

# Indonesian Government's Role in Increasing Domestic Product Consumption: An Analysis of Act Number 3 of 2014 on Industry

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**Abstract.** To empower the domestic industry, the Indonesian government has introduced policies aimed at increasing the utilization of domestic products. The government's policy, as encapsulated in the Program for the Enhancement of Domestic Product Utilization (EDPU), seeks to encourage the populace to favor domestic products over imports. The use of Domestic Products (DP) is a strategy to stimulate growth and empower domestic industries in Indonesia, fostering value addition, employment generation, improving the competitiveness of domestic products, supporting innovation and technology within domestic products, and increasing the use of these products. The EDPU is regulated by Articles 85 through 90 of Act Number 3 of 2014 Concerning Industry. The government provides incentives in the form of preferential pricing and administrative ease in the procurement of goods/services, along with certification of domestic component levels. Additionally, the government has established regulations regarding administrative sanctions for entities that do not utilize domestic products. The purpose of this paper is to explore the government's policies related to EDPU, intending to foster national economic development by creating a robust economic structure through the advancement of domestic industries as the catalyst for the national economy. This research follows a normative approach, grounded in literature research, and utilizes secondary data sources.

**Keywords:** Enhancement of Domestic Product Utilization, Administrative Sanctions, Domestic Component Levels

## 1. Introduction

The industrial sector serves as the primary driver of national economic development, as it can significantly contribute to added value, job creation, foreign exchange earnings, and play a substantial role in enhancing national competitiveness. [1] Presently, in Indonesia, the usage of imported products among the population remains relatively high. [2] This phenomenon has adverse effects on domestic products, leading to reduced demand and diminished economic turnover within the country.

One of the strategies adopted by the Indonesian government to fulfill its vision and mission for national industrial development is to empower the industry, primarily by increasing the utilization of domestic products.[3] The government has introduced policies aimed at promoting the use of domestic products, with the Program for the Enhancement of Domestic Product Utilization (EDPU) being a notable initiative. This program reflects

the government's efforts to encourage citizens to opt for domestic products over imported ones. [4]

The government is striving to build the competitiveness of the national industry, grounded in the competitive abilities of its human resources and the comparative advantages of its natural resources.[5] However, it is crucial to emphasize that the national industry can only grow and flourish when its products are actively consumed, contributing to economies of scale and improvements in product quality. [6]

The use of DP is an endeavor to stimulate the growth and empowerment of the existing industries in Indonesia, enhancing value addition, generating employment opportunities, improving the competitiveness of domestic products, fostering innovation and technology advancements in the domestic product sector, and increasing the consumption of domestic products. This is complemented by awards and recognition for both users and producers of domestic products.

One of the challenges faced in domestic production is the limited availability of raw materials. Raw materials constitute a fundamental element in the process of domestic production. [7] Additionally, the industrial workforce can be deemed as somewhat lacking in competencies. Another challenge lies in assigning roles and contributions to the manufacturing industry, which plays an increasingly pivotal role in the national economy, serving as a cornerstone for job creation, added value production, domestic market dominance, support for sustainable development, and foreign exchange generation.[8]

## **2. Method**

This research adopts a normative approach, specifically relying on a literature-based investigation, often referred to as Library Research. Library Research is conducted by collecting data from literary sources that are relevant to the issues under examination.[9] Data sources are categorized into two types: primary data and secondary data. Primary data refers to information obtained directly by the researcher (first-hand), while secondary data comprises data acquired from pre-existing sources.[10] Primary data sources may also include information obtained from judicial verdicts and official records issued by the court. In contrast, secondary data sources consist of legal sources, including verdicts and textbooks containing fundamental principles of legal science and classical viewpoints of highly qualified scholars. In this study, secondary data sources have been utilized.

Literature review is a data collection technique that involves a comprehensive examination of books, literature, notes, and reports related to the issues being addressed. [11] A conceptual approach, integrating insights from legal science and legal theory, has been employed to investigate the relevant issues. The conceptual approach is derived from perspectives and doctrines that have evolved within the field of legal science. By studying these perspectives and doctrines within legal science, the researcher will identify ideas that give rise to legal understandings, legal concepts, and legal principles relevant to the issues at hand.

