

Why Indonesian MSMEs Should Go International: Economic and Social Benefits

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Abstract. Purpose: With a proper understanding of these opportunities and challenges, it is hoped that Indonesian MSMEs can be increasingly integrated into the global economy, thus providing great benefits to the Indonesian economy as a whole. The transformation of MSMEs to be more open to the international market is not only an option, but also a necessity to ensure economic and social sustainability and growth. **Design/methodology/approach:** The research uses mixed methods that combine qualitative and quantitative approaches, and the techniques used are in-depth interviews and focused discussions with the owner of CV Arjuna 99 (UMKM). **Findings:** The results of the study show that the success of CV Arjuna 99 in penetrating and maintaining the international market lies in continuous product innovation, high quality, and close partnerships with local farmers. By utilizing modern processing technology and continuing to develop variants of chips from natural ingredients, this business has succeeded in attracting interest from foreign markets, including countries such as Canada, Japan, Turkey, and Korea. This success not only has a positive impact on business growth, but also creates social benefits for local communities and employees.

Keywords: International Markets, Product Innovation, Economic, Social Value.

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Indonesian economy. With a contribution of more than 60% to Gross Domestic Product (GDP) and employment absorption of more than 97% in the non-agricultural sector, the role of MSMEs is very vital in the national economy. However, although MSMEs have great potential, most MSME players in Indonesia are still focused on the domestic market and have not maximized opportunities in the international market. In fact, amidst globalization and advances in information technology, the international market offers enormous opportunities for the growth of Indonesian MSMEs.

Indonesia has a variety of superior products that have high potential to penetrate the global market, such as handicraft products, processed foods, textiles, and technology and innovation-based products. With increasingly open access through global digital and e-commerce platforms, Indonesian MSMEs can expand their market reach, increase sales volume, and introduce local products to the international scene.

However, the biggest challenges faced by Indonesian MSMEs in going international are limited knowledge, access to markets, and limited support in terms of financing and logistics. Many MSMEs do not yet have sufficient understanding of export regulations, international product standards, or effective digital marketing techniques for the global market. Therefore, the transformation of MSMEs to be more open to the international market is not only an option, but also a necessity to ensure sustainability and economic growth.

Bank Indonesia's report (2022) shows that although Indonesia has many superior products that can compete in the international market, only around 10-15% of the total MSMEs are involved in export activities. Many MSMEs are hampered by limited access to international market information, lack of understanding of export regulations, and limitations in terms of production capacity to meet global market demand. The report also states that with better access to international markets, MSMEs can expand their business scale, increase revenue, and reduce dependence on the often fluctuating domestic market.

There are various economic and social benefits that Indonesian MSMEs can obtain if they successfully penetrate the international market. From an economic perspective, MSMEs that export have the potential to gain significant increases in income. They can access a wider market, reducing dependence on the domestic market which is often limited by fluctuations in demand and people's purchasing power. By increasing sales in the international market, MSMEs can increase their production scale, increase innovation capacity, and encourage the creation of new jobs.

A study conducted by the International Trade Center (ITC) (2021) found that export-oriented MSMEs have higher revenue growth compared to those that only focus on the domestic market. MSMEs involved in international trade tend to have greater competitive advantages, such as the ability to innovate in products, quality, and production efficiency.

In addition, exports can also improve the financial stability of MSMEs because they can access larger and more diverse markets, which can reduce the impact of declining demand in the domestic market. Other benefits include improving the quality of Indonesian MSME products, which adapt to international standards, as well as the opportunity to increase production capacity through investment and new technology.

From a social perspective, exports provide an opportunity for MSMEs to introduce local products to the world, while also raising Indonesia's positive image as a country producing quality products. The success of MSMEs in the global market can also encourage the creation of new entrepreneurship, which in turn can have a positive impact on poverty reduction and economic equality in various regions.

Research by the United Nations Conference on Trade and Development (UNCTAD) (2020) shows that the involvement of MSMEs in international trade also brings significant social benefits. MSMEs that penetrate the international market can create more jobs, not only in the production sector, but also in supporting sectors such as logistics, marketing, and distribution. With the growth of MSMEs, new entrepreneurial opportunities are created that can improve people's welfare and reduce economic inequality between regions.

