

## Indonesia's Industrial Diplomacy: Prospects and Challenges

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**Abstract.** This paper aims to identify the prospects and challenges from Indonesia's industrial diplomacy. Indonesian industry contributes almost 20 percent to Gross Domestic Product (GDP). Industrial sector is the backbone of the Indonesian economy, besides having a high value (export) also provide jobs. Recent trend Indonesia's national industries growing at a low speed, especially during the covid-19 pandemic. In the midst of this uncertain situation, the national industry is still show a good performance. Industrial diplomacy is urgently needed. The research method was a qualitative approach, which data collection technique was conducted through literature review. The result of this paper shows that Indonesian government continues to strive to improve the competitiveness of the national industry so that it can be competitive at the global level through industrial diplomacy. Some challenges like trade barriers, product strategy, synergy and coordination, and the low number of representations of industrial diplomats became challenges in industrial diplomacy. With the right strategy and successful implementation of Making Indonesia 4.0, Indonesia has an opportunity to become the top 10 largest economies in the world by 2030.

### 1. Introduction

Former Coordinating Minister for the Indonesian Economic Affairs, Darmin Nasution, once said that *"Nothing can replace industry as a pillar of the driving force of the economy. The question is, can we reproduce this?"* Indonesia actually had a chance to feel its glory with a fairly fast economic development in the 1970s. The construction of this foundation was inseparable from the very fast and strong industrial development at that time. Despite having a fairly complex protection structure, Indonesia has succeeded in making the industrial sector a major source of economic development. The industrial sector as the backbone of the economy is finally being implemented. Not only production that can be exported, this sector is also able to provide a large number of workers. [1]

Recent trend of Indonesia's industrial performance continues growing in low speed since it's facing various challenges such as the competitiveness of the industry, the volatile rupiah and dollar exchange rate that affects the price of industrial components that are still mostly imported, while raising production costs is still not possible considering the level of the public purchasing power of is still low. The outbreak of the Covid-19 Pandemic has a huge impact on the growth of the Indonesian Industrial sector, but the good news is that industrial sector investment increased by 37 percent during the covid-19 pandemic Investment in the industry sector is believed to be one of the drivers of the industry process in order to avoid termination of employment. On the other hand, the national industry sector is still focused on domestic consumption is not fully export-oriented, so this requires the right

strategy in increasing the capacity of the national industry at the global level and has competitiveness. To support it industrial diplomacy is necessary

Some research on improving the quality of industries that have global value and competitiveness has been widely discussed, but the approach in industrial diplomacy has not been so much. Research on economic diplomacy is still focused on 3 main sectors, namely trade, investment and tourism (TTI). Although industrial diplomacy is part of economic diplomacy, it is also like trade diplomacy, but industry diplomacy specifically is needed because it not only concerns the selling value of export industry products but how the national industry sector is able to enter the global supply chain and have a potential industrial market.

Industry has two definitions. In a broad sense, the industry covers all businesses and activities in the field of productive economy. Specify, industrial or processing industry is an activity that changes a basic good mechanically, chemically, or by hand so that it becomes a semi-finished goods or finished goods. This includes industrial services activities and assembling workers. The word industry is often called the processing /manufacturing industry sector which is one of the factors of production or business field in the calculation of national income according to the approach of production. When one country has reached the stage where the industrial sector as the leading sector, it can be said that the country has undergone industrialization. [2] Meanwhile, Industrial Diplomacy is the economic diplomacy by strengthening the competitiveness of export flagship products, protecting countries strategic commodities, as well as opening new markets abroad.

The orientation of Indonesia's industrial development policy as stated in the Strategic Plan (Renstra) of the Ministry of Industry 2015-2019 with the vision of "*Indonesia Becoming a Competitive Industrial Country with a Strong Industrial Structure Based on Natural Resources and Justice*". The orientation of the Indonesian Industrial Policy is carried out by the Government in accordance with the above objectives, the five-year targets up to 2019 are as follows: *First*, Strengthening and deepening the structure of the national Industry to create an independent, competitive, advanced, and environmentally friendly national industry. *Second*, increasing added value in the country through sustainable management of industrial resources by increasing mastery of technology and innovation, *Third*, opening business opportunities and expanding job opportunities, and *Fourth*, equitable industrial development throughout Indonesia in order to strengthen and strengthen national resilience. In order to achieve the goals and targets stated in the 2015-2019 Strategic Plan, the Ministry of Industry implements 10 (ten) programs which describe the direction of national development policies and strategies. The scope of the programs implemented includes activities in the framework of priority industrial development, industrial zoning development, industrial resource development, green industry development, industrial standardization development, and Small and Medium Industry development. [3]

