

Research Article

The Political Economy of Local Content Requirements Policy in Indonesia's Telecommunication Manufacturing Industry 2015-2020

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Abstract

This article examines the factors shaping Indonesia's Local Content Requirements (LCR) policy on the telecommunications manufacturing industry, specifically on the production of smartphones from 2015 to 2020. The LCR policy mandates both foreign and domestic corporations to utilize local content up to a specified minimum threshold. The Indonesia's LCR policy on the telecommunications industry is set at a minimum of 30%. This local content could be derived from labor, raw materials for product manufacturing, or investment. Nevertheless, the implementation of the Indonesia's LCR policy is considered contradictory to the previous government's endeavors to augment the level of foreign direct investment. This is because the LCR policy is seen as a protectionist measure that may potentially hinder foreign companies, thereby inducing a decrease in investment. This study applies a political economy approach with library research data collection methods and subsequently analyzed using qualitative methods. The result of this research shows that the Indonesian government's LCR policy is underpinned by two primary factors and interests. Firstly, it aims to support corporate interests, particularly the development of the local telecommunications industry. Secondly, the policy is motivated by a long-term ambition to increase the participation of Indonesian businesses in Global Value Chain (GVC) networks.

Keywords: Local Content Requirements, Global Value Chain, Telecommunications, Industry, Foreign Direct Investment

INTRODUCTION

Governments across the globe are strategically amplifying foreign direct investment (FDI) as a mechanism to facilitate the transformation of their domestic economic sector. The introduction of such investments enables host countries to embark on infrastructure development—a critical need for many developing nations (Djulius et al., 2019). Consequently, this leads to more equitable and balanced distribution of development within the country, as the infrastructure is updated and expanded. Amidst the current era of globalization, the adoption of economic openness through foreign investment is perceived by numerous nations and policymakers, including in developing countries, as a vital tactic to stimulate economic development (Murthy, 2015; Knoerich, 2017). In contrast, protectionist policies which restrict investment openness are deemed to inhibit

economic growth and present obstacles to the equitable distribution of wealth (Moura, 2013).

In this context, the Indonesian government constantly grapples with two divergent policy directions. One approach is driven by the imperative of economic development, while the other is dictated by apprehensions regarding the potential negative consequences of foreign investment inflows, as commonly articulated by the citizenry. Public sentiment on this issue exhibits substantial heterogeneity. A considerable segment of the Indonesian populace resists foreign investment, grounded in the conviction that such inflows could engender adverse effects. This resistance stems from concerns about the likelihood of control and domination by developed capitalist nations via foreign investment. Supporting this viewpoint, several instances from the South Asian and African regions underscore how foreign investment has been instrumental in the economic downturn of the recipient countries (Al-Fadhat and Prasetio, 2022). Conversely, the government also contemplates the exigencies of domestic economic expansion, notably in fostering industrial sector growth and accomplishing national infrastructure objectives. This predicament is further exacerbated by the persistent budget deficit experienced in the state budget annually (Cahyani, 2018).

For instance, the National Medium-Term Plan (Rencana Jangka Menengah Nasional/RPJMN) of Indonesia for 2015-2019 disclosed that the nation's infrastructure necessities equate to a considerable IDR 5,519.4 trillion. Nevertheless, the budget appropriated by the government manages to fund a mere 8.7 percent of the total domestic infrastructure sector requirements. Additionally, the combined financial inputs from state-owned enterprises and local banks are capable of covering up to 30 percent of the total funds needed. Furthermore, each year, Indonesia encounters a substantial budget shortfall. According to records from the Ministry of Finance, the state budget revealed a deficit of IDR 296.0 trillion in 2019. This deficit is projected to escalate in 2021, rising to IDR 775.1 trillion (Kementerian Keuangan, 2019; 2022). Consequently, the remaining infrastructural needs are anticipated to be met through the incorporation of private sector investments and infusions of foreign investment funds. This emphasizes the significant role that foreign investment plays for Indonesia in terms of fostering the development and equal distribution of the country's infrastructure (BKPM, 2015).

