

## THE ROLE OF THE MANUFACTURING ON THE INDONESIAN ECONOMY

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### ABSTRACT

This article uses qualitative research methods and literature to collect information from various written sources. This study utilizes secondary data sources, including digital literature such as websites, journals and bulletins, to explore the factors that influence Indonesia's manufacturing industry and contribute to the country's economic growth. This research covers both the barriers and drivers of industrial improvement. Investment in the industrial sector plays an important role in economic growth, making it one of the main areas of interest for domestic investors. The industrial sector is considered a significant contributor to development, as evidenced by the steady growth of Indonesia's GDP from year to year. Thus, it is the main driver of the country's economic progress.

**Keywords:** Industry, Economic, Manufacture

### INTRODUCTION

Indonesia is considered a developing country because it seeks to overcome current economic problems through development initiatives. Among these initiatives, the manufacturing industry is often a top priority in the country's development plans. This is due to the important role industry plays in creating products that generate jobs, as well as its potential to attract investment that contributes to economic growth. Moreover, holistic accumulation of capital in new sectors leads to expansion and increase in welfare, reducing poverty. As a result, the industry has become the primary sector that attracts many domestic investors. Although investment in the manufacturing industry fluctuated from 2001 to 2015, the investment amount increased every year. It can be seen in the data from the Central Bureau of Statistics (BPS). Indonesia's economic growth remains stable in the fourth quarter of 2022.

Indonesia's economic growth reached a permanent high of 5.01% (yoy), even though world economic growth has slowed down. As a result, Indonesia's holistic growth in 2022 was recorded at 5.31% (yoy), a significant increase compared to the previous year's achievement of 3.70% (yoy). For the future, according to predictions in 2023, Indonesia's economic growth will remain solid in the range of 4.5-5.3% and will be driven by increased domestic demand for housing consumption and investment. The manufacturing industry can become a strategic sector to boost Indonesia's economic growth and help the country escape the middle-income trap, and because of this, Indonesia has the potential to be classified as a middle-income country by the World Bank in 2020. However, the weak competitiveness of the manufacturing industry in Indonesia is hampered by low technology dominance. A survey based on WBES in 2015 revealed that informal sector practices, political instability, and tax rates were the main obstacles for 57% of Indonesian manufacturing companies. Despite these challenges, the manufacturing industry made the largest contribution to the national export value in the January-April 2023 period, playing an important role in the Indonesian economy.

## **RESEARCH METHOD**

This research is based on a qualitative method using the variables gross national income and investment as a reference. Then this research is descriptive literature and is carried out using qualitative research steps to produce descriptive data in the form of words and language (Moeleong, 2013). The library approach is used to collect data from various written sources (Hanifuddin, 2020). This study uses data sourced from secondary data obtained through literature studies such as from websites, journals, bulletins, and in digital form according to the research theme (Purboseno et al., 2022). Data collected by researchers through intermediaries or indirectly such as literature, journals, newspapers, and the Central Bureau of Statistics (BPS).

## **RESULTS AND DISCUSSION**

### **1. Role of the Manufacturing Industry in Improving the Indonesian Economy**

In 2022, the manufacturing sector in Indonesia will continue to recover, as evidenced by the Indonesian Manufacturing Purchasing Managers Index (PMI) remaining above 50 points. In December 2022, Indonesia's Manufacturing PMI closed at 50.9, an increase compared to the previous month's increase of 50.3. According to the results of a survey released by S&P Global, the Purchasing Managers of Indonesia Manufacturing PMI index shows that Indonesia's manufacturing PMI in January 2023 was 51.3, up from December 2022 of 50.9. Furthermore, the Ministry of Industry reported that the Individual Performance Indicator (IKI) in January 2023 was 51.54, a significant increase compared to the Individual Performance Indicator (IKI) in December 2022 of 50.9. Good performance shows that the national manufacturing industry is still developing and starting to have good health<sup>8</sup>, despite the impact of the Covid-19 pandemic and the uncertain global economic situation due to the threat of a recession.

The recovery phase has been going on for 16 consecutive months since September 2021. Investment in the manufacturing industry is estimated to reach IDR 450-470 trillion in 2023, up 7 percent compared to this year's projection of IDR 439.33 trillion. The Minister of Industry predicts that the export value of the non-oil and gas control industry in 2022 will receive USD 210.38 billion, and in 2023 the target is USD 225-245 billion. The Minister of Industry announced the development of the National Processing Industry's Gross Domestic Product (GDP) throughout 2022 to reach 5.01 percent, and in 2023 it is targeted at 5.1-5.4 percent. In addition, increased investment in the industrial sector will encourage increased employment, with a total estimated employment of 19.11 million people in 2022 and 19.2-20.2 million people in 2023.