To encourage priority industrial development, the Ministry of Industry on April 4, 2018, launched the Making Indonesia 4.0 initiative as a road map for the implementation of industry 4.0 in Indonesia with a vision that by 2030 Indonesia will become the top 10 largest economies in the world. The implementation of Making Indonesia 4.0 is expected to be able to return 10% of the contribution of net exports to GDP, increase productivity twice against production costs and increase 2% of R&D expenditure on GDP. So that it is hoped that by 2030 we will be able to become the world's ten largest economies. The focus of Making Indonesia 4.0 includes the food and beverage industry, the textile and clothing industry, the automotive, the chemical industry and the electronics industry. These five sectors are expected to contribute 70% of the total manufacturing GDP, 65% of manufactured exports and 60% of industrial workers. [4]

Indonesia's industry sector growing in low speed especially exacerbated since the covid-19 pandemic. Surely this requires the right strategies and policies and mapping opportunities and challenges. The fall of the Industry is the responsibility and attention of stakeholders, relevant institutions and the

community. Therefore, industrial diplomacy is needed in this case, considering that Indonesia has a great opportunity to become a major industrial country in the world. The dynamics of the global economy require proper strategy. The government assigns ambassadors and industrial attachés who will begin their duties, as well as ambassadors of the Indonesian economy and industry. To conduct coordinated industrial diplomacy, ambassadors are asked to cooperate across sectors. This paper aims to identify the prospects and challenges of Indonesia's industrial diplomacy. The research method was a qualitative approach which data collection technique was conducted through literature review.

## **2. Method**

To support the validity of the data, this study using qualitative research methods by collecting data through literature studies. Literature study explores various information in books, scientific journals, newspapers, magazines, and sources of information from articles and news, recorded video from websites on the internet.

## **3. Results and Discussion**

Based on literature review, obtained an overview that the national industry currently has a position that cannot be underestimated, because Indonesia is included in the major producer countries for some excellent products that have been worldwide. In the manufacturing value added category, Indonesia is included in the world's top 10. This ranking is in line with Brazil and the UK as well as greater than Russia. In 2020 Indonesia became the official partner of the country at the Hannover Messe 2020 and 2021 event in Germany. This opportunity is a good momentum to introduce the readiness of Indonesian industry in the industrial era 4.0, promote investment and export cooperation in the industrial sector, as well as strengthen bilateral cooperation with Germany and with other countries oriented on technological innovation. Indonesia as the first country in ASEAN to become an official partner country, but also supports national branding efforts on Indonesia's position as one of the new strengths of the world economy and a global manufacturing player. Indonesia's industrial competitiveness also requires a solid foundation on the human resources side. In order to promote the quality of industrial human resources, the Ministry of Industry has implemented through two programs, namely link and match vocational high school (SMK) and industry as well as 3in1 training. This model was adopted from the application of dual systems in Germany and Switzerland. [5]

Indonesia's industrial diplomacy is faced by a variety of challenges as summarized by a team of authors from literature studies from various sources, namely in the midst of global uncertainty and trade disputes many countries are applying protectionism in order to protect domestic industry. In encouraging economic growth and improving the performance of the manufacturing industry, the Ministry of Industry carries out various strategic measures in an effort to increase the export value of the industrial sector. Among others through increasing competitiveness and preparation of superior products. Then, the utilization of free trade agreements (FTA) such as acceleration of FTA negotiations, expansion into non-traditional markets, and the initiation of bilateral FTA according to industry needs. The Ministry of Industry carries out international promotion programs through promotion and export assistance, increasing producer capacity for exports, and linking and matching with global production networks. Furthermore, providing support facilities such as facilitation of export financing, assistance of unfair trade cases, and reduction of export barriers.

In addition, the challenge in Indonesian Industrial industry diplomacy is synergy and coordination between ministries /related institutions in boosting industry competitiveness in the global arena. The Ministry of Industry through the *Directorate General of Regional Resilience and International Industrial Access* (KPAII) plays a special role in increasing exports and investment in the industrial

sector as well as increasing control of domestic and foreign markets through exports. In addition, internally, the opening of industrial products access to the global market through bilateral, regional, and multilateral negotiations. KPAII also strives for competitive industrial products to facilitate entry into the markets of partner countries, both through lower import duty tariffs and fulfilment of barriers in export destination countries. The decline in the performance of Indonesia's industrial sector is partly due to the industry's focus on domestic needs, and has not been much oriented towards export needs. According to the Ministry of Industry, the government is still encouraging export growth by optimizing industrial utilization and expanding overseas markets that can also be key in boosting Indonesia's competitiveness and hopes to also overcome the problem of trade deficit that has occurred due to Indonesia's sluggish exports. [6]

