

THE DEVELOPMENT OF DOMESTIC AUTOMOTIVE INDUSTRY: THE ROLE OF INDONESIAN GOVERNMENT TO COMPETE THE JAPANESE AUTOMOTIVE INDUSTRY

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Abstract

This research will explain the roles carried out by the Indonesian government in developing its domestic automotive industry to compete the Japanese automotive industries. This research will focus on two policies namely protection policies and cooperation policies implemented by the Indonesian government. This study used qualitative research methods, by having data collection technique in the form of books, journals, and data obtained from reliable website pages and can be used in research. The results of this study explained that the roles of the government were not been effective in developing the domestic automotive industry. This was because there were two conflicting policies, namely protection policies and cooperation policies with Japan. This was caused by several free trade agreements that were established by Indonesia and foreign countries, one of which is Japan and regulates taxation and import duties on motorized vehicles, will not be affected by the protection policies implemented by the government. This led to an increase in the dominance of Japanese automotive products in the Indonesian market accompanied by a reducing the roles of the national automotive industry which resulted in a smaller opportunity for Indonesia to establish an independent automotive industry.

Keywords: Indonesia, Japan, Automotive, Protection Policy, Cooperation Policy.

Abstrak

Penelitian ini akan membahas tentang peran-peran yang dilakukan oleh pemerintah Indonesia dalam mengembangkan industri otomotif domestik dengan adanya persaingan dengan industri-industri otomotif dari Jepang. Dimana penelitian ini akan terfokus pada dua kebijakan yaitu kebijakan proteksi dan kebijakan kerjasama yang diterapkan oleh pemerintah. Penelitian ini menggunakan metode penelitian kualitatif, dengan studi literature sebagai teknik pengumpulan data yang dapat berupa buku, jurnal, dan data-data yang diperoleh dari laman website yang terpercaya dan dapat digunakan dalam penelitian. Hasil dari penelitian ini menjelaskan bahwa peran-peran pemerintah belumlah efektif dalam mengembangkan industri otomotif domestik. Hal ini dikarenakan terdapat dua kebijakan yang saling bertolak belakang yaitu kebijakan proteksi dan kebijakan kerjasama dengan Jepang. Hal tersebut disebabkan oleh beberapa perjanjian perdagangan bebas yang dijalin oleh Indonesia dengan negara-negara asing yang salah satunya adalah Jepang dan mengatur tentang perpajakan serta bea masuk kendaraan bermotor tidak akan terpengaruhi oleh kebijakan-kebijakan proteksi yang diterapkan oleh pemerintah. Hal tersebut menyebabkan bertambahnya dominasi produk-produk otomotif Jepang di pasar Indonesia diiringi dengan berkurangnya peran dari industri otomotif nasional yang berakibat pada semakin kecilnya kesempatan Indonesia untuk mendirikan industri otomotif yang mandiri.

Kata Kunci : Indonesia, Jepang, Otomotif, Kebijakan Proteksi, Kebijakan Kerjasama.

Introduction

The automotive industry was first introduced in 1927 in Indonesia, yet it has not been fully developed by the government in which it was still under the Dutch Colony. At the beginning of Indonesian independence, automotive industry was considered to be developed again by the government, because it has good potentials in the future. It was in line that, Indonesia implemented nationalization and localization policy in its economy.¹

Currently, the government regulates the automotive industry as the primary industry that will continue to be developed. It is in line with the opinion of Airlangga Hartarto served as Minister of Industry of the Republic of Indonesia, in which the Ministry of Industry will encourage several industries that have competitiveness in the global market such as the automotive industry. In addition, market and high consumer demand factors also influence government policy to develop the industry. As a matter of fact, most people in Indonesia have at least one type of vehicle either two wheels or four

¹ Ignatius Ismanto, "Kebijakan industri otomotif Indonesia", *Verity, Jurnal Hubungan Internasional*, vol. 2 (2010).

wheels. Therefore, the government should take the opportunity to boost the development of automotive industry.

Based on the GAIKINDO Indonesia International Automotive Show (GIAS) 2017 event, Airlanga Hartarto served as Minister of Industry stated that the production of automotive industry in Indonesia is increasing with the investment from third parties. The data of Indonesian Automotive Industry Association (GAIKINDO) revealed that Indonesia had produced cars reached 597,522 units in mid-2017, while for car production capacity reached 2.2 million per year. While, the investment in automotive industry in 2017 reached Rp.16, 5 Trillion. It was a driving force for jobs opportunity with a total five million workers in the industry.² These achievements showed that the Indonesian automotive industry has a potential to compete with foreign automotive industries.