Recognizing the significance of foreign investment inflow to Indonesia's economy, the government has revised its foreign investment legislation since 2007. As per Law Number 25 of 2007 on Investment, the government commits to delivering equitable treatment to all investors, eschewing any preferential treatment (Pemerintah Indonesia, 2007). This legislation aims to stimulate further interest among foreign investors to engage in business ventures within Indonesia, subsequently advancing national development. Concurrently, the government has been devising additional strategies, notably the reduction of interest rates. More precisely, Bank Indonesia (BI) has implemented a reduction of the BI 7-day Reverse Repo Rate, which is the benchmark interest rate, by 25 basis points (bps) to a total of 5.75 percent (Praditya, 2019). This policy initiative is anticipated to further enhance the appeal of Indonesia as an investment destination for foreign entities. This has been paralleled by an influx of multinational companies

establishing subsidiaries, making acquisitions, and forming joint ventures in Indonesia, particularly within the manufacturing sector—the trend that is also seen in several Southeast Asian countries (ASEAN, 2021).

In 2015, however, the Indonesian government enacted a foreign policy which has generated substantial debate regarding the sustainability of investment and business operations of multinational corporations within the country. This policy, referred to as Local Content Requirements (LCR), has been perceived as a protective measure that potentially obstructs the flow of international trade. The policy was backed by Presidential Regulation (Peraturan Presiden) number 16 of 2018 regarding government procurement of goods/services. Critics argue that it infringes upon the fundamental principles of international commerce as governed by the World Trade Organization (WTO) (Prihadi, 2015).

The LCR policy, or the Domestic Component Level (Tingkat Komponen Dalam Negeri/TKDN), represents an initiative of the Indonesian government to encourage brand owners or vendors to incorporate local elements into their investment processes, rather than treating Indonesia solely as a consumer and market (Peraturan Presiden, 2018). It is noteworthy that the LCR policy conflicts with WTO principles regarding a nation's-imposed barriers. This conflict arises as LCR impedes multinational corporations looking to invest in Indonesia, a maneuver considered illicit by the WTO. Nevertheless, the Indonesian government's commitment to this policy can be attributed to the principle of country-specific exceptions. This principle, outlined in Article 3 of the Agreement on Trade-Related Investment Measures (TRIMs), states, "All exceptions under GATT 1994 shall apply, as appropriate, to the provisions of this Agreement" (WTO, 2018). Consequently, any exceptions delineated in the General Agreement on Tariffs and Trade (GATT) are applicable to the articles of the TRIMs agreement. The utilization of country-specific exceptions in Indonesia takes into consideration the nation's domestic social policy sector and economic conditions. Furthermore, the differentiated treatment bestowed upon companies utilizing Indonesian local components is regulated by the statutory provisions of Minister of Industry Regulation Number 29/M-IND/PER/7/2017 (Dewanti, 2012: 212).

The industrial government has prioritized the supervision of multinational companies operating within the telecommunications manufacturing sector in Indonesia. To ensure adherence to regulatory standards, the government has iteratively drafted LCR regulations specific to this sector three times to date. The process of determining LCR in this sector is governed by the Industrial Regulation of the Republic of Indonesia Number 29/M-IND/PER/7/2017. This policy mandates a minimum Total Domestic Content (TKDN) level of 30%, encompassing aspects such as assembly, raw materials, and labor. The regulation has been ratified by the Ministry of Industry, the Ministry of Trade, and the Ministry of Communication and Informatics, demonstrating a united governmental front on this issue (PERMEN, 2015).

This scholarly article scrutinizes the motivating factors behind the Indonesian government's LCR policy, with a particular focus on the telecommunications manufacturing sector from 2015 to 2020. Employing a political economy approach, this

research contends that the establishment of LCR policies is primarily influenced by big corporate interests, specifically the growth of the domestic telecommunications industry as enabled by government intervention. Furthermore, these policies are propelled by a strategic, long-term objective to amplify the involvement of Indonesian enterprises in the Global Value Chain (GVC) network.

METHOD AND THEORY

This article is predicated on research employing qualitative methods, whereby data is systematically gathered and subsequently categorized, correlatively aligned with the central research query. Information provided in this study is largely interpreted by the researcher via a distinctive methodology specifically chosen for its appropriateness. Data gathering involved a comprehensive literature review, incorporating sources such as academic journals, books, annual reports, official governmental documentation, and credible online media reports. The authors construct the discourse using a political economy perspective, examining the intricate interplay between governmental policies and economic interests. In this context, Local Content Requirements (LCR) political policies are seen as motivated by business-driven economic factors and the government's desire to expedite the integration of strategic economic sectors into the global economic infrastructure via the Global Value Chain (GVC) network. This research is temporally bound from 2015 to 2020, a timeline originating with the Indonesian government's issuance of LCR policies in the telecommunications manufacturing sector.

