

# Issues and Challenges of Local Government in Industry Standardisation in Indonesia

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For a developing country like Indonesia, regulation on standardisation in national industry policies is of vital importance. In addition to improving competitiveness, the implementation of standards determines a country's market access. The policy on the implementation of standards in Indonesia's industrial sectors which has been around for 17 years has not yet significantly resulted in business competitiveness, either domestic or international. Indonesia's Standardisation Law emphasizes that it is not only central government but also local government that play a role in and are responsible for improving the implementation of standards in the industry sector. However, the presence of constraints that are encountered by local government is a reason why the implementation of standards in Indonesia is still low. In relation to this fact, constructing policies on local industry standardisation presents as both strategic issue and as a challenge for local government. In addition to serving as an attempt to improve national industry competitiveness, such policies can be offensive strategies to set the platform for leading local products to have greater competitiveness. Moreover, the policies present as defensive strategies to protect consumers and local business actors from the invasion of other countries' nonstandard products. In order to construct local industrial policies, three pillars are required: (1) the improvement of effectiveness of local government's roles, (2) the improvement of business actors' adherence, and (3) the improvement of cross-sector coordination. The three pillars will present as a foundation of strengthening standards implementation for leading local products.

**Key words:** *Local Government, Standards, National Industry Competitiveness.*

## Introduction

At present, demands to implement standards in national industries present as both challenges and strategic issues for developing countries, in the context of either international or regional trade. This is so because the quality of goods and services then becomes the main criterion for determining a country's market access. As regulated in The Agreement on Technical Barriers to Trade (TBT Agreement) of the World Trade Organization (WTO), fulfillment of standards is intended to maintain national security, prevent fraudulent practices, protect health and wellbeing of humans, as well as life and wellbeing of animals, plants, and the environment (Article 2.2 of TBT Agreement). In the context of regional trade, the fulfillment of standards has become an attempt to realise more dynamic and stronger market segments of the global market (Section 4 of Asian Policy Guideline on Standards and Conformance). Several researchers in Germany, England, and Australia point out that in order to protect the environment and wellbeing of humans, and to prevent consumer fraud, the fulfillment of standards is required due to the focus of standardisation on the improvement of the quality of life (Peter, 2010). In addition, the fulfillment of standards can serve as codification of various "technologies experience" (M.Spifak Steven & F Cecil Brenner, 2001) and a means of exchanging information, assuring quality, and fulfilling public intention (John S. Wilson, 2002).