Some companies have established the market access in Indonesia and made Indonesia as central for their industry target to fulfill consumer demand. One of the countries which have been cooperating in the field of automotive with Indonesia is Japan. Japan has strong bilateral relationship with Indonesia. As well as the cooperation with Indonesia through the Indonesia-Japan Economic Partnership Agreement (IJEPA) signed by the President of the Republic of Indonesia Susilo Bambang Yudhoyono and Japanese Prime Minister Shinzo Abe on August 20, 2007.³ The cooperation discusses about three pillars namely trade liberalization, trade facilitation and cooperation to develop the capacity of Indonesian priority industries.⁴

The dominance of Japanese brands in the automotive field could be seen in sales data in 2017, especially four-wheeled vehicles sector. Moreover, the top ten in car sales ranks are occupied by Japanese brand products. As mentioned as follows:

Table I. 1 Top 10 Car Sales of Japan Product in Indonesian Market

| No. | Brand | Sales 2017 | Share % |
|-----|----------|------------|---------|
| 1 | TOYOTA | 371,332 | 34.40% |
| 2 | HONDA | 186,859 | 17.30% |
| 3 | DAIHATSU | 186,381 | 17.30% |
| 4 | SUZUKI | 111,660 | 10.30% |

² Raharja Ekawan, *Menperin Apresiasi Perkembangan Industri Otomotif Indonesia* (2018), <http://otomotif.metrotvnews.com/mobil/JKRyrl5k-menperin-apresiasi-perkembangan-industri-otomotif-indonesia>.

³ Fitri Tri Budiarti and Fithra Faisal Hastiadi, "Analisis Dampak Indonesia Japan Economic Partnership Agreement terhadap Price-Cost Margins Industri Manufaktur Indonesia Impact Analysis of Indonesia Japan Economic Partnership Agreement to Price-Cost Margins Indonesia ' s Manufacture Industry Pendahuluan", *Jurnal Ekonomi dan Pembangunan Indonesia*, vol. 15, no. 2 (2015), pp. 192–209.

⁴ Sigit Setiawan, "Analisis Dampak IJEPA Terhadap indonesia dan Jepang", *Jurnal Ilmiah Ekonomi Bisnis*, vol. 17, no. 2 (2012).

| | | | |
|----|-------------------|--------|-------|
| 5 | MITSUBHISI MOTORS | 79,807 | 7.40% |
| 6 | MITSUBHISI FUSO | 41,588 | 3.90% |
| 7 | HINO | 29,645 | 2.70% |
| 8 | ISUZU | 20,085 | 1.90% |
| 9 | NISSAN | 14,488 | 1.30% |
| 10 | DATSUN | 10,484 | 1.00% |

Source: Gaikindo, *Wholesales-Production-Export-Import By Brand Jan-Dec 2017*.⁵

From the data above, it could be seen that the domestic automotive market in Indonesia is dominated by Japanese brands. To anticipate such a dominance, Indonesian government had to provide its role by issuing appropriate policies or programs to develop this industry.

Economic Protectionism

Protectionism is a way of a government to restrict import from other countries. In economy, protectionism could be defined as government efforts to protect domestic industries or economies and to control export and import quotas by applying some regulation to inter-state trade being undertaken to protect domestic industries.⁶ In other words, protectionist policies are stipulated to help and develop domestic industries to compete the foreign industries by increasing import duties, raising prices of imported products, lowering domestic industrial production costs or providing investment assistance for the industry.⁷

This protectionist policy needs to be applied by developing countries that are trying to improve their economy in a way to develop their domestic industries such as Indonesia. Due to this policy, the government will seek away to optimize its production and sales of a domestic industries. Therefore the domestic industry products could compete with other products. The development of the product both in terms of quality and quantity could help to increase the domestic economy.

For developing and underdeveloped countries, they have to combine their economy and politics. Thus, the government has an active role to manage its economy of the country. If the economic sectors of the country could not increase country income,

⁵ GAIKINDO Automobile Industry Data, *Gaikindo, Wholesales-Production-Export-Import By Brand Jan-Dec 2017*. (Jakarta, 2017).

⁶ Maya Meralda Kartika, "Proteksionisme Amerika Serikat Pasca Krisis Finansial 2008", *Jurnal Analisis Hubungan internasional Vol. 2 No.3 2013* (2009). Page 1

⁷ Sabil Perbawa, "Wacana dan Implementasi Proteksionisme Perdagangan Internasional di Sektor Pertanian Melalui Berbagai Tema Fair Trade", *Indonesia University Faculty of Social and Political Study Department of Internatinal Relations* (Indonesia University, 2014).

then the government should cooperate with other countries by conducting international trade.⁸ It is because this cooperation is also a form of protection from the government who want to get their national interests. Which economy of country does not increase if it does not cooperate with other countries.