In elucidating the Indonesian government's policy on Local Content Requirements (LCR) within the telecommunications manufacturing industry, two significant perspectives are relevant. The LCR policy, enacted in 2015, signifies a shift in the sector's economic policy from an open stance to selective protectionism. Moreover, this policy seemingly contradicts other governmental policies, particularly those aimed at enhancing foreign investment. The authors illuminate these nuances using two theoretical frameworks, incorporating: (a) the concept of Corporate Elite in Economic Policy-Making and, (b) the Politics of Global Value Chain.

In his examination of policy changes, including those in foreign affairs and domestic political economy, Peter A. Hall (1993) posits that such alterations stem from a triad of factors: the confluence of anomalies, policy experiments, and antecedent policy setbacks. He underscores how these interconnected elements profoundly shape the character of governmental policies. Using British economic policy during Margaret Thatcher's administration as a case study, Hall discerns a progression of changes: initially, an alteration in the configuration of policy tools, succeeded by a second-order change concerning the policy tools themselves, and ultimately a third-order change illustrating a transformation in the precedence of objectives that underpin economic policy (Hall, 1993: 278–9). Hall contends that these policy shifts tend to occur in a seemingly random fashion, triggered by the prevailing macroeconomic paradigm's inability to simultaneously account for inflation and unemployment. This scenario leads to an unprecedented amplification of the discourse on economic matters. His observations strongly infer that policy changes are

crisis-induced, characterized by uncertainty, and swayed by external intellectual currents (Hall, 1993).

Hall's tripartite framework (1993) for understanding policy change, while insightful, falls short of elucidating the genesis of novel policies in developing countries, particularly those in Southeast Asia with varied structures and differing degrees of industrial progression. Chris Rogers (2013) identifies additional key determinants that significantly impact policy formulation, particularly within the economic sphere. Rogers posits that the dynamics of social relations between the economic powers and governmental bodies fundamentally outweigh other factors in driving policy transformations. The term "economic power" in this context signifies the influential business elites such as conglomerates or the capitalist class (Rogers, 2013: 6).

The interplay between such business actors and the government engenders a symbiotic power dynamic. The government, on one hand, grants policy leniencies to bolster business productivity and accumulation, while the business elite reciprocate with fiscal backing for governmental authorities (Al-Fadhat, 2019). Over time, this power relationship has evolved, with the business elites frequently assuming more direct roles in governmental affairs, either by occupying executive positions or winning legislative elections (Feldmann and Morgan, 2022). Consequently, the process of policy change is intricately linked to the negotiation or assertion of interests by prominent societal actors like business figures (Al-Fadhat, 2022).

In this context, the implementation of the Local Content Requirement (LCR) policy by the Indonesian government in the telecommunications manufacturing sector can be elucidated. The initiation of this novel policy is intimately tied to the concerns of entrepreneurs, particularly those in the telecommunications manufacturing industry. The government, in this scenario, serves as an arbiter for the local businesses who perceive the substantial influx of foreign investment as a threat. To reinforce domestic businesses within the telecommunications domain, the government mandates that foreign corporations incorporate local components into every product they develop in Indonesia.

To substantiate the initial premise, the concept of the Global Value Chain (GVC) offers an expanded explanation of the manner in which governmental regulations restrict foreign investment in the telecommunications manufacturing industry. The GVC concept involves a chain of collaboration between a corporation and various other entities in the production of goods. This production process is distributed across numerous countries, culminating in a borderless production chain for goods and services. Through this arrangement, a nation obtains the chance to partake in the production process of a specific segment of a product. As elucidated by Kaplinsky (2013), the GVC is:

"...the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use." (Kaplinsky 2013: 3).