MSMEs also play a role in introducing local products and Indonesian culture to the world, which can strengthen Indonesia's image in the global market. In addition, MSME participation in the international market can contribute to inclusive economic development, by opening up opportunities for people in less developed areas to engage in the global economy.

Despite the many benefits that can be obtained, research by the Asian Development Bank (ADB) (2022) revealed that Indonesian MSMEs still face a number of challenges in entering the international market, such as a lack of understanding of export procedures, low ability to adapt to international trade regulations, and difficulties in obtaining financing. For this reason, more supportive policies and intensive training are needed to introduce the export potential of Indonesian MSMEs.

2. LITERATURE REVIEW

Increased Income and Access to Global Markets

One of the main benefits of international expansion is the potential for increased income through access to a wider global market. According to the World Bank (2017), MSMEs involved in exports can achieve greater profits compared to those operating only in the domestic market. This is because they can take advantage of differences in price and demand in the international market, as well as increase their production capacity and economies of scale.

Based on a study conducted by Wijaya and Suparno (2020), MSMEs that utilize international markets are able to increase their income through product diversification and expanding market reach. For example, the Indonesian handicraft and processed food product sectors, such as batik and coffee, have high demand in the international market, which opens up significant opportunities for MSMEs.

Innovation and Increasing Competitiveness

Internationalization encourages MSMEs to innovate and improve product quality in order to compete in the global market. This is in line with the theory of International Business

which states that the challenges faced in the international market force companies to adapt, innovate, and improve their competitiveness (Cavusgil et al., 2014). For Indonesian MSMEs, internationalization is not only about exporting products, but also about introducing products with high added value, such as products with international standards or based on unique local wisdom.

A study by Gunarso (2019) shows that many MSMEs have succeeded in improving their quality and productivity after starting to access overseas markets. For example, MSMEs in the textile and fashion sector, such as batik, have not only succeeded in entering the global market but have also gained international recognition that has increased their reputation.

Increasing Access to Financing and Technology

Entering international markets often opens up opportunities for MSMEs to gain greater access to financial and technological resources. Internationalization often attracts foreign investors who are interested in supporting businesses that have global market potential (OECD, 2019). In addition, MSMEs operating in international markets tend to be more interested in investing in new technologies that can improve their efficiency and productivity.

For example, through international cooperation programs, several Indonesian MSMEs have the opportunity to access the latest technology in production and distribution, which allows them to speed up production processes and improve product quality.

Increased Social Welfare and Job Creation

Internationalization can have a positive impact on social welfare, especially in creating wider employment opportunities. By increasing the volume of production and distribution, MSMEs involved in international trade tend to need more workers (Siddique et al., 2017). This can help reduce unemployment in Indonesia, especially in areas that are still considered marginal.

In addition, MSMEs that successfully penetrate the international market have the potential to provide a greater social impact, for example by introducing the concept of entrepreneurship to the wider community and encouraging social inclusion, especially for women and other marginalized groups. Susanti (2020) in her study explained that many MSMEs in Indonesia are managed by women who have greater opportunities to develop through access to the global market.

Increasing Global Awareness and Learning

Internationalization also increases the awareness and ability of MSMEs to understand the dynamics of the global market. Through the experience of interacting with business actors from various countries, MSMEs gain broader insights into global trends, different cultural values, and more efficient ways of doing business. This opens up opportunities for them to not only introduce local products but also introduce Indonesian values to the international world (Taufiq & Rahman, 2018).

According to research by Putra and Suryanto (2021), Indonesian MSMEs that have started international expansion have increased their understanding of the importance of global branding and managing relationships with customers from different cultural backgrounds. This provides added value to their product development and marketing in the international market.

Strengthening the Local Entrepreneurship Ecosystem

The internationalization of Indonesian MSMEs has the potential to strengthen the local entrepreneurial ecosystem through international collaboration and networking. In many cases, MSMEs that successfully penetrate the global market can serve as examples for other business actors and motivate them to improve their quality and competitiveness. As this ecosystem develops, other positive social impacts include the wider dissemination of business knowledge and skills, which can strengthen the local and national economy as a whole (Baker & Nelson, 2005).

Internationalization offers various economic and social benefits for Indonesian MSMEs. From an economic perspective, the benefits that can be obtained include increased income, access to global markets, increased innovation, and increased access to financing and technology. Meanwhile, from a social perspective, internationalization can help create new jobs, improve social welfare, and strengthen the local entrepreneurial ecosystem. Therefore, the encouragement to facilitate and support Indonesian MSMEs in undergoing the internationalization process needs to be continuously carried out through policies that support global market access, financing, and human resource capacity development.