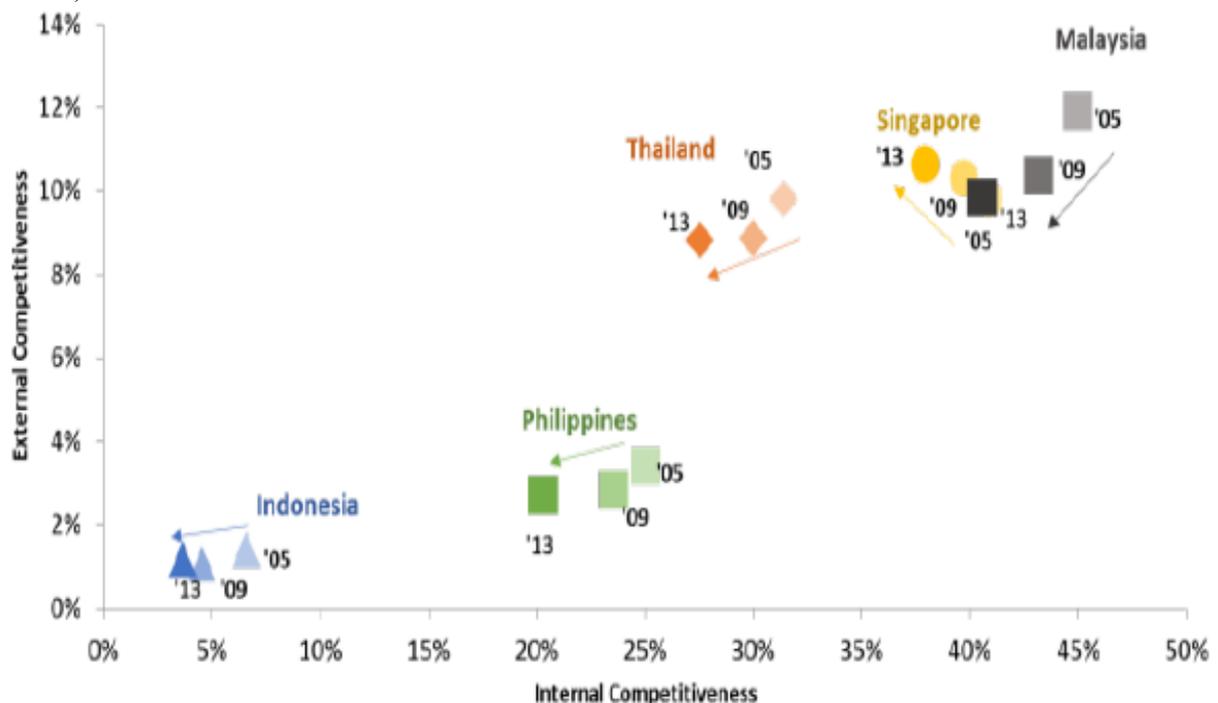
Several countries in the world have proved that attempts in standardisation contribute to higher growth of Gross Domestic Product (GDP) than tariff actions (tariff regulation) (Pereverzeva, 2005). With the fulfillment of standards, every business actor will have a guide on the minimum required quality in the production of goods and services to access world trade. In Indonesia, the implementation of standards started 17 years ago with the issuance of the Government Regulation No. 102 of 2000 regarding National Standardisation. However, in reference to the 2011 data, the implementation of *SNI* (Indonesian National Standards) in the industry sectors has only just reached 20% (The Ministry of Industry, 2011). According to the 2016 data, although results of sampling carried out by *Badan Standardisasi Nasional* (*BSN*—National Standardisation Agency of Indonesia) in 13 cities in Indonesia indicated an increase, they revealed that only 46% of goods circulated in the marketplace applied mandatory *SNI*. In example, *SNI* were not applied in such *SNI*-mandatory products as most electrical devices and cables (*BSN*, 2016).

The negative portrayal of Indonesia's competitiveness is depicted in rejections of exports of several leading products by target countries due to standards mismatch. In reference to data of the US Food and Drugs Administration (FDA), during the period of 2002-2010, a number of 2,608 rejection cases of Indonesia's food products were found. Of the total cases, 80% of the food products comprised of fisheries products such as fish, shrimps, and crabs (Ministry of Trade, 2013) in addition to horticultural products. Most of the horticultural products

intended to be exported have not been able to fulfil standards of Sanitary and Phyto-Sanitary (SPS) of the target countries. Furthermore, they have only just reached 5-20% of total national horticultural products. This is so because such products are not able to fulfil standards of Good Agricultural Practices of the European Union, the USA, China, Australia, and South Korea (Ministry of Trade, 2013).

On the side of import, typical Indonesian products, one of which is batik, should deal with a challenge: a high number of imports, whereas in fact the export of such products has potential to be developed. The high number of Chinese batik import, for example, reached US\$30 million in 2012 and is predicted to increase (Ministry of Industry, 2013). The low Indonesia Competitiveness Index also indicates the importance of the implementation of standards in the production of goods and services, and showing in Indonesia's ranking dropping from 37<sup>th</sup> position to 41<sup>st</sup> (Kompas, 2017) on the Index. Such conditions require policy breakthroughs with insights on competitiveness. Analysis results of decomposition of trade (Figure 1) indicated that the three most competitive countries in ASEAN-5, concerning the global value chain, are Thailand, Malaysia, and Singapore with competitiveness measured based on internal and external competitiveness analyses.

**Figure 1.** Internal and External Competitiveness of ASEAN countries (Rakhman et. al., 2015)



The emergence of rejection cases of export products and the increasing number of imports demonstrate low national industry competitiveness. Law No 3 of 2014 regarding Industry and Law No. 20 of 2014 regarding Standardisation and Conformity Assessment confirm that both

central and local governments should be responsible for the development of industrial sectors as an implication of decentralisation as applied by the governments. Decentralisation brings a consequence: division of roles and responsibilities of both central and local governments in formulation and implementation of their policies. This article, thus, seeks to explain issues and challenges encountered by local government in the field of industry standardisation. The results of the study will serve as material for analysis to recommend local standardisation policies as an attempt to improve national competitiveness in Indonesia. (Sudarwanto, A.S., Handayani, I.G.A.K.R, 2019)