Economic Cooperation

This theory was proposed by Adam Smith and David Ricardo to criticize mercantilism which utilized state power as the controller of the domestic and international economy. The liberal economy has an argument that individual freedom in carrying out economic activities both domestically and globally is the most effective way to increase national wealth.⁹ In addition, Adam Smith also stated that trading carried out by each country had to take place freely and they specialize themselves according to their strength so that they could get more profits.¹⁰

Liberals also assumes that individuals are the main actors in carrying out economic activities. In which the government could not interfere much in international trade matters. Therefore, the flow of goods and services could run freely and naturally. Consequently, liberal economic relations in the form of cooperation between countries will result in a "positive-sum game" that bring the benefit to anyone who does it because each involved actor will obtain profits according to the available goods and services. As a result their welfare will increase.¹¹

According to liberals, economics and politics are separate fields. International economic activities, a country has a limited role, such as to create regulations so that no party gets disadvantaged and it gets benefit. Therefore, if the market functions properly, there is no economic reason for the emergence of political conflict because everyone will obtain benefits.¹²

On the other hand, every country runs their economy according to their national interest. In order to achieve their national interests, they cooperate each others to obtain mutual benefits.¹³ The main point of cooperation is the way of one country to fulfill its national interest by cooperate with other countries. So the benefits could be obtained by cooperating rather than by self-effort or by competition among them.¹⁴

⁸ Mohtar Mas' oed, *Ekonomi Politik Internasional dan Pembangunan* (Yogyakarta: Pustaka Pelajar, 2014).

⁹ *Ibid.* Page 41

¹⁰ Umar Suryadi, *Ekonomi Politik Internasional* (Yogyakarta: Pustaka Pelajar, 2015). Page 106

¹¹ Op. Cit. Mas' oed, *Ekonomi Politik Internasional dan Pembangunan*. Page 44

¹² *Ibid.* Page 46

¹³ Amir M.S, *Ekspor Impor: Teori dan Penerapannya* (Jakarta: PT. Ikrar Mandiriabadi, 1993). Page 4

¹⁴ Ari Wigiarti, "Kerjasama Indonesia-Jepang Pada Industri Otomotif Mobil Jepang di Indonesia Melalui Indonesia Japan Economic Partnership Agreement (IJEPA)", *Thesis Proposed to Indonesian Computer University Faculty of Social and Political Science Department of International Relation year 2014.* (2014).

Based on the explanation above we could define that economic cooperation is a relationship between two or among countries that aims to gain mutual benefit through the common use of resources of every country in this cooperation. This economic cooperation is part of international cooperation aiming to facilitate every country to obtain commercial and financial integration of indirect medium and long-term economic benefits.¹⁵ Then, the economic cooperation could be divided into bilateral cooperation and multilateral cooperation.¹⁶ According to T. May Rudi, bilateral cooperation is the cooperation that established from the commitment of two countries to achieve a collective welfare from the equality of interest.¹⁷ While the multilateral cooperation is the practice of coordination of national policies in group of three or more countries. In other word, multilateral cooperation runs a system that every country in the cooperation could act as a group trough the negotiation, agreement or the international organization.¹⁸

An Analysis of Government Roles In Developing Its Automotive Industry

The Indonesian automotive industry could develop supported by its implemented policies such as the protectionist policy that has big contribution in developing this industry. In addition, the government has partnership with Japan to develop its industry. Two roles above have an effect in developing the Indonesian automotive industry. Implementing protectionist policy is a good strategy from the government. However, the cooperation with Japan in this industry has a good and bad effects for this industry. Besides being able to develop this industry, this cooperation could weaken Indonesian domestic automotive industries by their dependence on Japan.

Protection Policy Against Domestic Automotive Industry

In realizing the protectionist policy, the government applied a policy regulating imported goods in 2015. The policy was stated in Regulation of the Minister of Finance No. 132 / PMK.010 / 2015 concerning the third amendment to the Regulation of the Minister of Finance No. 213 / PMK.011 / 2011 concerning the determination of the goods classification system and the imposition of import duties on imported goods. This policy regulated the increase of import duty rates for vehicles to 50% in which the previous policy resulted import duty rate for vehicles was only 7.5%. The government raised import duties on imported goods to protect domestic industries from the expansion of foreign industrial products. According to Suahasil Nazara, consumption of foreign products was increasing so the government has chosen to increase import duties on