3. METHOD

Research on the reasons and benefits of internationalization for Indonesian Micro, Small, and Medium Enterprises (MSMEs), the methodological approach used needs to consider the economic and social aspects related to the topic. This study aims to explore the

benefits obtained by Indonesian MSMEs in terms of economic growth and social impacts of their international expansion.

Case study research (CV Arjuna 99) by using a mixed approach that combines qualitative and quantitative approaches (Sekaran, & Bougie, 2016). The qualitative approach is useful for exploring deeper insights into the experiences and views of MSME owners regarding the benefits of internationalization, while the quantitative approach will provide more objective data on measurable economic impacts. The techniques that will be used include in-depth interviews and focus group discussions (Braun, & Clarke, 2006)

4. RESULTS AND DISCUSSION

This study examines the economic and social benefits that Indonesian Micro, Small, and Medium Enterprises (MSMEs) can gain by adopting an international expansion strategy. MSMEs play an important role in the Indonesian economy, both in creating jobs and contributing to Gross Domestic Product (GDP). However, the biggest challenges faced by Indonesian MSMEs are the limited domestic market and the lack of ability to compete in the global market. This study aims to explore the reasons why Indonesian MSMEs need to explore international markets and the benefits that can be gained from global expansion.

Researchers took a study on MSMEs in Batu City "CV Arjuna 999", with Momchips Chips products as snacks (vegetable and fruit chips) that are world-famous. CV Arjuna 999 is a company located in Batu City, East Java, which focuses on the production of natural-based snacks, especially vegetable, fruit, and tempeh chips. Known for its commitment to quality and health, the company uses modern processing technology such as vacuum frying to maintain the nutritional content of natural ingredients.

CV Arjuna 999 also focuses on empowering local farmers and strives to provide positive social impacts through partnerships with farmers around Batu and Malang. With innovation and sustainability as the main principles, CV Arjuna 999 has succeeded in expanding its market, both domestically and internationally, including countries such as Korea, Singapore, Dubai, and Taiwan.

The success of SMEs from Batu City in penetrating the export market did not happen overnight. CV Arjuna 999 has participated in various exhibitions in Indonesia to market his products. One of the exhibitions that he said contributed significantly to the export of his chips was the Trade Expo Indonesia (TEI) initiated by the Ministry of Trade. In order to provide a comprehensive picture of CV Arjuna 99 in entering the international market competition, the following will be discussed in three main points;

Economic Benefits of International Expansion

One of the main findings of this study is that international expansion can provide a number of significant economic benefits for Indonesian MSMEs, including:

a) Increased Revenue and Economies of Scale

By entering the international market, MSMEs can access a wider market, which has the potential to significantly increase their revenue. This increase in sales volume allows MSMEs to achieve economies of scale, reduce production costs per unit, and increase competitiveness. This is especially important because many MSMEs operate with limited capacity in the domestic market.

According to Hari Hastuti as the owner of CV Arjuna 999, the COVID-19 pandemic has had a significant impact on the demand for fruit and vegetable chips that he produces. The turnover received by his business has also decreased due to the decrease in demand during the pandemic. Before the pandemic, the monthly turnover obtained reached around IDR 300,000,000, but now this figure has dropped to more than IDR 100,000,000 per month. This brief explanation illustrates that the existence of CV Arjuna 99 has had a very good impact and economic scale.

b) Risk Diversification

International expansion helps MSMEs diversify business risks. Reliance on a limited domestic market can increase their vulnerability to economic fluctuations, regulatory changes, or local economic crises. By entering the global market, MSMEs can protect themselves from the negative impacts of unstable domestic market conditions.

Tutik revealed that in order to address the diversification of overseas markets in addition to export demand from Canada, CV Arjuna 99 is currently exploring export opportunities to Turkey and Japan. For Turkey, the plan is for the order of chips to be sent to reach around 700 cartons, which is considered a fairly large amount for MSME actors like herself. Meanwhile, for the Japanese market, chips products with the Momchips brand have been registered with the Japanese Food and Drug Supervisory Agency (BPOM Japan) to meet local regulatory standards.