The research methodology involves a legal approach, specifically focusing on legal regulations, such as Act Number 3 of 2014 concerning Industry, Government

Regulation Number 29 of 2018 concerning Industrial Empowerment, and other related regulations.

### **3. Result and Discussion**

The Government encourages private enterprises and the public to increase the utilization of domestic products. The EDPU is regulated in Articles 85 through 90 of Act Number 3 of 2014 concerning Industry.

Article 85 of Act Number 3 of 2014 concerning Industry explains that domestic products refer to goods/services, including design and engineering, produced or executed by companies that invest and manufacture within Indonesia. These companies employ part of the Indonesian workforce and use domestic components and/or partially imported components in their processes.

The increase in the utilization of domestic products is aimed at ensuring national self-reliance, economic stability, and community empowerment. The objective of the EDPU program is to boost the usage of domestic production, create employment opportunities, and reduce dependence on foreign products through the optimization of government spending. Another goal is to enhance national utilization, ultimately improving industrial efficiency to compete in the global market, leading to foreign exchange savings.[12]

The Benefits of Complying with DP Include:

1. Absorption of local labor and the creation of new job opportunities.
2. Support for local companies or industries, including Small and Medium Enterprises (SMEs).
3. Increased income through income tax (PPH) for products made in Indonesia.
4. Establishment of a well-functioning supply chain ecosystem.
5. Encouragement for component vendors to open factories in Indonesia to supply assembly plants.
6. Realizing Indonesia's potential as a production base and an exporting nation.
7. Achieving equality between local and foreign brand players in production through knowledge and technology transfer incentives.

In promoting the use of domestic products, the Government provides at least two types of facilities:

- a. Preference in pricing and administrative ease in the procurement of goods/services.
- b. Certification for the level of domestic components.

Article 86 of Act Number 3 of 2014 concerning Industry stipulates that domestic products must be used by ministries, institutions, regional governments, state-owned enterprises, regional-owned enterprises, and private enterprises.

The act also specifies sanctions for those who do not utilize domestic products. These sanctions are in the form of administrative penalties, including written warnings, administrative fines, and, in some cases, removal from procurement positions.

Sanctions may be exempted when domestic products are not yet available or sufficient. Further details about the procedures for imposing administrative sanctions and the number of administrative fines are determined by Government Regulations. The act also outlines the imposition of sanctions for non-compliance with the Domestic Component Level (DCL) commitments in Government Regulation Number 29 of 2018 concerning Industrial Empowerment.

To further optimize the use of domestic products in government procurement, Government Regulation Number 29 of 2018 concerning Industrial Empowerment was issued. Among its provisions, Article 61 of Government Regulation Number 29 of 2018 concerning Industrial Empowerment emphasizes the obligation to use domestic products with a minimum DCL of 25%, which can be higher for products with a minimum DCL plus Supporting Materials of 40%. The technical aspects are detailed in Article 73 of Government Regulation Number 29 of 2018 concerning Industrial Empowerment, which includes the establishment of the National EDPU Team, led by the Coordinating Minister for Maritime Affairs and Investment, and the requirement for product users to form the EDPU Team.

#### **4. Conclusion**

The Use of the DP Program has been mandated for various entities, including ministries, institutions, state-owned enterprises (BUMN), and regional state-owned enterprises, following Act Number 3 of 2014 concerning Industry. The Indonesian government implements the Increased EDPU as an effort to promote the utilization of domestic products and enhance national economic self-reliance. This program is regulated by the act and encompasses administrative sanctions for those who do not comply with these regulations. EDPU aims to increase the value-added by domestic industries, create new job opportunities, reduce dependence on imported products, enhance industrial efficiency, and support national economic development. Its benefits include the absorption of local labor, growth of the domestic industry, increased tax revenues, and export potential. Additionally, EDPU is necessary as a reserve to ensure the availability of domestic products in emergencies or changes in international trade policies.

To strengthen the use of Domestic Products Program and achieve its goals, several steps are required, including improving the quality of domestic products, maintaining competitive prices, enhancing product standardization and certification, and stricter law enforcement. Moreover, educating the public and business stakeholders about the benefits of using domestic products and EDPU policies is essential to raise awareness and garner support for domestic products.

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