Industrial diplomacy is not only a concern of the Ministry of Industry but also other ministries/institutions such as the Ministry of Trade, Ministry of Foreign Affairs, Ministry of Finance and Investment Coordinating Board. Coordination and synergy between ministries/institutions is very important for industrial development, if there are regulations between ministries that collide or overlap will have an impact on the industry. In industrial diplomacy, the role of the Ministry of Foreign Affairs and Industrial Attaché becomes very important. The foreign ministry plays a role in diplomacy and opens up market access and international treaties. The industrial attaché plays a role to open market access to industrial products and services, the opening / expansion of the global supply chain network of national industries, promotion of industrial investment and technical cooperation. The role of industrial attachés working abroad is considerable in improving the investment climate. because it is required to be more active in opening networks or networking to foreign companies and promoting Indonesia. The goal is to make investment in the industrial sector into Indonesia can be added value. Currently there are only 3 industrial attachés in Indonesia's representatives abroad, there are in Belgium, Taiwan and Japan.

Product strategy is also a challenge in Indonesian industrial diplomacy. Where diplomats and industry players are faced with a dilemma situation, that is our diplomats and industry players conduct market intelligent about national industry products that have the potential to export and enter the global market, but the national industry has not been able to produce or ready yet, so diplomats and industry players only have an option to marketing ready industrial products but the product competes closely with similar products produced by other countries. In this case *potential product identification* versus *product strategy* becomes an issue in Indonesian industry diplomacy. In addition, potential and prospective markets as well as new trading partners are very important in the promotion of Indonesia's industrial sector, so that we are not always stuck in markets in traditional partner countries but economically less profitable for Indonesia.

In the midst of various challenges faced by Indonesia has a very large prospect of industrial diplomacy efforts, namely:

1. Successfully in Making Indonesia 4.0 implementation, Indonesia has an opportunity to become the top 10 largest economies in the world by 2030.
2. Demographic Bonus, demographic bonus momentum, some countries experience significant economic growth. Like China, Japan and Thailand. Indonesia can take advantage of these golden opportunities and reap the rewards in 2030. This demographic bonus is good for industrial environment. Based on *Indonesian Investment Coordinating Board* (BKPM) data, the number of *Industrial Business Licenses* (IUI) issued in 2019 reached 1,476 units or the achievement of 125.40 percent. In order to boost the competitiveness of the industry, it must be supported by education, especially the competence of its workforce. The Ministry of Industry also encouraged the competence of human resources (HR) through the launch of industrial vocational education programs in several regions in Indonesia. By carrying out the

concept of link and match between Vocational High School and industry, it is expected to be easy to produce skilled worker according to the needs of the industrial world today.

3. Mastery of Industrial Technology is increasing, where Indonesia recorded a proven achievement of the number of international patent applications from Indonesia to the *World Intellectual Property Organization* (WIPO) increased. This achievement can be symbolized as nation branding, where innovation, invention, creativity in industry sector that was created has a value added to national industry capacity.

Thus, to support the industrial diplomacy process, the right strategy is needed, namely:

1. The government assigns ambassadors and industrial attaché to opening market access for industrial products and services, opening/ expanding the global supply chain network of national industries in many countries, promotion of industrial investment, and technical cooperation
2. Trade Negotiations
3. Incentive and “red carpet” for investors
4. Industry sector must continue to run but still maintain health protocols during Covid-19 pandemic and *pick the winner*, what kind of industry sector needs to be the priority and attention of the government

#### 4. Conclusion

Industry needs to be a priority by making it a special sector to boost overall economic growth. Improvement of industrial sector as an export commodity is necessary continue to be supported as one of the solutions to commodity dependency in the midst of price fluctuations and world trade wars. It is very important to pick the winner of priority industrial sector as an export commodity amidst uncertainty during the covid-19 pandemic. In addition to having the opportunity to become the world's largest industry and largest economy by 2030, industrial diplomacy also has challenges such as the lack of maximum synergy and policy synchronization between the ministry of industry and the ministry of foreign affairs. The government needs to improve policy coordination and synchronization issued between relevant Ministries in priority industrial sectors. Second, the expertise of the Government's industrial diplomacy should be able to seek market opportunities and new major trading partners. In addition, it is necessary to improve the function of representatives such as industrial attaché and the Ministry of Foreign Affairs through the Embassy of the Republic of Indonesia to also actively support the implementation of industrial diplomacy in supporting the export of national industrial products.

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