

TRANSFORMATION OF INDONESIAN MSMEs TOWARDS INTERNATIONAL MARKETS THROUGH ECONOMIC DIPLOMACY

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Abstract

Micro, Small, And Intermediate (MSME) in Indonesia have the potential to support the national economy. However, they need help expanding international markets, as they need more Access to information, networks, and resources. Power. Study This aims to analyze the role of the diplomacy economy in expanding the international market for Indonesian MSMEs. This study also attempts to identify effective strategies for supporting MSMEs in the international market. This study uses a qualitative approach to study documents/texts. Data is obtained via notes published in textbooks, newspapers, magazines, letters, films, diaries, manuscripts, articles, etc. The research was conducted by taking comparative data from several large cities in Indonesia, whose concentration of MSMEs is tall, from 2020-2023. Results show that the diplomacy economy is essential in Indonesia's open access market for MSMEs. Suggestion from the study: This is so that the government can increase support for MSMEs through more integrated economic diplomacy programs. There is also a need for increased Access to information and technology for MSMEs to increase competitiveness in the international market. Collaboration between related agencies and actors in MSMEs needs to be strengthened to create an ecosystem that supports MSME growth in the scene.

Keywords: *MSMEs, economic diplomacy, market international, Indonesia*

A. INTRODUCTION

MSMEs are the backbone of Indonesia's economy, contributing 60.05% to GDP and employing 96.9% of the workforce. However, they face challenges in internationalization, including limited digital integration, low capacity and productivity, restricted financial access (only 25% have access), and limited global networks and resources [1] Economic diplomacy is one of the essential instruments that the government can use To overcome challenges. According to Rashid, a diplomacy economy is a compilation and negotiation of policies related to investment, production, goods, services, and labor in other countries. Meanwhile, according to Odell, the definition of diplomacy is that the broader economy includes additional aspects, such as the existence of policies related to the exchange of money and information, as well as official assistance for development. [2] Diplomacy economics involves international trade agreements, the promotion of products abroad, trade shows, and trade missions designed to increase market access for MSME products. Through economic diplomacy, the government can open up new market opportunities, reduce tariff and non-tariff barriers, and introduce product MSMEs to market internationally.

Studies show that agreements trading internationally, like the Free Trade Agreement (FTA) and Comprehensive Economic Partnership Agreement (CEPA), have helped Indonesian MSMEs to be more competitive in the international market by reducing trade barriers and opening up Access to new markets. In addition, the participation of MSMEs in international exhibition trade And mission trade, facilitated by the government, has proven effective in expanding business networks and increasing volume. [3] However, although the diplomacy economy has the potential to support MSMEs, some challenges need to be overcome. A study by Joseph And Love shows that lack of coordination between agency governments, infrastructure limitations, and technical training are significant barriers to implementation—effective economic diplomacy for MSMEs. Previous research also mentioned that the quality of output and competitiveness of micro, small, and medium enterprises (MSMEs) in Indonesia still needs to be considered higher compared to micro, small, and medium enterprises. Medium

enterprises (SMEs) in ASEAN countries [4]. Therefore, a more integrated and collaborative approach is needed between the government, private sector, and educational institutions to support the growth and expansion of MSMEs in the market.

B. METHOD

Study This uses an approach with a method of study document. Qualitative research aims to understand phenomena in humans or society by producing a deep and complex picture with words, reporting detailed perspectives obtained from informant sources, and conducting environmental experiences. According to Denzin and Lincoln, a qualitative study uses natural background to interpret the phenomena that occur. This is done by using various approaches moment. [5]

The primary purpose of qualitative research is to make facts and phenomena easy to understand or comprehend. It also allows for the generation of new hypotheses using its models. Research data is obtained through published records in textbooks, newspapers, magazines, letters, films, diaries, manuscripts, articles, and the like. The research was conducted in several provinces in Indonesia, such as West Java, Central Java, and East Java, which have high concentrations of MSMEs, from 2022-2023. [6] A historian from University College London, GJ Renier, explains that there are three definitions of the term "document." The first is a broad definition, meaning the document study method covers all written and oral sources. The second is a narrower definition, meaning that the document study method only covers written sources. The third is a more specific definition, which means that the method of document study only covers official letters. [7]

