

## ABSTRACT

This research aimed to investigate premature deindustrialization in Indonesia from 1986 to 2022. The study analyzed the manufacturing sector's role in economic development, focusing on the industrialization process characterized by significant growth in the mid-1980s to mid-1990s. This was followed by a decline in the manufacturing value-added (MVA) to GDP ratio from the early 2000s, indicating a shift towards deindustrialization. Factors such as the Asian Financial Crisis, political instability, and structural economic issues were identified as contributing to this decline. The research utilized time-series data regression analysis, focusing on manufacturing employment, nominal MVA, and real MVA. Including both nominal and real MVA allows for analysis of inflation-adjusted growth and helps determine which variable deindustrializes the fastest. Findings indicated premature deindustrialization, with the manufacturing sector's share relative to income levels declining at a lower per capita income compared to advanced countries, especially during COVID-19 when the deindustrialization pace sped up. The study concluded that while trade openness positively impacts the industrial sector, inadequate investment in manufacturing infrastructure hampers its growth. The research also suggested that services may replace manufacturing as the primary driver of economic growth.

Keywords: Deindustrialization, Premature deindustrialization, Manufacturing sector, Economic Growth, Indonesia