The implementation process of GVCs is intricately complex due to the involvement of numerous stakeholders such as manufacturing companies, logistics and transportation services, customs agents, and various public authorities. Over recent decades, the emergence of GVCs has assumed critical importance for national economies, notably in fostering the growth of their domestic industrial sectors. This is largely attributed to the accelerated process of global economic integration, which catalyzes progress across a multitude of sectors and industries through innovation on an expanded scale (Tran and Deseatnicov, 2022). Recognizing this, governments are increasingly focusing on facilitating local businesses' active participation in GVCs as a strategy to advance their country's strategic sectors.

The liberalization of services plays a pivotal role in the GVC process for developing nations. This process is augmented by the receptiveness of a nation towards global markets, thereby enhancing the potential for the GVC process to transpire. The active participation in GVC results in significant outcomes such as the advancement of technical capacity within the service-oriented Small and Medium Enterprises (SMEs), optimal utilization of human resources, and the stimulation of national export growth (Wicaksono and Barany, 2017). Moreover, engagement in GVC can catalyze productivity expansion, job generation, and an enhancement in living standards. Accelerated growth, an uptick in export statistics, technology transfer, and increased employment are observed in countries that embrace this concept. Through the application of GVC-driven growth strategies, countries can experience upward mobility by incorporating advanced technology and know-how across all sectors, including manufacturing, production, and services (World Bank, 2017).

Analyzing the domestic situation in Indonesia reveals an abundance of human and natural resources. These plentiful resources position Indonesia, a developing nation, to integrate GVC principles, strategies that promote the inclusion of local resources in global market operations. In conjunction with the implementation of the GVC framework, Indonesia is capitalizing on this opportunity by introducing a proposed LCR policy. This policy represents a significant endeavor to stimulate growth in the domestic manufacturing sector. Ultimately, these measures will equip the Indonesian manufacturing industry with the necessary independence and competitive edge to rival other countries.

RESULT AND ANALYSIS

Indonesian LCR Policy and International Response

Since the implementation of the LCR policy by the Indonesian government in 2015, several foreign companies have voiced their opposition to this policy. One of the responses was voiced through the Office of the United States Trade Representative (USTR). Concerns have been raised regarding the government's competence in effectively managing the manufacturing industry. Companies express doubts about the preparedness of the Indonesian workforce to engage in the telecommunications manufacturing sector. Among the countries expressing discontentment with the LCR policies, the United States

(US) stands out, particularly in relation to smartphone products (KOMINFO, 2015b). According to the US perspective from USTR, this policy is seen as promoting protectionism, thereby impeding the entry of US smartphone products into the Indonesian market.

In defense of its stance, the Indonesian government introduced the LCR policy in response to the excessive influx of foreign products, especially smartphones, into the country. These exceptions permit a departure from the National Treatment provisions set forth by the WTO. Under National Treatment, member countries are required to treat foreign and domestic investors equally (WTO, 1995; UNCTAD, 1999). However, country-specific exceptions provide a legal mechanism for differentiating between domestic and foreign investors. This deviation is permissible when aligned with special laws and regulations that are relevant to industrial activities within the jurisdiction of the implementing country (Trebilcock, Howse, & Eliason, 2012).

The implementation of local content requirements not only aims to provide a level playing field for domestic industries but also serves broader social and economic objectives. Such policies are often implemented to stimulate job creation, foster technological transfer, and promote sustainable development (Tordo et al., 2013). These objectives are usually specified in the special laws and regulations that sanction the use of local content requirements. In this context, the policy serves dual purposes: it upholds the nation's industrial and economic interests while concurrently promoting social policies aimed at improving the well-being of the citizenry (Jansen, Peters & Salazar-Xirinachs, 2011).

Despite criticisms from other countries like the US and subsequent exodus of several multinational smartphone companies following the implementation of the Local Content Requirement (LCR) policy, the Indonesian government remained resolute in its application within the telecommunications manufacturing industry (Heriyanto, 2015; KOMINFO, 2017). The government's expectation is for multinational corporations operating in Indonesia to establish collaborations that yield reciprocal benefits (KOMINFO, 2015a). It's worth noting that the LCR policy necessitates these multinational telecommunications firms to utilize domestic resources, partner with local manufacturers in smartphone production, or bolster domestic telecommunications manufacturing. This strategy aligns with the Global Value Chain (GVC) scheme that the Indonesian government seeks to advance (KEMENPERIN, 2015b). By incorporating local manufacturers into the GVC, the government anticipates a positive socio-economic influence on Indonesia (Riyandi, 2017).