This study uses secondary data from official documents, government reports, academic publications, journal articles, and reports from organizations like the WTO and UNCTAD. Data includes trade policies, agreements, trade exhibitions, and MSME support programs. Media reports were also analyzed to track developments in economic diplomacy and its impact on MSMEs. Using qualitative analysis, including data reduction, categorization, and conclusions, this study examines how economic diplomacy supports Indonesian MSMEs in expanding to international markets and identifies effective strategies for achieving these goals. [8]

C. RESULTS AND DISCUSSION

In Indonesia, micro, small, and medium enterprises (MSMEs) are a significant pillar of the country's economic structure, providing most jobs and driving local economic growth. MSMEs play a vital role in various industries, from trade and manufacturing to the service sector, and operate throughout the country. In addition to boosting the local economy by creating jobs for small businesses, the presence of MSMEs increases innovation and diversifies the economy. [9]

Although MSMEs in Indonesia have great potential, they face significant challenges. Limitations of Access to financing, lack of technical and management ability, and difficulty in entering the international market are several problems. Because of resources and technology limitations, MSMEs often cannot compete with more prominent companies. The Indonesian government has helped MSMEs with various programs, such as giving training and Access to financing and pushing digitalization, increasing their competitiveness and enabling them to thrive in the domestic and international markets.

In West Java, the number of MSMEs has shown varying trends across regencies and cities over the years. For instance, in Bogor Regency, the number of MSMEs decreased from 52,852 in 2020 to 43,138 in 2022. Similarly, Sukabumi experienced a slight decline from 52,953 in 2020 to 51,307 in 2022. In contrast, Garut saw a steady increase, with MSMEs rising from 54,630 in 2020 to 69,365 in 2022, while Tasikmalaya witnessed significant growth, particularly in 2022, with 77,632 MSMEs compared to 53,601 in 2020. In urban areas, the City of Bandung recorded fluctuations, peaking at 22,230 MSMEs in 2021 before declining to 18,174 in 2022. Meanwhile, cities like Bogor and Cirebon

experienced consistent decreases over the three years. Across the province, West Java saw a slight overall growth in MSMEs, with totals increasing from 625,943 in 2020 to 667,795 in 2022. These trends reflect dynamic changes in the MSME landscape across different regions within West Java. West Java is a major MSME hub in Indonesia, known for products like Garut batik, dodol, and tempeh chips, catering to local and international markets. Cities like Bandung, Bogor, and Cirebon thrive as centers for crafts, fashion, and processed foods. Digitalization efforts are actively supporting MSMEs to boost growth and competitiveness[10].

West Java, Government Province Java West, does diplomacy trading to support para-diplomacy. Activity This covers paradiplomacy Work with several relevant institutions and ministries, such as the Ministry of Cooperatives and UKM, Center FTA, ITPC, and group civil, which offer support training, and institutions from the private sector, such as companies. Export as a place for MSME internships. The government of West Java Province has successfully carried out trade diplomacy or paradiplomacy by institutions related to building a strategy For increasing export product MSMEs in West Java. It is explained that West Java contributed the highest exports in 2020, letting go of the role of MSMEs. [11]

Central Java plays a vital role in Indonesia's MSME sector and the local economy. Industries like handicrafts, textiles, culinary arts, and agribusiness thrive here, with cities such as Semarang and Solo serving as MSME hubs for products like batik, leather crafts, and iconic foods. These products cater to domestic markets and are exported internationally, demonstrating the province's strong MSME potential. For instance, Semarang's spring rolls and Wingko Tripe have become culinary icons, while Yogyakarta is renowned for silver crafts and wood carvings sought after by tourists and global markets.