From 2016 to 2021, the manufacturing industry is expected to have the largest contribution to Indonesia's GDP compared to other business fields. In 2021, its contribution has reached 19.25% of GDP. The contribution of the manufacturing sector to the economy is greater than other sectors so that it becomes a priority for development. As a leading sector, its development will also accelerate the growth of other sectors.

The government is committed to strengthening the manufacturing industry sector because it has shown its positive impact on the national

economy, such as increasing the value of domestic raw materials, attracting foreign investment, generating foreign exchange from exports, and creating more jobs. According to Jingyi Pan, Economics Associate Director of S&P Global Market Intelligence, Indonesia's Manufacturing Purchasing Managers Index (PMI) in December 2022 showed better conditions due to increased demand that supported production, purchasing activity, and job creation. Amazingly, Indonesia's Manufacturing Purchasing Managers Index (PMI) in December 2022 outperformed Germany (47.4), Japan (48.8), Australia (50.4), Myanmar (42.1), the Netherlands (48.6), France (47.4), South Korea (48.2), the United Kingdom (44.7), the United States (46.2), and the Eurozone (47.8). After China, Indonesia ranked second with the contribution of the manufacturing industry at 29.3%, followed by South Korea (27.6%), Japan (21%), and Germany (20.7%). Indonesia is also the first ASEAN country to become an official partner in hosting the world's largest manufacturing technology exhibition, in recognition of its growing status as a global industrial power.

## **2. The factors that hinder the Manufacturing Industry in Improving the Indonesian Economy**

The decline in the significance of the industrial sector is closely related to the deteriorating factors that support industrial competitiveness. Despite Indonesia's progress in terms of competitiveness, according to the Global Competitiveness Index, Indonesia has risen to 34<sup>th</sup> place. However, of the 13 factors measured, four of them experienced a decrease. The most worrying factor is the efficiency of the labor market, particularly in terms of labor regulations. Based on various surveys conducted by BPS, the competitiveness of Indonesian workers is still relatively poor compared to neighboring countries. The lack of competitiveness is caused by the poor quality of human resources, which is caused by low levels of education, inadequate work competencies, and a mismatch of work skills. Although the employment factor occupies the 43<sup>rd</sup> position in the last five years, it is currently the lowest among other ASEAN countries. It is very important to make efforts to increase the added value of natural resources, promote competitive advantage, ensure environmental sustainability, and turn Indonesia into a strong industrial country. The weak competitiveness of

Indonesia's manufacturing industry is also related to inadequate mastery of technology. According to the Organization for Economic Co-operation and Development (OECD), about 66% of all industrial products are low- and medium-low technology. Minister of Industry Agus Gumiwang stated that the government has identified several obstacles or challenges that will be faced in 2023. First, global economic development is predicted to decline slightly due to high global inflation rates. Which then resulted in aggressive interest rate hikes and supply chain disruptions resulting from trade.

Based on the intent of the text, it can be concluded that the manufacturing industry sector in Indonesia will remain prosperous throughout 2022. Despite facing challenges in terms of low competitiveness due to inadequate education and a lack of skills aligned with available jobs. The Ministry of Industry has implemented various government-driven systems to enhance the downstream sector of the manufacturing industry. The P3DN Center, under the Ministry of Industry, provides free certification facilitation to local industrial companies. Developments in the industrial sector in particular and the economy as a whole will increase tax revenue for the country which is expected to help increase the country's balance of payments or foreign exchange reserves. Efficient management of industrial resources and infrastructure is essential to promote industrial growth. The growth rate of an industry in a region depends on internal and external relations and synergies between various sectors. The Ministry of Industry is also pushing for other programs to increase the use of fresh milk by local farmers. The aim is to meet the needs for raw materials for the processing industry or procedures for making milk and reduce linkages to imported raw materials. In addition, in 2023, the Ministry of Industry will begin the construction of a phytopharmaceutical production facility at the Center for Standardization and Services for the Pharmaceutical Chemical Industry and Packaging in Jakarta. This facility will consist of a production building, production equipment, and supporting utilities. Its development aims to achieve self-sufficiency in standardized traditional medicines and support import substitution programs.

In 2023, the Ministry of Industry will offer free certification assistance to domestic industrial companies through the P3DN Center, to encourage the use of domestically made products. A minimum of 2,000

product certificates will be issued for domestic component-level certification (TKDN). To further promote the growth of the battery-based electric vehicle industry, the government will accelerate the development of key and supporting industrial components, as well as the production of charging equipment and other programs that benefit the manufacturing industry. This initiative is expected to improve the performance of the manufacturing industry sector, including the downstream industry program, and maintain its role as the main driver of national economic growth. As a result of the decline in the rupiah exchange rate, namely monetary policy in developed countries, the impact on interest rates is higher. Which is of secondary concern.