In the sphere of global economic growth, the GVC model exhibits a significant competitive influence on price determination and product diversification (Elms and Low, 2013). It is crucial to recognize, from the vantage point of developing nations, that the advent of the GVC paradigm serves as an expedited conduit for a country's industrialization process (UNIDO, 2015). In the arenas of commerce and investment, the GVC has emerged as a predominant trait, encompassing both developed and developing economies. When transitioning raw materials into final products, enhancements in value-

addition can be executed at various global locations, provided they are bolstered by the requisite production capabilities and resources (Frederick, 2016).

Involvement in GVCs offers opportunities for organizations of varying sizes, from large corporations to small businesses, to contribute to a spectrum of interconnected activities that span multiple countries, transforming a concept into a final product ready for consumption. These activities encompass a broad range, including agriculture, resource extraction, research and development, diverse manufacturing processes, design, administration, marketing, distribution, after-sales service, among others. Engagement in GVCs signifies more than mere transnational trade of goods or services; it implies an affiliation with these activities via a process of value creation. The geographical distribution of these activities and the specific nature of the product in question influence whether a value chain primarily operates within a regional context or extends to a truly global scale. Propelled by cost efficiencies in commerce and advancements in information technology and telecommunications, this so-called "Global Value Chain Revolution" has amplified task-level specialization and distinct business functions. This evolution has allowed leading organizations to increasingly tap into international knowledge, resources, and the production factor base (Fujita, 2021).

Through the incorporation into GVC, small enterprises are afforded the opportunity to engage more proactively in the global market, circumventing the need for comprehensive technological and managerial know-how required for internationally competitive product creation. The practice of dividing and internationalizing production processes, although not a novel concept, has been prevalent for some time. However, recently, there has been a surge in the globalization of these processes, notably through heightened participation of developing nations. This capacity to integrate into GVCs has been suggested as a critical determinant influencing the income convergence between several developing countries and their high-income counterparts, according to the OECD's 2015 report (OECD, 2015).

The concept of comparative advantage elucidates how corporations and nations can accrue benefits by integrating into GVCs. The magnitude of the potential profit derived from GVC activities hinges upon the unique skills and resources possessed by the respective corporation or nation. Engagement in GVCs can instigate economic and societal advancements. Economic enhancement is characterized by the augmented efficiency in the production process, or the distinguishing attributes of the products or services undertaken. Conversely, societal enhancement typically pertains to outcomes related to employment conditions and wages, gender dynamics, and environmental considerations. Concentrating on economic augmentation, several types of enhancements can be identified: (1) process Upgrading refers to the state in which a company enhances its efficiency in the production of goods; (2) product Upgrading signifies the scenario where the company successfully advances in manufacturing increasingly intricate goods; (3) functional Upgrading involves a situation where the company acquires a unique function in the value chains; and (4) chain Upgrading indicates the transition of a company to a more sophisticated value chain.

The integration into GVCs significantly influences national economies. However, substantial foreign intervention in domestic markets, mainly by multinational corporations, poses notable challenges. These challenges arise from the disruption that may occur in the sustainability of domestic industries due to massive foreign investment flows. This predicament is a considerable concern for the domestic economic populace, including small businesses and more significantly, larger enterprises. Excessive foreign penetration can potentially disrupt and even usurp the local businesses' market share. Decision makers in various countries, faced with these challenges and threats, often adopt protectionist policies aimed at increasing local involvement (Devadason, 2020).

Given these positive and negative aspects associated with a country's participation in GVCs, the Indonesian government has been actively encouraging both international and domestic companies to source their base production materials locally and engage local manufacturers in their production processes. The Indonesian government's drive to implement the Local Content Requirement policy stems from two primary motivations. The first is to facilitate conglomerates and other major companies, specifically those within the local telecommunications industry sector. The second motivation is a long-term objective to enhance the involvement of Indonesian businesses within the GVC network. These interests will be discussed in further detail in the subsequent sections.

LCR and the Development of Domestic Manufacturing Industries

The first factor that influences governmental formulation of LCR policies is the intent to empower domestic commercial entities in evolving the national telecommunications industry. This agenda is made evident by the government's initiatives compelling multinational firms to either establish manufacturing businesses or align with Indonesian local manufacturers. These requirements are congruent with the government's ambition to assimilate the telecommunications manufacturing sector into the GVC. This approach has gradually catalyzed growth within the local manufacturing industry, both in workforce expansion and enhancement of production quality. Such development can be attributed to the resultant collaborations fostering technology and knowledge exchange in manufacturing processes.

