonesia remain relatively high. Domestic operators consequently face serious difficulties in renewing or expanding their fleets. The domestic shipbuilding industry is also unable to produce specialized high-technology vessels efficiently because many major components must still be imported, increasing the cost of new construction. Technical constraints are compounded by human-resource limitations. Although Indonesia has a large number of seafarers, the availability of personnel holding specialized certifications for operating modern high-specification vessels remains limited (Putri, 2016).

Regulatory fragmentation further deepens these problems. Overlapping maritime-supervision authority among the Directorate General of Sea Transportation, the Indonesian Maritime Security

Agency, the Navy, and the Water Police creates legal uncertainty for business actors. Administrative and criminal sanctions under the existing derivative regulations have also failed to generate a sufficiently strong deterrent effect against violations of the cabotage principle or misuse of foreign-vessel permits. Practical commercial pressures complicate enforcement because exporters, importers, and commodity businesses face a dilemma between logistics efficiency and national protection. Foreign vessels often offer lower charter rates and greater carrying capacity. Business actors therefore argue that forcing the use of national vessels before sufficient capacity exists may reduce the competitiveness of Indonesian products in global markets (Asnawi, 2012).

Regulatory harmonization is therefore required to limit and tighten the conditions under which foreign-vessel dispensations may be granted through ministerial regulation. Under a teleological interpretation, the regulatory framework must be returned to its original objective of protecting maritime sovereignty. Cabotage exemptions should be subject to strict time limits and accompanied by mandatory technology transfer to domestic industry. The government should also adopt supportive fiscal measures, including exemption from value-added tax on vessel purchases and on imported components used by domestic shipyards, together with a dedicated maritime-financing or low-interest credit scheme provided through state-owned banks to stimulate the procurement of high-specification national vessels.

These measures should be accompanied by comprehensive digitalization of vessel licensing and supervision through a transparent single-window system. The Directorate General of Sea Transportation should maintain a unified and accurate database of the actual capacity of the national fleet. Such a database is essential for effective state intervention. When a particular vessel type can demonstrably be supplied by domestic industry, applications for foreign-vessel dispensations or operating permits for that category should be firmly rejected to protect the domestic market.

Regulatory and structural constraints in the national shipping industry cannot be resolved through isolated measures. They require regulatory simplification and consistent enforcement of the cabotage principle. The integration of stricter dispensation requirements, fiscal incentives, investment-friendly financing, and digital supervision can create a healthier and more competitive maritime ecosystem. This policy synergy would not only strengthen domestic fleet capacity and reduce national logistics costs but also provide a strategic instrument for restoring Indonesia's maritime sovereignty in the global arena.

CONCLUSION

Foreign-vessel dominance in Indonesia's international trade is a multilayered structural problem rooted in the fundamental gap between the success of the cabotage principle in the domestic sphere and its failure in international shipping. Cabotage policy increased the national fleet from 6,041 to 23,823 vessels and secured 99.9% of domestic cargo, yet more than 90% of export-import cargo remains controlled by global shipping companies. This outcome is linked to the ambiguous legal loophole associated with Article 206A and the Job Creation regulatory framework, weak enforcement by the Directorate General of Sea Transportation, and the national fleet's structural inability to compete in the ocean-going segment. Domestic operators face commercial interest rates of 8-10%, compared with approximately 2-3% available to competitors in other countries. These conditions contribute to annual foreign-exchange leakage of IDR 190-380 trillion and potential annual tax losses of IDR 6-8 trillion.

Resolving the problem requires simultaneous and comprehensive policy reform. Regulatory harmonization must tighten foreign-vessel dispensation requirements so that cabotage exemptions do not become routine. Each permit should be time-limited and accompanied by mandatory technology transfer. Fiscal support should include value-added tax exemptions for vessel purchases and imported shipyard components, as well as low-interest maritime credit through state-owned banks. Licensing and supervision should be fully digitalized within a unified database capable of closing the evidentiary gap behind claims that the domestic fleet is unprepared. Indonesia should also gradually reform foreign-trade transaction arrangements so that shipping control shifts from foreign actors to Indonesian parties. These measures would enable the national shipping industry to move beyond a protected domestic market, regain a larger share of international cargo, expand maritime employment, and convert Indonesia's control of four of the world's seven strategic straits into a sovereign economic advantage rather than an unrealized potential.

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