

# Chapter 1

## Current Status of the Food Industry in Indonesia

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### ABSTRACT

*This study assesses the contribution of the food and beverage industry to the Indonesian economy based on firm characteristics. The comparative descriptive statistical method describes a detailed mapping of the firm's character and the main supporting factors, such as processed commodities, firm size, island region, capital ownership, and exporters. The contribution of the food and beverage sub-industry varies; the vegetable and animal oils and fats industry is the largest and most effective. Small and medium firms have the lowest contribution compared to*

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*large firms. Firms in the Sumatra region have the highest contribution compared to firms in other regions. PMDN firms have a higher contribution than PMA firms. Non-exporting firms have a high average contribution compared to exporting firms. Based on the results, policymakers can concentrate on the potential to increase the contribution of a particular group of firms.*

## **INTRODUCTION**

The manufacturing sector is an industry that plays a vital role in the national economy (Attiah, 2019; Banerjee, 2020; Chakravarty & Mitra, 2009; Herman, 2016; Khan & Siddiqi, 2011; Qayyum, Khalid, & Muhammad Usman, 2021; Su & Yao, 2017; Nusratovich, 2019; Sengupta, Sinha, & Dutta, 2019). National Gross Domestic Product (GDP) data for the 2010-2020 period illustrate that the manufacturing sector consistently contributes the most to national GDP compared to other sectors (Statistics Indonesia, 2021a). The performance of manufacturing can provide a contribution share of 19.70 - 22.04 percent, with an average of 20.64 percent per year. In 2020, the manufacturing sector will remain the largest contributor to GDP at 19.88 percent (Figure 1).

In most developing countries, manufacturing sectors play a significant role in increasing economic development since the primary sectors have a low contribution to speeding up the national economy. To construct economic development, the role of manufacturing and labor-intensive industries are very significant in their contribution to non-mining export, absorbing the surplus manpower, and influencing the emergence of new employments (Wijaya, Kurniawati, & Hutama, 2018; Haraguchi, Cheng, & Smeets, 2017).

The food industry indicated higher total factor productivity growth compared to other industries. Meanwhile, the industry of processing and preserving meat, fish, fruits, vegetables, cooking oil, and fat (ISIC 151) has the highest productivity growth. General evidence shows that technical progress becomes the main factor of TFP growth, followed by scale and technical efficiency change (Widodo, Salim, & Bloch, 2015; Liu, Wang, Yang, Rahman, & Sriboonchitta, 2020).

The increasing trend of economic growth denotes that the Indonesian economy is experiencing an increase in production and expenditure, components that exist in GDP. Indonesia also experienced increased economic growth per capita (Suryahani, Susilowati, & M., 2018). The agricultural sector has proven to restore the economy in the domestic economic crisis. This sector contributes to the national economy and plays an important role in increasing income, creating job opportunities, as a source of foreign exchange, ensuring local food needs, and producing raw materials. In general, the agricultural sector plays a vital role in maintaining food security and

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