¹⁵ Gabriel Ciprian Ndruseac and Iulian Hertug, "Theoretical perspectives on economic cooperation", *Centre for European Studies Working Paper Volume VII, Issue 3*, vol. Papers, C (Romania). Page 676

¹⁶ *Ibid.* Page 675

¹⁷ Minca Mirela, "Types of international cooperation at the local level Bucharest city hall case study", *Theoretical and Applied Economics*, vol. XXII, no. 2 (2015), pp. 237–46, <http://store.ectap.ro/articole/1098.pdf>. Page 238

¹⁸ *Ibid.* Page 242

foreign products to protect and increase domestic industrial production.¹⁹ It was expected that Indonesia could reduce the portion of imports and improve the performance of domestic industries to meet domestic consumer needs.

The next protectionist policy that will be discussed in this thesis was the localization policy applied by the Indonesian government which was stated in the Minister of Industry Regulation No. 34 / MIN-D / PER / 9/2017 concerning four-wheeled or more motorized vehicle industry. This policy was intended to regulate vehicles that were produced in a Completely Knocked Down (CKD) and Incompletely Knocked Down (IKD).²⁰ The Regulation of the Minister of Industry aimed that the four-wheeled or more motorized vehicle industry had to carry out domestic manufacturing processes. So the recommended import system was the CKD and IKD systems by importing the components of the vehicle.

The issuance of Minister of Finance Regulation No. 132 / PMK.010 / 2015 which discussed increasing import duties for imported goods has reduced the number of Indonesian imports in the automotive sector. This could be seen in the following table:

Table I. C.1 Indonesian import in The Automotive Sector 2013-2015

| No. | Category | 2013 Import | 2014 Import | 2015 Import |
|-----|-----------------|-------------|-------------|-------------|
| 1 | CBU Set | 153, 902 | 104, 503 | 82, 533 |
| 2 | CKD Set | 189, 011 | 187, 469 | 172, 237 |
| 3 | Component Parts | 106, 282 | 169, 377 | 135, 480 |

Source: Gaikindo Import Data of 2013, 2014 and 2015.²¹

From the data above, it could be seen that there was impact of the policy of increasing import duty costs applied by the Indonesian government. The number of Indonesian imports in the three categories consisted of CBU, CKD vehicles and automotive components began to decline in 2015. By the issuance of this policy, the government hopes that the domestic industries, especially the automotive industry could develop and improve the quality of its products in order to compete with foreign products. In addition, the factors of domestic industries that have not been able to develop yet encourage the government take the initiative to take the policy of increasing this import duty. It was in line with the Head of the Ministry of Finance's Fiscal Agency

¹⁹ Estu Surowati, "Pemerintah Punya Tujuan " Memahalkan " Barang-barang Impor", *Kompas* (2015), <https://ekonomi.kompas.com/read/2015/07/23/213332826/Pemerintah.Punya.Tujuan.Memahalkan.Barang-barang.Impor>. Accessed on 28 April 2018 at 21.00

²⁰ Completely Knocked Down (CKD) is import of complete decomposes vehicle and Incompletely Knocked Down (IKD) is import of vehicles in incomplete and decomposed state.

²¹ GAIKINDO Automobile Industry Data, *Gaikindo Import Data of 2013, 2014 and 2015* (Jakarta).

statement, Suhaisil Nazara, “the tariff on import duties was last harmonized in 2010. It means that our tariff has not changed for five years. It is time for us to carry out the process of further tariff harmonization.”²² So, this policy is generally issued in order that Indonesia no longer has a dependency on imported products.

Meanwhile the government issued Regulation of the Minister of Industry No. 34 / MIN-D / PER / 9/2017 considering that the domestic automotive market is too dominated by foreign products. The automotive market from 2016 to 2018 was always dominated by Japanese brand products. We could see in table 3 in the discussion of chapter 2. Besides describing the strength of the Japanese automotive industry, the table also explained that the Indonesian market has been dominated by Japanese brands products. During these 3 years, Japanese brands products such as Toyota, Honda, Suzuki, Daihatsu and others alternated to rank in the top ten in selling their products in the Indonesian market. Therefore, this Regulation of the Minister of Industry 34 of 2017 stated a form of government’s effort to reduce the dominance of Japanese products by further developing the national industry in order that in the future of the Indonesian automotive market will be not dominated by Japan.