The Central Java government supports MSME growth through programs like entrepreneurship training, capital assistance, and product marketing services. Efforts to digitize MSMEs via e-commerce training and social media promotion aim to enhance competitiveness and market reach. With strong government and stakeholder support, MSMEs contribute significantly to the national economy. Central Java's commitment to MSME development is evident in its RPJPD, RPJMD, and RKPD, with funding allocated through provincial, district, and city-level budgets. [12]

Andromeda Qomariah, Head of Department Cooperative And UKM East Java, states that the Contribution of micro, small, and medium enterprises (MSMEs) to the economic performance of East Java increased significantly from the years 2020 And 2021, reaching 58.36 percent. So far, the government of Java East has given capitalization through various program funding, including the revolving fund program. In addition, the Prokesra program, also known as Kredit Sejahtera, with an interest rate of 3 percent, was launched last year and will continue in the year. [9] With various industries, such as food and beverage, handicrafts, textiles, and information technology, MSMEs in East Java play an essential role in the local and national economy. Big cities like Surabaya, Malang, and Sidoarjo have become centers of micro, small, and medium enterprise (MSME) activities with various superior products Already known. For example, batik Madura And shrimp crisp shrimp Sidoarjo has a significant domestic and international market share. This product not only meets the market's needs but also advanced export. [2]

Government area Java East owns Lots of programs And initiatives That support the success of UMKM. Training entrepreneurship, help technical, and collaboration with financial institutions are all part of this program. The government is also encouraging the digitalization of MSMEs to increase competitiveness and expand market reach through e-commerce. Universities like University Airlangga And University Brawijaya Also support MSMEs through study And Development And program incubation business. However, MSMEs in Java East face various problems, including problems in chain supply And distribution, lack of ability management, Which is Enough, And limited Access to modern technology. Governments, the private sector, and education institutions must work similarly to overcome the problem. It is expected to be collaborative. This will increase the power competition between micro, small, and intermediate (MSME) Java East businesses in the market and

internationally and contribute more to the economy. [9]

4.1 Role of Economic Diplomacy In Expand Market International For MSMEs Indonesia

Indonesian MSMEs can gain international markets with the help of a diplomatic economy. The government uses economic diplomacy through diplomatic representatives to increase the economy's connection with other countries. This covers various actions, like negotiation, trading, pushing investment, and increasing Work in the same economy internationally. [13] Through a diplomatic economy, MSMEs in Indonesia can utilize opportunities in outside countries and increase the competitiveness of their products in international markets.

Free trade agreements (FTAs) and bilateral or multilateral economic cooperation are essential to economic diplomacy. These agreements aim to eliminate trade barriers and tariffs so Indonesian small and medium enterprise (SME) products can become more competitive internationally. For example, Indonesia has entered into free trade agreements with countries such as Japan, South Korea, and Australia. These agreements allow Indonesian SME products to enter these markets more efficiently and at lower prices. [14]

Economic diplomacy also focuses on marketing MSME products through participation in trade missions and international trade fairs. Through related ministries, the government often holds or supports MSMEs in these events to push their superior products to the international market. For example, the Indonesian Ministry of Trade regularly holds Trade Expo Indonesia (TEI), where MSMEs can interact with buyers from various countries. This effort increases the MSME business network. Moreover, it increases exposure in the market. [15]

4.1.1 Strategies Effective In Support of MSMEs In Market International.

1. Optimizing Digitalization And E-Commerce

Digitalization helps MSMEs expand internationally by leveraging e-commerce platforms like Tokopedia, Bukalapak, and Shopee. Digital marketing through social media, websites, and online sales broadens market access. Programs like MSMEs Go Online support businesses in adopting digital technology, enhancing skills, and reaching global markets. [16]

2. Strengthen Branding And Product Quality

Consistent product quality and strong branding are crucial for MSMEs in international markets. Unique products with appealing designs, brand stories, and marketing strategies enhance their appeal. For instance, Indonesian batik has succeeded globally due to its quality and distinct motifs, supported by strong branding. Government and institutions provide training to help MSMEs improve product quality and develop strategic branding. [3]