Technology transfer between nations can be executed via foreign investment strategies. Such investments are initiated by multinational corporations capable of offering advanced and efficient technology, culminating in an economic spillover of technology between both parties. With the integration of this production technology, local industries witness improvements in both the quality and quantity of their production outputs, thus increasing the added value to the technology-receiving countries (Zhang et al., 2020). Consequently, this leads to an uptick in the competitiveness and profit accumulation of the local telecommunications manufacturing sector, thereby boosting industrialization activities within Indonesia, which aligns with the aspirations of numerous domestic entrepreneurs (KEMENPERIN, 2018).

The Indonesian government's strategy in advocating for commercial entities and the telecommunications manufacturing sector is rooted in dual considerations. Beyond

accommodating the interests of domestic entrepreneurs as part of the power dynamics between businesses and the government, this initiative also serves as a governmental tool to buttress national development. This encompasses a range of objectives, from augmenting employment opportunities to capitalizing on natural resources that can be incorporated into the GVC.

The burgeoning manufacturing sector in Indonesia potentially offers a platform for harnessing local resources effectively. This entails leveraging natural resources as raw materials for the creation of marketable products, and utilizing human resources for transforming raw materials into finished goods ready for the market. By strategically utilizing these local resources, Indonesia can reap significant benefits from its manufacturing industry. The effective use of local resources could also enhance the competitive performance of companies, thereby increasing the global marketability of their products relative to competitors (Gareche et al., 2019: 224). Furthermore, the Indonesian government envisions the industry's development as a means to mitigate the national unemployment rate. The government's aspiration to foster the local manufacturing industry stems from two primary objectives: capitalizing on natural resources and boosting the country's Gross Domestic Product (GDP).

Indonesia's copious natural resources serve as a significant allure for foreign investors. The country's flexible production and processing capabilities confer a competitive edge, which local businesses, in partnership with the government, exploit for economic growth. The presence of a local manufacturing industry is anticipated to optimize the use of these natural resources (Andersen et al., 2018). Moreover, the growth of this industry also stands to impact human resources significantly.

The labor absorption resulting from industrial activities, specifically within the manufacturing sector, has a significant and enduring impact on a country's socio-economic conditions. This effect is particularly palpable in Indonesia, where integration of labor into the manufacturing industry can reduce poverty rates and foster a conducive environment for national growth. This reality has led several nations, with a focus on developing countries such as Indonesia, to invest and cultivate their manufacturing industry (BBC, 2019).

Furthermore, the promotion of domestic resources has been a key element in augmenting the GDP sector, thus propelling the government's initiative to expand local manufacturing. Notably, the manufacturing industry is recognized as one of the quintessential sectors that extensively influence Indonesia's economic progression. The then Governor of Bank Indonesia, Perry Warjiyo, identified infrastructure, manufacturing, tourism, the digital economy, and fisheries as the primary sectors that fuel the economic growth of the country. Warjiyo emphasizes the necessity for amplified investment in the manufacturing sector, given its immense potential and its role in GDP growth (Akbar, 2019).

The GDP serves as a crucial indicator to gauge a country's economic evolution. There is a direct correlation between a country's GDP and its level of economic development; higher GDP implies more advanced economic progress (Wang and Luo, 2020). The

manufacturing industry plays a substantial role in a country's economic growth, with one of its main contributions being the export of goods. Increased export activities from a country can amplify its income (Johnston, 2019). Hence, the government is deliberating the growth potential of the local telecommunications manufacturing industry, specifically smartphones. The intent is not only to support entrepreneurs aiming to expand this sector, but also to optimize Indonesia's abundant natural resources while concurrently contributing to national economic development.

LCR and the Integration of Domestic Industry Into GVC

In the contemporary era of globalization, the evolution of the global trade infrastructure has advanced at a swift pace, notably in the sphere of international collaborations. A particular form of partnership that has emerged in response to the effects of globalization is the GVC (Gereffi et al., 2001: 1). Within the GVC framework, scenarios arise wherein the production process is decentralized, with different stages carried out by various countries across the globe (UNIDO, 2019).