The regulation applied by the government aimed to invite foreign automotive industries to produce vehicles in the country. The Government regulates that every automotive industry could import motor vehicle components with two categories, namely CKD and IKD. These two systems stated that, the automotive industry had to use several domestic motorized vehicle component products so that they could complete the assembly process of a vehicle. The government applied this policy in order that the domestic component industry could develop and improve its quality and quantity so that their products could compete in the global market. In addition, the development of the domestic automotive component industry, aimed to encourage Indonesia to be able to establish an independent national automotive industry. In which the domestic market is not dominated by automotive products with Japanese brands.

The foreign automotive industries obeyed the regulations applied by the Indonesian government because they wanted to maintain their market in Indonesia. It was because the Indonesian market was a suitable place to develop the automotive industry. Moreover, the total population of Indonesia according to the Central Bureau of Statistics is around 258,705,000 in 2016.²³ So the level of sales of automotive products in the next few years will develop along with the increasing population of Indonesia. Furthermore,

²² Disfiyant Glienmourinsie, “Ini Alasan Tarif Bea Masuk Impor Dinaikkan”, *SindoNews* (2018), <https://ekbis.sindonews.com/read/1026602/34/ini-alasan-tarif-bea-masuk-impor-dinaikkan-1437990838>. Accessed On 28 April 2018 at 21.00

²³ Badan Pusat Statistik, *Jumlah Penduduk Menurut Provinsi di Indonesia (ribu jiwa), 2012–2016* (2016), <https://jateng.bps.go.id/statictable/2017/10/29/1583/jumlah-penduduk-menurut-provinsi-di-indonesia-ribu-jiwa-2012-2016>, accessed On 12 January 2018 at 22.00..

vehicles are basic need of everyone to mobilize their all activities. This adds to the potential of the Indonesian market for foreign automotive industries to make Indonesia a market base and the production of global automotive products. Therefore, all applied regulations will continue to maintain the main source of profit in the automotive sector.

Cooperation to Develop Automotive Industry

One of the cooperation in the industrial sector that has been carried out by the Indonesian government was the cooperation of *Indonesia-Japan economic Partnership Agreement* (IJEPA). This cooperation is established by the Indonesian and Japanese governments to develop industry in Indonesia with the consequence of mutual benefit for both parties (win-win solution). The three main pillars of this agreement consisted of trade liberalization, trade facilitation, and capacity building. In trade liberalization, the two countries agreed to reduce their tariffs, in which Japan was required to reduce its tariff by 90% against 9,262 tariff posts. Meanwhile, Indonesia had to reduce tariffs by 92.5% against 11,163 total tariff posts. The second pillar is trade facilitation, that is the facilities provided by the Indonesian government to Japan in the form of the elimination of import duties on imported goods in the form of products that are not produced domestically and the production process is given to domestic movers such as motorized vehicle products and their components. . The next pillar dealing with capacity building, a reciprocal had to be given by Japan in the form of technology transfer and knowledge to improve the performance and quality of Indonesian industrial production. So, Indonesian products could have competitiveness against foreign products.²⁴

In implementing the tariff abolition agreement, the two countries used two systems, namely a reduction in general preference tariffs and Tariff User Specific Duty Free Scheme (USDF).²⁵ That the enactment of an agreement benefits Japan resulted the Indonesian government reconsidered to benefit from this agreement. So they demanded that Japan implemented the Manufacturing Industry Development Center (MIDEC) program, that Japan had to provide assistance for Indonesia in terms of developing its industrial performance. So Indonesian products have good quality to compete in global market, especially the international market.²⁶

The policy regulated the USDFS system which was stated in Regulation of the Minister of Finance No. 96 / PMK.001 / 2008 concerning the stipulation of import duties in the framework of USDFS. The government evaluated and finally revised this USDFS

²⁴ Op. Cit. Budiarti and Hastiadi, "Analisis Dampak Indonesia Japan Economic Partnership Agreement terhadap Price-Cost Margins Industri Manufaktur Indonesia Impact Analysis of Indonesia Japan Economic Partnership Agreement to Price-Cost Margins Indonesia ' s Manufacture Industry Pendahuluan". Page 193

²⁵ Rizky wendi Firdaus, "Implementasi Indonesia-Japan Economic Partnership Agreement terhadap Defisitnya Neraca Perdagangan Sektor Non-Migas Indonesia-Jepang 2008-2012", *Jurnal Analisis Hubungan Internasional*, vol. 3, no. 2 (2014), pp. 1–20. Page 599

²⁶ *Ibid.* Page 607

policy by issuing the Minister of Industry Regulation No. 3 of 2018 concerning guidelines for implementing import duty tariffs with the User Duty Free Scheme within the framework of an agreement between Indonesia and Japan concerning an economic partnership. Which in Article 2 of the Minister of Industry Regulation it was stipulated that every industry that would import raw materials for production using the USDFS system had to fulfill the provisions that is raw materials to be imported could not be produced domestically, raw materials that have been produced domestically do not meet the specifications stipulated an industry and the desired raw material has been produced domestically but the amount has not met the needs of the industry. In Article 4 of this Ministerial Regulation, the automotive industry is classified into the driving sector industry.²⁷ That every vehicle or automotive component imported by Indonesia from Japan gets an import duty waiver of 33.2%.