## **Results and Discussion**

### ***Problems Faced by Local Government in Industrial Standardisation***

Indonesia has entered new era of decentralisation since the issuance of Law regarding Local Government. With such issuance, local autonomy gives authority to regions to govern and manage affairs of local authorities themselves. The local government is given authority to make local policies to provide services, improve its roles, initiative, and society empowerment for the purpose of the improvement of the wellbeing of society by considering society's interests and growing aspirations. In the context of industry development, the implementation of local autonomy has become significant and strategic to strengthen economic competitiveness. (Sudarwanto, A.S., Handayani, I.G.A.K.R, 2019)

Industry development in regions is an integral part of national development and is in line with principles of decentralisation policies and local autonomy in which local government is given broad authority to govern and manage industry in its local area. In the implementation of regional autonomy, the role of local government in seeking competitiveness becomes very important and strategic due to high regional competitiveness in Indonesia as spearheaded in the national competitiveness, which will be the most important factor for Indonesia in competing at the global level.

Therefore, various efforts of local government to improve regional competitiveness are also important. Enhancing competitiveness can be done through the implementation of standards since standards are closely related to competitiveness. High and low competitiveness of a product can be seen from the fulfillment or not of product standards for the quality of goods and services. According to various laws and regulations in Indonesia, local government has authority in the field of industry. In addition to being the responsibility of local governments, the implementation of standards presents a challenge in improving national competitiveness. As seen in Figure 1, only 3% of Indonesian firms have international quality certification, indicating that Indonesia is left far behind compared with other countries. Most important technical standards are enforced by international buyers or trading partners so that the

exporters that can meet these standards end up with contracts. (Nugraha, M.H.A, Sudarwanto, A.S., 2019)

### ***Establish Regional Standardisation Policies***

Reis and Farole argue that the main obstacles of developing countries to compete in international trade are generally behind the border: such internal factors in a country as logistics, customs, financing, production factor conditions, and lack of competition. Standards and conformity assessment are important aspects that affect the conditions of the production and the competitive level of goods and services. Therefore, the fulfillment of standards can be a strategy for developing countries like Indonesia to compete in international trade. Therefore Indonesia, through its authority, can establish regulations or policies to improve the implementation of standards in order to encourage the improvement of national industrial competitiveness. Implementation of standardisation in a country will not succeed without policy support. A country's policy in the field of standardisation can be a solution provided by the government to improve the efficiency and quality of production and simultaneously improve product competitiveness. The policy is to answer the demand for the adoption of standards as a trend of modern development in the global market in the form of economic globalisation (Andrei A Mamedov et al, 2015)

The approach to standardisation differs greatly between industry sectors as well as between countries (Blind and Gauch, 2008; Büthe and Mattli, 2011; Hawkins, 1999; Tate, 2001). For example, in Indonesia, the authority to construct policies on standardisation implementation is not only the authority of the central government, but also of the provincial and district/municipal governments. In fact, local government has a very strategic role in the implementation of industrial standardisation. Aside from being a regulator at the regional level, local governments also play a role in the development and improvement of business actors' competence as well as supervision of goods/services circulating in the community. Therefore, the main challenge of local government is to develop regional standardisation policy as an effort to improve the competitiveness of national industries in Indonesia. In the Standardisation Law, the fulfillment of the standard aims to (1) improve national competitiveness and fair business competition, and (2) to protect consumers against low-quality goods (Article 3 of the Standardisation Law). Therefore, in addition of functioning to support national industrial policy, local industrial policy with standards insight can serve as an offensive and defensive strategy. (Jaelani A.K, Handayani I.G.A.K.R, Karjoko L, 2019)

Local business actors focusing on the domestic market are the most vulnerable to AEC and WTO and they have low competitiveness in the global market. Therefore, to improve the quality of goods/service quality and competitiveness in the international market, regional standardisation policy is required. It is regarded as an offensive strategy to prepare standards-

compliant leading local products so that they can enter the international market. In addition to being an offensive strategy, local industrial policy with standards insight can be a defensive strategy as the issue of consumer protection against import products circulated in the market is also a challenge for local government. The abolishment of various obstacles in international trade leads to the increasing number of inflows and transactions of goods/services into the domestic market. Indonesian consumers will find it easier to interact directly with producers outside the legal jurisdiction of Indonesia. (Harimurti F, Jaelani A.K., 2019)

The Consumer Dispute Settlement Center (*BPSK*) noted that there is still an indication that consumer protection efforts have not improved significantly. Table 3 shows that some sectors with the most consumer disputes are: (1) housing/property, (2) electronic devices, (3) food and beverages. This condition makes the challenge of consumer protection more complex. However, local government has the authority to supervise products circulated in domestic markets, test the quality of goods, and impose sanctions (Article 58 of the Standardisation Law). Therefore, it is necessary to have a local industrial policy with standards insight as a defensive strategy to protect consumers and business actors in regional areas from the invasion of other countries' products that have not met the standard's quality.