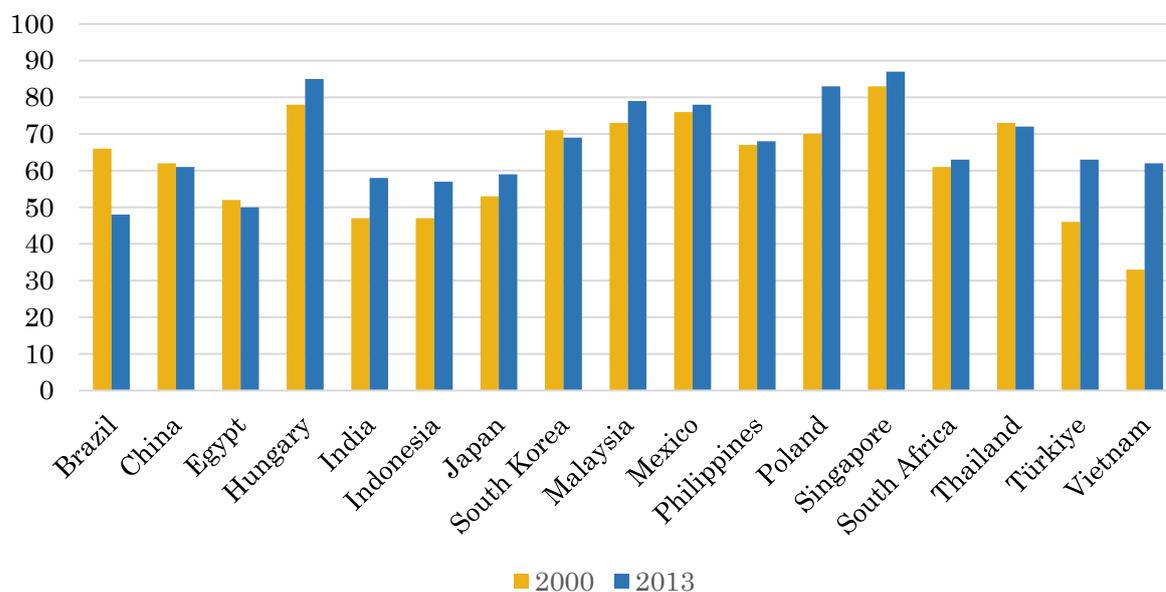
As indicated in a communique from the Indonesian Ministry of Trade, the Indonesian government aspires to escalate its industrial involvement in the GVC. To this end, it has initiated measures to mitigate the vulnerabilities of small, medium, and large manufacturing industries through targeted training initiatives and provision of consistent capital. The government is confident that, through the implementation of LCR policies, it can facilitate the participation of indigenous businesses in the telecommunications sector (KEMENDAG, 2017).

The involvement of the industrial sector in GVC is of paramount importance for emerging economies such as Indonesia. This assertion is underscored by the associated benefits that include enhancement of domestic economic development, capacity building, and significant employment generation which consequently results in poverty alleviation and reduced unemployment rates over the long haul (WTO, 2019).

Additionally, GVC plays a vital role in bolstering Intra-Industry Trade (IIT). This is evidenced by Graph 1 below which reveals a steady escalation in IIT spanning over a decade from 2000 to 2013. Specifically, in 2000, Indonesia recorded an IIT figure of 47.52% which rose to 55.9% in 2013. This upward trend aligns with the increased GVC participation in Indonesia, as documented by the Trade Policy Assessment and Development Agency under the Indonesian Ministry of Trade (KEMENDAG, 2015).

Nevertheless, the 2013 figure pales in comparison to the figures registered by neighboring nations and other countries in East Asia and Latin America. The rapid advancement of these developing nations in GVC can be attributed to their beneficial resources that enhance the production process and their active engagement in trade alliances with other countries. This relative sluggish growth rate presents a significant issue for the government. In response, efforts have been made to ameliorate this situation through the implementation of the LCR policy in 2015.