Based on the implementation of this policy, the Japanese government gave a reciprocation in the form of MIDEK that would improve competitiveness and build independence of national industries by training activities, labor exchanges between the two countries, labor visits and seminars related to improving the performance of domestic industries.²⁸ This IJEP A cooperation would have a very important impact on all industries in Indonesia, especially the Indonesian automotive industry. it was because Japan stipulated the automotive industry become the first goal of using the USDFS system which could reduce the import costs of commodity imports of vehicles and their components.

Some of the benefits obtained by Japan in this agreement were the large of Indonesian market, the ease of natural resources as raw material for vehicle components, the reduction of Japan's import duty on automotive goods to Indonesia with the USDFS program and a large workforce at low prices. Japan could use the large Indonesian market to expand its products. Moreover, the implementation of the USDFS program could help Japanese products easily to enter the Indonesian market. In addition, the Japanese automotive industry could reduce the amount of production costs with the availability of abundant natural resources and a large workforce at low prices.

On the other hand, Indonesia got a benefits from the development of the domestic automotive industry with the MIDEK program, reduce the number of unemployed in Indonesia and increase number of automotive exports. In the MIDEK program, several Japanese automotive industries have established several researches and development

²⁷ Minister of Industry Regulation No. 3 of 2018 concerning guidelines for the implementation of import duty tariffs with the User Duty Free Scheme scheme in the framework of agreements between Indonesia and Japan regarding an economic partnership (2018).

²⁸ Loc. Cit. Budiarti and Hastiadi, "Analisis Dampak Indonesia Japan Economic Partnership Agreement terhadap Price-Cost Margins Industri Manufaktur Indonesia Impact Analysis of Indonesia Japan Economic Partnership Agreement to Price-Cost Margins Indonesia ' s Manufacture Industry Pendahuluan". Page 193

centers to develop the Indonesian automotive industry. One of the automotive industries that has established the Development and Research Center is PT. Astra Daihatsu Motor. According to the President Director of PT. Astra Daihatsu Motor Sudirman MR, This research and development center was built to develop products in Indonesia that are in line with the consumer demands and export if possible. In addition, this research and development center was an effort of PT. Astra Daihatsu Motor to improve and develop Indonesia's human resource capabilities in order to Indonesia can establish an automotive industry that has quality products to compete globally in the future.²⁹

The next advantage gained by Indonesia was the reduced number of unemployed in Indonesia. In 2017 the manufacturing industry has absorbed around 17.98 million people. Meanwhile the automotive sector has absorbed around 3 million workers.³⁰ The increase in absorption of this workforce was supported by the increase in assembly manufacturers in Indonesia, such as Mitsubishi which has built a new assembly manufacturer in the Cikarang area in 2017. The plant has a production capacity of 160,000 units and will be increased to 240,000 units. In addition, this factory has also provided an investment of Rp.7.5 Trillion by involving 212 local suppliers in tier-1 and 369 on tier-2.³¹ Having a large production capacity, this industry definitely needed more labor to run the vehicle production process. It could be concluded that the presence of this new factory could reduce the number of unemployed in Indonesia.

Moreover, this cooperation could also increase the number of Indonesian vehicle exports. The increasing number of Indonesian automotive exports could be seen in the following table:

Table I. C. 2 Indonesian Automotive Export 2015-2017

| No. | Category | 2015 Export | 2016 Export | 2017 Export |
|-----|-----------------|-------------|-------------|--------------|
| 1 | CBU Set | 207, 691 | 194, 397 | 214, 971 |
| 2 | Component Parts | 4, 683, 519 | 6, 233, 114 | 73, 171, 309 |

*Source : Gaikindo Export Data of 2015, 2016, 2017.*³²

The table above explains the significant increase of Indonesian automotive exports in 2015 to 2017. The increase was found in two categories, consisted of CBU

²⁹ Kementerian Perindustrian, "Geliat industri gairahkan ekonomi", *Media Industri Edisi Bulan Februari 2017*. Page 36

³⁰ GAIKINDO, *Industri Manufaktur akan Serap 17, 98 Juta Tenaga Kerja di 2018* (2018), <https://www.gaikindo.or.id/industri-manufaktur-akan-serap-1798-juta-tenaga-kerja-di-2018/> .