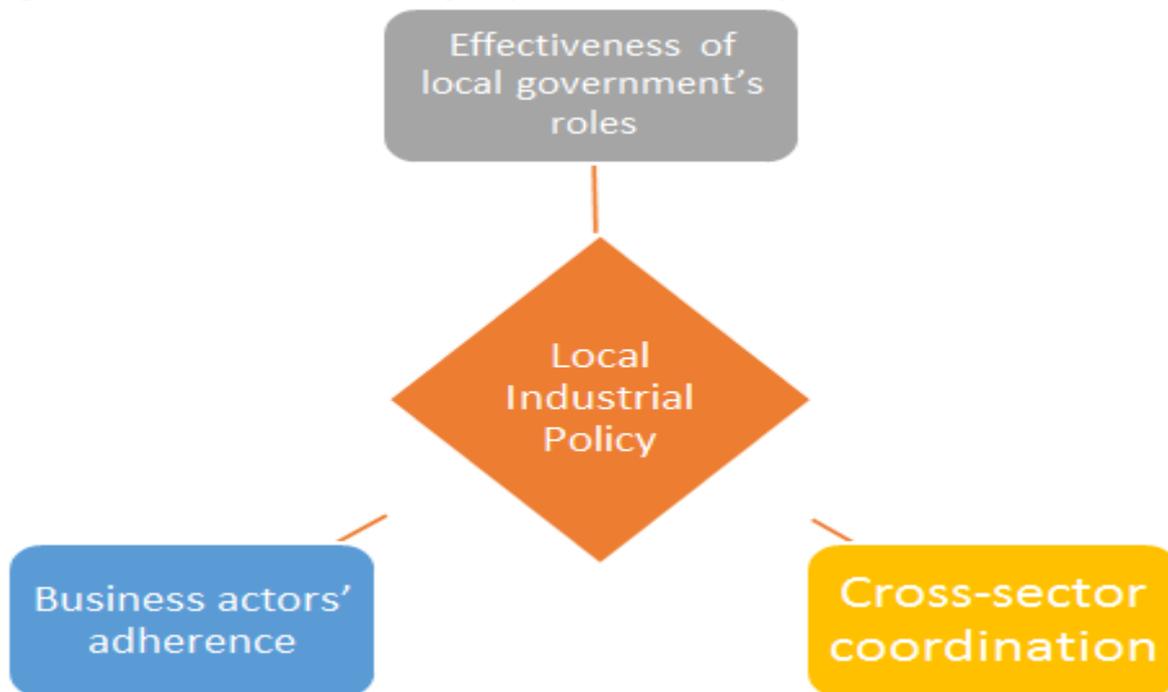
**Table 1:** Types of goods disputes handled by *BPSK* in 2010-2014

Year	Food & Beverages	Electronic Devices	Property	Fuel	Drugs	Clothing	Others
2014	23	30	135	2	3	2	55
2013	4	23	97	1	0	0	43
2012	5	8	58	0	0	2	36
2011	3	11	19	0	0	1	14
2010	11	11	44	4	0	1	41
<b>Total</b>	46	83	353	7	3	6	189

The role of the regions in improving their competitiveness depends very much on the ability of the regions to identify problems which hamper the achievement of local competitiveness. With such ability, regions can develop strategies to determine what policies should be pursued so that local competitiveness can be continuously improved. Based on the Indonesia Government Work Plan (*RKP*), strengthening the domestic economy for the improvement and expansion of people's welfare can be done by developing leading local sectors (Indonesia Government Work Plan, 2013). Therefore, various efforts to improve the competitiveness of leading local products are important. One of them is constructing local industrial policy with standards insight. In order to do so, three pillars are required: (1) the improvement of effectiveness of local government's roles, (2) the improvement of business actors' adherence,

and (3) the improvement of cross-sector coordination. The three pillars will present as a foundation of strengthening the implementation of standards for leading local products.