Graph 1. Comparison of Increased Intra-Industry Trade



Source: KEMENDAG (2015)

Several elements contribute to the relatively low engagement of Indonesia in the GVC within the telecommunications sector, particularly when compared to other Association of Southeast Asian Nations (ASEAN) members. One predominant factor is related to infrastructure. As evidenced by the Logistic Performance Index (LPI) from 2012, Indonesia's infrastructure quality was positioned at 59th globally, with a score of 2.94. This ranking is notably lower than five other ASEAN countries: Singapore, Malaysia, Thailand, Philippines, and Vietnam (World Bank, 2012).

In 2013, the engagement of Indonesia's domestic manufacturing sector in the GVC was rather limited. This can be attributed to the lack of multinational company branches operating within the telecommunications manufacturing industry. The absence of such branches stems from the lack of regulatory provisions overseeing the establishment of branch companies or factories by multinational corporations within Indonesia. Legislation concerning the obligation of multinational enterprises to establish branches or factories within the country was only proposed in 2015 (KEMENPERIN, 2015a). Furthermore, numerous foreign companies remained skeptical of Indonesia's capacity to expand the manufacturing industry. Fundamentally, two factors dissuade foreign companies from establishing subsidiaries in Indonesia: the condition of national infrastructure and the quality of human resources.

The World Economic Forum's data indicates that the state of infrastructure in Indonesia is somewhat concerning for business operations. When compared to neighboring countries such as Malaysia and Singapore, the quality of infrastructure in Indonesia falls short. These findings provide solid evidence that Indonesia's readiness to accommodate foreign investment is still insufficient. Therefore, it necessitates concerted efforts by the

Indonesian government to enhance domestic infrastructure as a strategy to entice potential investors (DJKN, 2015).

Apart from issues related to infrastructure, Indonesia grapples with a significant proportion of unskilled labor force. These unskilled workers typically have minimal educational background or job training, a characteristic that might, at a glance, be perceived as economically beneficial to companies due to the lower wage expectations. Nonetheless, the recruitment of such workers can be detrimental when the occupied positions necessitate specific educational qualifications or work experience. This inadequacy can impact production efficiency, business continuity, and the overall organizational performance (McQuerrey, 2017).

The Indonesian government has begun to address these dual challenges, albeit gradually. Efforts to resolve national infrastructure issues are underway to enhance investment flow, while numerous human resource development programs are being introduced to elevate the competency and skillset of Indonesian workers, thereby increasing their competitiveness. Both the infrastructure and human resource development initiatives aim at fostering a favorable business environment in Indonesia, promoting economic growth via investment through GVC intermediaries.

In light of these circumstances, Indonesian policy makers have introduced policies aimed at fostering synergies between multinational corporations and local manufacturers. This strategy is intended to facilitate the transfer of technology and knowledge, thereby augmenting Indonesia's participation in GVCs. Consequently, in 2015, the Indonesian government implemented the LCR policy, mandating both domestic and international firms to incorporate a minimum of 30% local content into their total production activities.

CONCLUSION

This article has meticulously explored the genesis of Indonesia's Local Content Requirements (LCR) policy, which is driven predominantly by two interrelated governmental objectives. The first of these aims to hasten the expansion of the domestic telecommunications industry, benefiting through political and economic relationship. By doing so, the government provides a platform for local big businesses to fully exploit the opportunities presented by this burgeoning sector. This not only fosters an environment conducive to innovation and competition but also supports the broader goals of economic development.

The second key objective underlying the LCR policy is to enhance the national industrial sector's active involvement and integration within the Global Value Chain (GVC) network. This is particularly salient as the GVC provides a framework for the distribution of tasks and value-added activities across national boundaries. By facilitating Indonesia's engagement in the manufacturing of product components, the LCR policy aligns squarely with the government's larger aspiration to augment the nation's role in the global value chain. In essence, it strategically positions Indonesia within an interconnected global network, thereby offering new pathways for economic engagement and international collaboration.

Furthermore, it is crucial to note that the advancement of the local telecommunications sector does not exist in isolation; it indirectly contributes to the holistic development of Indonesia's resources. Specifically, the policy plays an instrumental role in job creation and in making optimal use of Indonesia's unique blend of natural and human capital. As a byproduct of these synergistic influences, the country is well-placed to experience a noteworthy uptick in its Gross Domestic Product (GDP). Therefore, the LCR policy serves as a multidimensional strategy, capable of not only fortifying the domestic telecommunications industry but also catalyzing broader economic and social progress.

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