³¹ Loc. Cit. Perindustrian, "Geliat industri gairahkan ekonomi". Page 36

³² GAIKINDO Automobile Industry Data, *Gaikindo Export Data of 2015, 2016, 2017* (Jakarta).

vehicle exports which increased from 207, 691 units in 2015 to 214,971 units in 2017 and automotive component exports increased from 4, 683, 519 units in 2015 to 73, 171, 309 units in 2017. The increase in the number of exports was the impact of the development of domestic automotive industries, which was assisted by cooperation between Indonesia and Japan. In which the quality and quantity of products meet the domestic market. Therefore, the government encourages automotive exports to foreign countries to balance sales in the domestic and global markets. So, we can conclude that the two countries has equal benefits from establishing this cooperation.

The Indonesian Government Roles Analysis

If we analyze more deeply, there were some losses obtained by the Indonesian government dealing with its role to develop the domestic automotive industry. As several theories stated in this thesis, which protectionism economy and liberal economy have a gap between them. It same with the policy that has been implemented by the government to develop this industry, that are protectionism policy and cooperation policy. In which cooperation with Japan and the protection policies that have been implemented will have the opposite effect. As stated by the first chairman of GAIKINDO, Jongkie D Sugiarto, that several free trade agreements established by Indonesia and foreign countries, for instance Japan in which regulating taxation and import duties on motorized vehicles, will not be affected by the protective policies implemented by the government.³³ So, IJEPA agreement will remove the protection policies that have been implemented by the government and imported vehicles from Japan will increase in line with the ease of the process and the cheap of cost for entering these products to Indonesia.

The next loss was the increasing dominance of Japanese automotive products in the Indonesian market accompanied by the reducing role of the national automotive industry that is the local component industry in the production process. This would cause the national automotive industry to be unable to develop because they did not have a significant contribution to the vehicle production process which was the transfer of science and technology from the major automotive industry to the domestic automotive or IKM. Having this cooperation, the government will experience difficulties in establishing an independent national automotive industry. It was because Indonesia is a country that is always proud of its nationality. During the Seharto era, the government has pioneered an independent national automotive industry.

It was hard for Indonesia to establish an independent automotive industry because there would be many foreign actors by having such cooperation with Japan. It was because this cooperation will bring many foreign actors in Indonesia and have an impact on local actors who will lose competitiveness and reduce. Moreover, local players are a

³³ GAIKINDO, *Bea Masuk Barang Impor Naik* (2018), <https://www.gaikindo.or.id/bea-masuk-barang-impor-naik/>, accessed 31 Mar 2018.

very important factor in establishing an independent national automotive industry. It was because, Indonesia could reduce its dependence on imported raw materials and could further strengthen its national industry structure. So, the first step in establishing an independent automotive industry is by strengthening local component industries and increasing their contribution to the production process with the major automotive industries. So, Indonesia could establish an independent automotive industry by having a strong local component industry and producing quality products.

The Government's efforts in implementing protectionist policies to develop an independent national automotive industry are accompanied by the success of foreign companies in developing the Indonesian automotive industry. Therefore, the government did not implement protectionist policies as a whole. So, it could be said that the government experienced ambiguity in two ways, namely the government's hope to establish an independent national automotive industry and the success of foreign companies in developing the domestic automotive industry.³⁴ These two things make the development of an independent national automotive industry has not realized yet until now. In addition, the application of these two contradictory policies has an impact on the domestic automotive industry. As the increasing dominance of Japanese products in the Indonesian automotive market, it could weaken the domestic automotive industry due to their dependence to Japan and lack of their role in manufacturing process. So the government roles were not effective enough to develop this industry

How Islamic Worldview Views OF Government's Role to Develop Automotive Industry

The role of the state is very important in the Islamic economy. Islam has recognized the independence of every individual from slavery, Islam does not give freedom to the market in the process of its interaction. It was because market freedom will lead to evil as well as the oppression of weak actors in the scope of the market. So, it resulted an unfair competition in the market. Therefore, the government has active roles to regulate the course of the market. But this role is not excessive as well as intervention in conventional economic perspectives. So, the role of the state is only to regulate the market mechanism to take place fairly.³⁵ Siti Mujiatun in the Journal of Analytica Islamica Vol.3 No.1 in 2014 stated that according to Prof. Dr. Muhammad Nejatullah Ashshiddiqi explained four aspects of state roles that had to be carried out in the economic order, there are:

³⁴ Op. Cit. Enggar Furi Herdianto, "Implementasi AEC dalam Peningkatan Jaringan Produksi Regional Asean : Studi Kasus Industri Otomotif", *Dauliyah*, vol. 1, no. 1 (2017). Page 14

³⁵ Siti Mujiatun, "Peran Pemerintah Tentang Pengembangan Perekonomian Dalam Perspektif Sistem Ekonomi Kapitalis, Sosialis, dan Islam", *Jurnal Analytica Islamica*, vol. 3, no. 1 (2014), pp. 1–18. Page 90

"First, guarantee the upholding of economic ethics and Islamic business from every individual through education, and if necessary through coercion. Second, create a healthy climate in the market mechanism. Third, take positive steps in the field of production and capital formation, in order to accelerate growth and ensure social justice. Fourth, improve the provision of resources and equitable income distribution, both with guidance, regulation, and direct intervention in the process of providing these resources and income distribution."³⁶

In this paper, the roles of the government are in accordance with four aspects that had to be done to regulate the economy of a country. The government has conducted education for prospective workers and provides certification after they graduate from their education. The government has also adopted a policy that is considered appropriate to develop the automotive industry by encouraging the production process and utilizing resources that already exist in Indonesia. In addition, the roles of the government are also in accordance with the word of God in the Qur'an, as follows:

الَّذِينَ إِذَا مَكَتَاهُمْ فِي الْأَرْضِ أَقَامُوا الصَّلَاةَ وَآتَوُا الزَّكَاةَ وَأَمَرُوا بِالْمَعْرُوفِ
وَنَهَوْا عَنِ الْمُنْكَرِ ۗ وَاللَّهُ عَاقِبَةُ الْأُمُورِ

The Mean:

"Those who, if We affirm their position on the earth, will establish prayer, pay zakat, order to do the ma'ruf and prevent from doing wrong; and to Allah it is all affairs return." (Qs. Al-Hajj, 22)³⁷

The paragraph above explains the roles that had to be owned by a leader or government in carrying out its obligations by calling for good deeds and avoiding bad deeds. In the automotive sector, the government had to also implement policies that could have a good impact on this industry. So that the policy could help the development of this industry.

Conclusion

There are several potential factors for the government to further develop the automotive industry, by increasing the amount of production with investment from third parties to meet market factors and consumer demand both domestically and globally as well as the competitive factor of multinational companies that have established their

³⁶ *Ibid.* Page 102

³⁷ Al-Quran Al-Karim, Surat Al-Hajj Ayat 188.

industrial centers in Indonesia. These factors made Japan begin to dominate the Indonesian automotive market with the cooperation between the two countries which made Japan easier to distribute its products to Indonesia. Moreover, the number of Japanese automotive companies in Indonesia also influenced Japanese dominance in the Indonesian automotive market. Therefore, the roles of government are needed in reducing Japanese dominance in the Indonesian automotive market. Besides playing a role in developing this industry, the government had to also play a role in protecting this industry from Japanese domination.

In this paper, the role of the government in developing the automotive industry and preventing domination of Japanese products could be divided into two, namely the role of protection and the role of the development of this industry in order to be more advanced. The protection role of Indonesian government is to increase import duty costs for imported goods and localization policy by increasing the use of local components in the production process. While the development role of government in the cooperation with Japan within the scope of IJEPA was to regulate the challenge of USDFS and MIDEK to be mutually beneficial for both parties. But, the author stated that the Indonesian government had not maximum roles in developing the domestic automotive industry. It was because there are two contradictory policies adopted by the government, these were protection policies and cooperation policies or IJEPA. By having IJEPA cooperation, the protection policy that has been implemented will be abolished according to the agreement of the two countries. This will cause some disadvantages for Indonesia as well as the increasing number of foreign actors in the domestic automotive industry. So, Indonesia's potential to establish an independent automotive industry will be reduced accompanied by an increase in Japanese dominance in the Indonesian automotive industry.

On the other hand, the author also found two factors that caused the government did not implement a comprehensive protection policy in the automotive industry sector. The first factor was the government's expectation to establish an independent automotive industry and the second factor was the success of foreign companies in developing this industry. Therefore, the policies in the automotive sector appeared to be inconsistent with implementing protection policies and cooperating with other countries. So it would increase the dominance of Japanese products in the Indonesian automotive market that could weaken the domestic automotive industry due to their dependence to Japan and lack of their role in manufacturing process. So the government roles were not effective enough to develop this industry. While, based on perspective of Islam the roles of government in developing the automotive industry are in accordance with the four aspects that become the obligation of a country to regulate the economy of the country. So that it could be said that Indonesian government has carried out its work with Islamic values in it.

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