Tutik further said, in addition to Canada, CV Arjuna 99 is also exploring exports to Turkey and Japan. In Japan, our products have been registered, while for Turkey, the orders received are quite large, around 700 cartons, more than the demand from Canada," explained Tutik.

In addition to focusing on international market expansion, CV Arjuna 99 also has a great opportunity to supply its products to modern retail chains in Indonesia. This retail chain has more than 2,000 outlets spread throughout Indonesia, providing wider access for the chips it produces. Currently, CV Arjuna 99 has developed dozens of chip variants with various flavors, including fruit and vegetable chips. All of these products are produced with high quality standards, making them a leading choice in the snack market.

c) Access to Technology and Innovation

Operating in the international market often forces MSMEs to adopt new technologies and increase innovation in their products or business processes. The technology and innovation gained from interacting with the global market can improve efficiency and product quality, which in turn will increase the competitiveness of MSMEs.

On the other hand, Tutik said that although direct product sales to consumers decreased during the pandemic, sales through online platforms actually experienced a significant spike. This shows a shift in consumer behavior who prefer to shop online during the social restrictions period.

Tutik further stated, "To go online, we have to manage it. For this request from Canada, there are approximately 100-150 cartons of chips," he said. This condition indicates the need for access to technology and innovation to support MSMEs (CV Arjuna 99) to continue to develop and be globally competitive.

Social Benefits of International Expansion

In addition to economic benefits, this study also shows that international expansion can provide positive social impacts for Indonesian MSMEs, namely:

a) Job Creation

As MSMEs expand to the global market, it is necessary to increase production capacity, which is usually accompanied by the addition of workers. This can help reduce unemployment, especially in areas with high poverty rates. Therefore, MSMEs that successfully develop international reach also play a role in empowering local communities.

Tutik as the owner of CV Arjuna 999 stated that the chips she produces are a healthy choice because they use vacuum frying technology, which can maintain the nutritional content of fruits and vegetables intact as in their original form. In addition,

the chips are made 100 percent from fresh fruits and vegetables, without the addition of MSG, coloring, or artificial sweeteners. "We chose to produce chips from vegetables and fruits because we want this business to not only focus on profit, but also provide a positive social impact, especially for the environment and local Indonesian farmers," said Tutik.

Tutik further explained that over time, support from customers encouraged CV Arjuna 99 to continue to innovate in creating new chip variants. Feeling challenged, CV Arjuna 99 began experimenting with various vegetable and fruit raw materials obtained from local farmers around the area. Until now, CV Arjuna 99 has developed more than 50 chip variants. Of the dozens of variants, around 10 of them are favorites and are often ordered for export abroad, such as pineapple chips, jackfruit, apple, banana, broccoli, paprika, carrots, baby beans, and cauliflower. CV Arjuna 99's chip products are now not only marketed in Hong Kong, but have also penetrated other international markets, including Korea, Japan, America, Malaysia, Turkey, Canada, Hungary, and the Maldives.

b) Human Resource Skills Development

International expansion encourages MSMEs to improve the quality of their human resources (HR), both in terms of technical skills and managerial abilities. Workers involved in the expansion process will have the opportunity to learn about the dynamics of the global market, which improves their quality and competitiveness in the labor market.

The products offered by Tutik (owner of CV Arjuna 999) are growing rapidly, starting from tempeh chips and rempeyek, now expanding to include vegetable, fruit, and tuber chips. The vegetable chips presented are not limited to the types of vegetables commonly used for chips, such as broccoli, chili, onion, and paprika. For fruit chip variants, there are choices of mango, rambutan, jackfruit, apple, and banana. In addition, they also offer tuber chips, with variants of cilembu sweet potato and purple sweet potato.

c) Strengthening Entrepreneurship and Community Empowerment

The global expansion process can trigger the entrepreneurial spirit among Indonesian people. When seeing the success of MSMEs that have successfully penetrated the international market, this can inspire other business actors to follow in similar footsteps. In addition, international expansion also encourages the empowerment of women and marginalized groups involved in MSMEs, considering

that many MSMEs have a focus on women's empowerment or local community development.

Tutik (owner of CV Arjuna 999) said that at one time many broccoli farmers were forced to throw their harvest into the river. This condition encouraged them to help the farmers by joining them in the business. "When we heard the news, we started to think, why not process the vegetables into snacks that last longer and have a higher selling value? From that idea, we started to develop vegetable chips and collaborate with local farmers in the Batu and Malang areas," said Tutik.