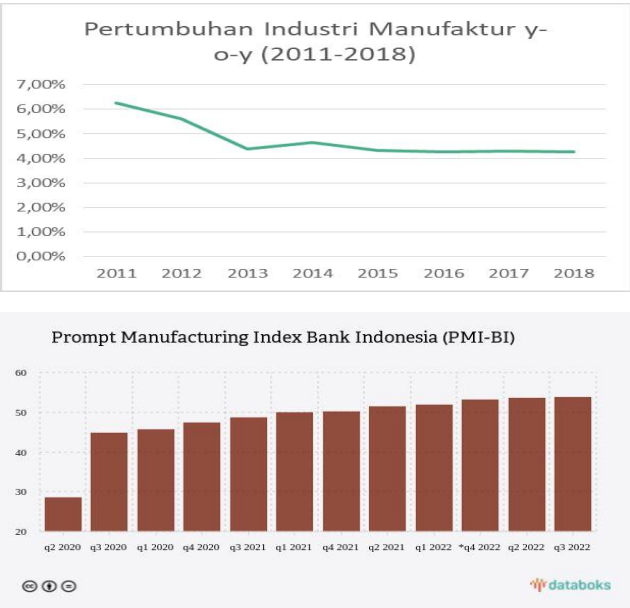
The third problem is the ongoing Ukrainian and Russian crises, which could lead to rising commodity prices, food, and energy shortages. The fourth concern is the potential for volatility in export demand due to the global downturn, which could result in reduced production and possible layoffs. Lastly, there is still a dependence on imported raw materials and auxiliary raw materials. To overcome these challenges, the Ministry of Industry will carry out various strategic programs, such as structuring textile industry machinery and equipment in advancing the performance of the textile and textile product (TPT) industry after the COVID-19 outbreak hit.

This business is part of This effort and is part of Roadmap Making Indonesia 4.0, which provides investment funds for machines and equipment that are more environmentally friendly, energy-efficient, efficient, and modern. The manufacturing industry experienced a surge of 6.26% in 2011, but this figure decreased to 4.27% in 2018. Over the past five years, from 2014 to 2018, the average growth rate for the manufacturing sector was around 4.5%. Thus, it is very important to carry out an analysis to identify the factors that hinder the growth of this industry, thereby driving its growth. The increase in export value was in line with the increase in production capacity in various main sectors, such as the palm oil processing industry and its by-products, including refineries, which increased from 45 million tons in 2014 to 64 million tons in 2019. Oleofood increased from 2.5 million tons in 2014 to 2.75 million tonnes in 2019, while biodiesel continued to increase from 7.2 million tonnes in 2014 to 16 million tonnes in 2019. In addition, various derivative products increased

from 126 products in 2014 to 170 products in 2019. The automotive sector produced 1.34 million units in 2018, with an installed capacity of 2.25 million units, employing 1.5 million people.

Furthermore, the export value of CBU, CKD, and components increased between 2015 and 2019, reaching USD 3.8 billion in January-August 2019. According to the Minister of Industry, the number of medium and large-scale industries in the country continues to increase every year. From 2015 to 2018, the number of medium and large-scale industries increased from 1,744 to 7,653 units, with an estimated increase to 9,000 units in 2019. Every year the value of the industrial sector has increased, which was recorded at USD 108.6 billion in 2015 and USD 130 billion in 2018. From January to September 2019, the industrial sector produced USD 93.7 billion, contributing 75.51% of total national exports of USD 124.1 billion.

Table 1



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factors that hinder the growth of this industry, thereby driving its growth the manufacturing sector in Indonesia will continue to recover, as evidenced by the Indonesian Manufacturing Purchasing Managers Index (PMI) remaining above 50 points. In December 2022, Indonesia's Manufacturing PMI closed at 50.9, an increase compared to the previous month's increase of 50.3. According to the results of a survey released by S&P Global, the Purchasing Managers of Indonesia Manufacturing PMI index shows that Indonesia's manufacturing PMI in January 2023 was 51.3, up from December 2022 of 50.9. Furthermore, the Ministry of Industry reported that the Individual Performance Indicator (IKI) in January 2023 was 51.54, a significant increase compared to the Individual Performance Indicator (IKI) in December 2022 of 50.9

## CONCLUSION

Compared to other sectors, the manufacturing industry contributes the most and therefore gets priority as a development sector. As a leading sector, it means that the growth of this sector will have a positive impact on the development of other sectors. However, the industry is hampered by low competitiveness due to inadequate human resources, including low levels of education and inadequate job skills. To overcome these obstacles, the government is determined to strengthen the strategy to increase the manufacturing industry sector in 2023. This is because the industry has shown a significant contribution to the national economy, several factors optimizing the added value of domestic staple goods and attracting foreign investment by generating substantial foreign exchange through exports through creating more jobs.

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