**Figure 2.** Pillars of local industrial policy with standards insight



### ***The Improvement of Effectiveness of Local Government's Roles***

The role of government in the process of standardisation is very important. If there is no institutional role and regulation made by the government, it is difficult to increase the number of standard implementations in the industrial sector (see Buthe and Mattli 2011; Andrei A Mamedov et al., 2015; and Paul M Wiegmann, 2017). Therefore, various efforts to improve the role of both central and local government in the field of standardisation are necessary to do this. As stated in the Law of Standardisation and Conformity Assessment, the roles of local government in the implementation of standards include: (1) proposing the formulation of *SNi*; (2) providing guidance for the development of *LPK*; (3) improving competency of the human resource; and (4) supervising circulated goods and services. Therefore, the roles of local government emphasize more on the construction of industry development policy with standards insight to encourage the competitiveness of local products and for consumer protection. The improvement of the local government's role will be focused on two strategies, namely: (1) strengthening the standards implementation institutions in regions; (2) constructing local industrial regulations that encourage the implementation of standards.

**Figure 3.** Strategies to improve the effectiveness of local government's roles



Strategies for strengthening the standards implementation institutions in regions are carried out by: (1) encouraging the development of *LPK* in quantity and quality by taking into account market and society needs to facilitate quality testing of goods and services and product certification; (2) increasing the capacity of human resources of the Department of Industry and Trade as well as *LPK*, such as researchers, examiners, and civil servant investigators (*PPNS*); (3) conducting educational programs for business actors and consumers in their area; (4) improving industrial research and development activities in implementation of standards; (5) improving the quality control of goods/services circulated in the marketplace especially that of imported products; and (6) improving coordination among institutions, such as the Central Government, Local government, *BSN* and *LPK*.

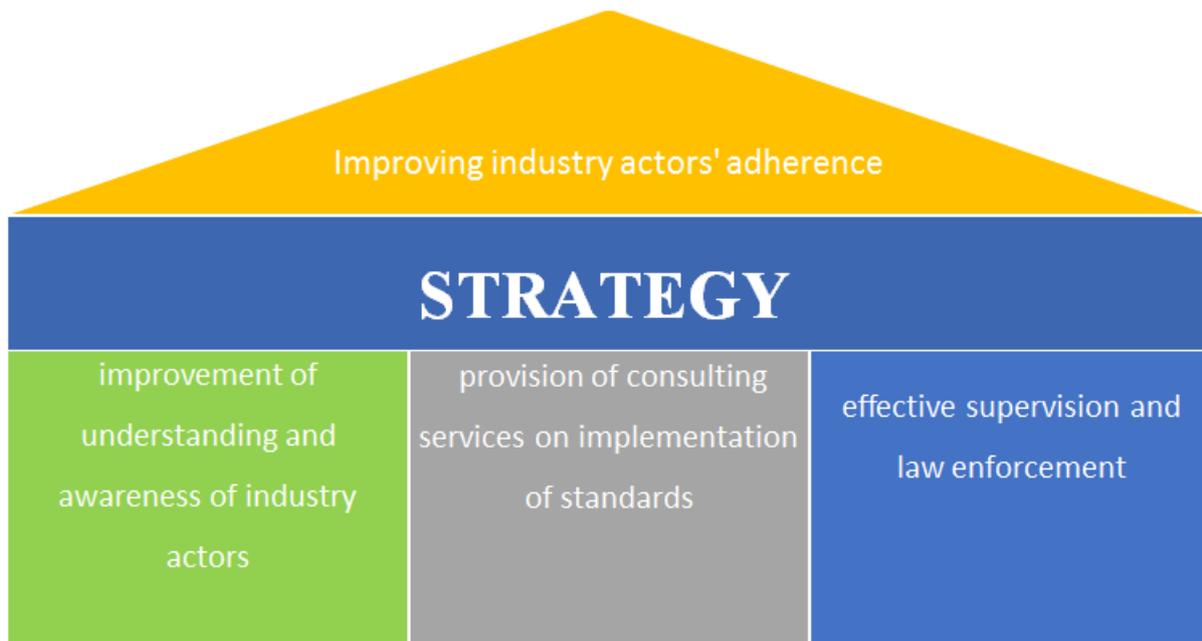
The strategy of constructing a local industrial regulatory framework that encourages the implementation of standards is part of efforts to enhance competitiveness and protect domestic consumers. It is necessary to have regulation on how local government carries out the strategic roles and authority in the industrial sector. Therefore, regulation at the regional level that serves as a legal regulation is required. For local governments, such regulation serves as a reference or guidance in improving the competitiveness of local industries. Meanwhile, for the business actors, it serves as a guide to produce standards-compliant goods and services. In addition, the regulation also serves to protect consumers from goods and services that do not meet quality standards.