Challenges in International Expansion

However, international expansion also brings its own challenges for Indonesian MSMEs. The study noted several major obstacles, such as:

a) Lack of Knowledge of International Markets

Many MSMEs do not have a deep understanding of the international market, whether in terms of regulations, culture, or consumer preferences. Without sufficient understanding, expanding into the global market can pose a risk of financial and reputational losses.

Tutik (owner of CV Arjuna 999), who is known as a successful entrepreneur, said that the beginning of her chip products attracting the attention of the international market was through her participation in various exhibitions in Indonesia. One of the exhibitions she participated in was the Trade Expo Indonesia (TEI), which was organized by the Ministry of Trade. Through this exhibition, Tutik's chip products managed to attract interest from a number of countries, including Korea, Singapore, Dubai, and Taiwan. "Along with the increasing demand from various international buyers, we feel the need to develop other chip variants, such as fruit chips and vegetable chips," said Tutik in an interview with Kompas.com on Saturday, October 30, 2021.

b) Limited Access to Finance

One of the biggest challenges faced by MSMEs in expanding their markets is limited access to adequate financing. To enter the international market, MSMEs require large investments in market research, marketing, and product development that are often beyond the reach of many small business owners.

In response to the above, Tutik as the owner of CV Arjuna 999 worked hard to solve the problem in question. In 2020, according to him, he joined as a Pertamina Fostered Partner after going through several stages of selection and curation. "When we

registered, we were offered the opportunity to join Pertamina's fostered partners, which went through a series of processes and evaluations," said Tutik. Through the Pertamina Fostered Partner program, Tutik received assistance in the form of a business loan with very low interest, which was then used to develop production.

This program is part of the Micro, Small and Medium Enterprises (UMK) Funding initiative which aims to strengthen the capacity of small businesses to be more resilient and independent. In addition, this program is also expected to have a positive impact on the welfare of communities around Pertamina's operational areas. The assistance provided by Pertamina includes working capital funds, special loans, and various mentoring, training, and coaching programs to support the growth of small businesses.

c) Tough Competition

The international market presents tougher competition, especially from larger companies with greater resources. Indonesian MSMEs need to find ways to differentiate their products and offer unique added value to global consumers.

The success of CV Arjuna 99 Kota Batu in penetrating the export market did not happen overnight. According to Tutik, CV Arjuna 99 has participated in various exhibitions in Indonesia to market its products. One of the exhibitions that she said contributed significantly to the export of its chips was the Trade Expo Indonesia (TEI) initiated by the Ministry of Trade. From these various exhibitions, CV Arjuna 99 products are known in the overseas market.

Still according to Tutik's statement, The innovation carried out by CV Arjuna 99 in the midst of a difficult situation has yielded satisfactory results, not only for herself, but also for many people around her. Thanks to her success, not only did she benefit, but also local farmers and her 15 employees who can continue to survive. Although the pandemic has made the challenges even more difficult, Tutik has still managed to produce 3-4 tons of chips per month, an achievement that she considers very grateful for. Before the pandemic, the company's production capacity could reach 5-10 tons per month. "What is most encouraging for me is the belief that helping neighboring farmers and employees can be realized, even in the midst of these difficult times," concluded Tutik.

5. CONCLUSION

Based on the results of this study, it can be concluded that international expansion provides various significant economic and social benefits for Indonesian MSMEs. Economic benefits include increased income, risk diversification, and access to technology. On the social side, international expansion has the potential to create jobs, develop human resource skills, and empower communities. Although there are challenges to be faced, such as limited knowledge and financing, with the support of the right policies and planned strategies, Indonesian MSMEs can achieve success in the international market and provide a positive impact on the economy and society.

CV Arjuna 999's success in penetrating and maintaining the international market lies in continuous product innovation, high quality, and close partnerships with local farmers. By utilizing modern processing technology and continuing to develop variants of chips from natural ingredients, the company has succeeded in attracting interest from overseas markets, including countries such as Canada, Japan, Turkey, and Korea. In addition, effective marketing strategies, including participation in international exhibitions and online platforms, have helped expand market reach. This success has not only had a positive impact on business growth, but also created social benefits for local communities and employees.

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