3. Utilise Agreement Trading Free

MSMEs can access international markets more competitively through Free Trade Agreements (FTAs) with countries like Japan, South Korea, and Australia. FTAs lower tariffs and trade barriers, reducing export costs and improving market access. MSMEs must be empowered to utilize these opportunities by understanding destination country regulations and standards. [17]

4. Provide Access And Financing Capital

Access to financing is a major challenge for MSMEs aiming to enter international markets. Support from the government and financial institutions through schemes like KUR, venture capital, and programs like PEN can help. Adequate financing enables MSMEs to boost production, develop new products, and invest in technology for expansion. [18]

5. Follow Exhibition Trade And Mission Trade International

MSMEs can expand internationally by joining trade exhibitions like Trade Expo Indonesia (TEI) and government-led trade missions, connecting with global buyers and learning market trends. Government and trade associations should support this by subsidizing costs and providing negotiation training. [17]

4.1.2 Challenge Indonesian MSMEs In the Market International

1) Limitations Access Financing

Limitations on Access to financing are Wrong. One of the biggest challenges for Indonesian MSMEs is competing in the international market. Many micro-enterprises, small And intermediate (MSME), face difficulty getting capital, Which is required To expand their business and increase capacity production. [19]

2) **Limitations Knowledge And Skills**

Many MSMEs in Indonesia must gain knowledge and skills to compete in the international market. Many need to learn about international quality standards, export regulations, and international marketing strategies so that their products are not competitive internationally. To increase the capacity of HR MSMEs so that they can compete with more goods in the market, the government and institutions must provide training and assistance. [20]

3) **Infrastructure Which Not enough Adequate**

One of the main challenges for MSMEs in accessing international markets is infrastructure limitations. Infrastructure needs to be more adequate, like roads are bad, Access to the Internet is limited, and facility logistics could be more efficient, hampering the production and distribution process of MSME products. Poor infrastructure can increase operational costs and reduce product competitiveness internationally. [21]

4) **Obstacle Regulation and Policy**

MSMEs face additional challenges in penetrating international markets because of complex and often changeable regulations and policies. Small and intermediate businesses (MSMEs) often need help exporting goods because of procedures complicating exports and bureaucracy..

5) **Competition Which strict in Market International**

MSMEs in Indonesia must face competition from other countries with superior products and competitive prices. MSMEs must compete on quality, innovation, customer service, and price. Without the right strategy, it is difficult for SMEs to penetrate and survive in the international market. Because of That, they need existing support in the form of training, development products, and strategy marketing, Which is effective. [17]

4.2 Benefit Diplomacy Economy for MSMEs Indonesia

Economic diplomacy significantly benefits Indonesian MSMEs by enabling access to international markets. Through bilateral and multilateral trade agreements, such as IA-CEPA, tariffs and trade barriers are reduced, making MSME products more competitive globally. Additionally, international trade events like Trade Expo Indonesia (TEI) and trade missions help MSMEs showcase their products, attract buyers, secure export contracts, and boost their global reputation. Economic diplomacy greatly supports Indonesian MSMEs in accessing global markets. Agreements like IA-CEPA lower tariffs and trade barriers, enhancing their competitiveness. Events like Trade Expo Indonesia (TEI) and trade missions provide platforms for MSMEs to promote products, attract buyers, secure exports, and strengthen international recognition.

D. CLOSING

Conclusion

The role of the diplomatic economy is essential in expanding the international market for MSMEs in Indonesia. If they can implement past agreements, such as trading internationally, showing trade, and promoting superior products, UMKM will gain Access to the international market. In addition, collaboration between the government and the private sector in training And mentoring will improve the capability and competitiveness of MSMEs in the international arena. For optimal results, support Requires more integration from the government, improved Access to information And technology, and a strengthened ecosystem That supports the growth of MSMEs in the market.

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