***The Improvement of Industry Actors' Active Role and Adherence***

One of the keys to the success of EU countries in the implementation of standardisation is to provide opportunities for industry actors in the formulation and development of standards. Involving the role of industry actors in formulating and developing standards is the European "New Approach" (Borraz, 2007). Blind and Mangelsdorf (2016) argue that it is a powerful incentive for industry actors to participate in the Standard Developing Organization (SDO), as it allows them to make the rules they must follow. This means that industry actors are not always the object of law but also are legal subjects where industry actors are given the opportunity to formulate and develop standards according to market needs.

Industry actors are the main factor in producing goods and services which have good quality, are safe and reliable, and have competitive prices. Fulfillment of standards is a guarantee of the quality of goods and services and that affects the level of product competitiveness. This principle needs to be kept in mind by all industry actors in all regions. Strategies for the improvement of business actors' adherence will focus on the following three areas: (1) improvement of the understanding and awareness of industry actors; (2) provision of consulting services on implementation of standards, and (3) improvement of industry actors' role in formulating and developing standards.

**Figure 4.** Strategies to improve industry actors' adherence



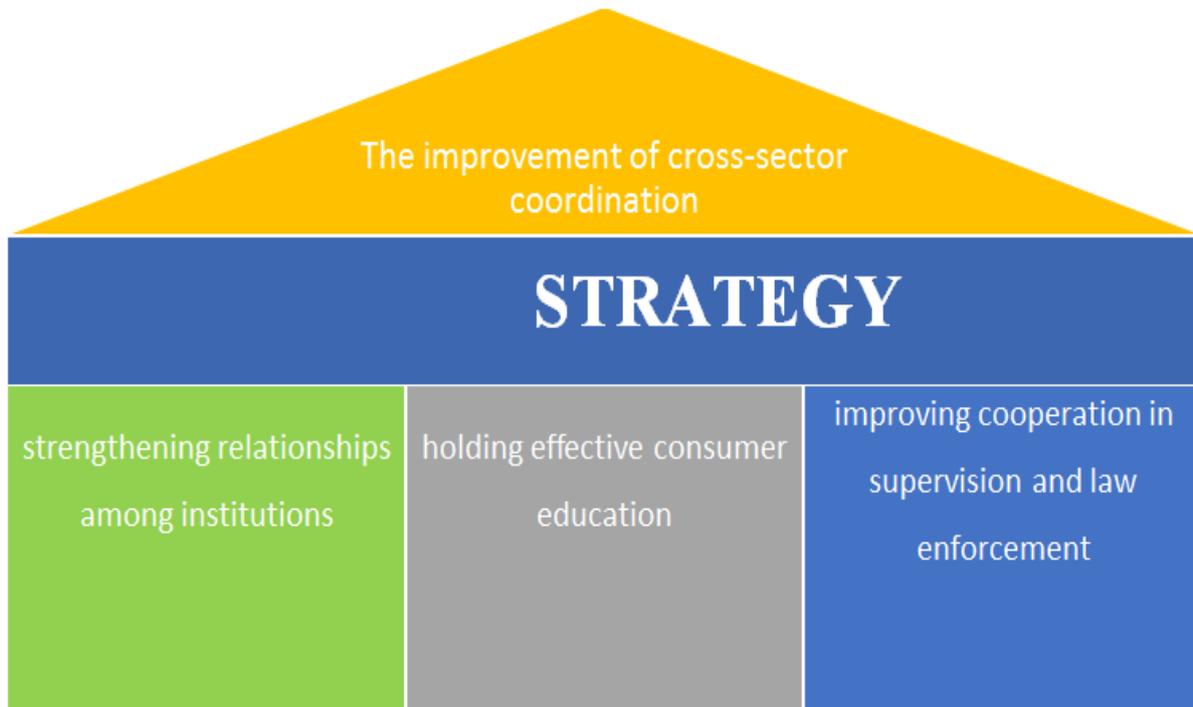
Improving the understanding and awareness of industry actors on the implementation of standards is limited not only to quality and safety of goods and services produced by industry actors, but also extends to the existence of consulting services in regions for industry actors in

the implementation of standards. Through the availability of professional consulting services, industry actors will get an idea on standards of products and market needs, either domestic or foreign, and therefore it can facilitate for them to design and produce goods and services in accordance with quality standards and consumers' preference. Improving the role of industry actors in the formulation and development of standards is closely related to the success rate of government policies in the field of standardisation, as once the policy has been formulated industry actors have the role of implementing the standardisation in their industries.

### ***The Improvement of Cross-Sector Coordination***

Implementation of industry standardisation requires cross-sectoral cooperation, coordination and interaction (Porter and Heppelmann, 2014) and as standardisation is not only relevant to industry, but also to many other stakeholders. For example, NGOs play an increasingly important role in standardisation (Bostrom and Tamm Hallstrom, 2010). This means that efforts to improve cross-sector coordination are important. According to various statutory laws related to standardisation and conformity assessment, stakeholders who have responsibility in applying standards in Indonesia are Central Government, Local government, *BSN*, *LPK*, *Badan Pengawas Obat dan Makanan (BPOM—Food and Drugs Supervisory Board)*, Police Department, and associations of business actors and society. Therefore, it is necessary to improve cross-sector coordination. The strategies to do so are: (1) strengthening relationships among institutions; (2) holding effective consumer education; and (3) improving cooperation in supervision and law enforcement.

**Figure 5.** Strategies to improve cross-sector coordination



The improvement of cross-sector coordination is important. Central government, local government, *BSN*, *LPK*, and business associations need to establish a forum for communication and coordination to strengthen inter-agency relations in addressing various issues arising in the implementation of standards. In addition, communication forums can also serve as a customer education platform to hear about goods and services that meet the quality standard. Also, government requires cooperation in carrying out the supervision of circulated goods. Both central and local governments need cooperation with relevant agencies in conducting supervision since the protection provided to the community must be preventative, i.e. protection before consumers suffer losses due to consuming goods and/or using services. Supervision is carried out in two stages, namely (1) before goods are circulated in the market (pre-market stage) and (2) after goods are circulated in the market.

Referring to the Regulation of the Minister of Trade No. 14/M-Dag/Per/3/2007 concerning the Trade Service Standardisation and Supervision of the compulsory Indonesian National Standard (SNI) on Tradable Goods and Services, pre-market stage monitoring is intended to ensure that goods and services to be circulated have met the standards and other scopes according to existing regulations. The pre-market stage includes quality testing and registration of goods by the Ministry of Commerce. Supervision after goods are circulated in the market, in reference to Regulation of the Minister of Trade No. 20/MDAG/PER/5/2009 concerning Provisions and Procedures for Supervision of Goods and/or Services, aims to ensure that goods and services to be circulated in markets are compatible with existing



monitoring parameters. The main objective of developing regional standardisation is to improve the competitiveness of leading local products in order to enter global markets and to protect domestic consumers from invasions of imported products that do not meet the standard quality. (Karjoko L, Nurjanah Y, 2019)

## **Conclusions**

In the implementation of regional autonomy in Indonesia, the role of local government in seeking competitiveness becomes very important and strategic. In the context of standardisation, both central and local governments are responsible for the formulation, implementation, development and supervision of standards. Therefore, local government needs to develop a local industrial policy with standards insight to sustain the national industrial policy. In order to construct local industrial policy with standards insight, three pillars are required: (1) the improvement of the effectiveness of local government's roles, (2) the improvement of business actors' adherence, and (3) the improvement of cross-sector coordination. The three pillars will present as a foundation of strengthening standards implementation for leading local products. Such policies will be offensive in preparing standards-compliant leading local products to break through into international markets, and defensive to protect society and business actors from invasion of non-standards-compliant foreign products. The Ministry of Industry of the Republic of Indonesia and the National Standardisation Agency should facilitate standardisation infrastructure in the regions, especially those producing leading products in order to strengthen the implementation of standards and conformity assessment in regions. The standardisation infrastructures are the *LPK*, the calibration laboratory, the Inspection Institute, and the Certification Institute.

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