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Opportunities and Challenges of the Global Market for MSMEs

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Abstract

This research uses the literature review method. The purpose of this research is to identify the opportunities and challenges faced by Indonesian MSMEs in the global market, particularly in the era of Society 5.0. The results of this study show that the contribution of Indonesian MSMEs is minimal due to the many challenges they face, such as (1) low productivity of MSMEs, indicated by the tendency for MSMEs to act as sales partners, (2) high import volumes leading to the emergence of predatory pricing practices, (3) limited physical and non-physical infrastructure, (4) limited access to business financing and legality, and (5) the limited capacity of human resources in Indonesia. Despite these challenges, in the era of Society 5.0, Indonesian MSMEs also have great opportunities, marked by the emergence of the digital ecosystem concept (e-commerce) and broader global market opportunities due to the liberalization of international trade. Therefore, it is hoped that with these significant opportunities, Indonesian MSMEs will continue to thrive in the global market and contribute positively in terms of employment and national economic growth.

Keyword: MSMEs, *Society 5.0,* Challenges of the Global.

INTRODUCTION

In its development, MSMEs (Micro, Small, and Medium Enterprises) have become an integral part of the national economy, with an emphasis on independence and significant potential to improve public welfare. The role of MSMEs is crucial in supporting national economic growth in Indonesia. According to data from the Ministry of Cooperatives and SMEs, the number of MSMEs in Indonesia by 2024 has reached more

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than 65 million units spread across various sectors, including culinary, fashion, handicrafts, and digital technology (Indonesian Information Portal, 2024).

The existence of MSMEs in Indonesia not only positively impacts economic growth but also contributes to increased employment and Indonesia's GDP (Gross Domestic Product). Based on data, President Joko Widodo revealed that MSMEs have absorbed at least 97% of the workforce in Indonesia and contributed significantly to GDP, reaching 61% (Nugraheny & Setuningsih, 2024). Given this, the existence of MSMEs needs more attention from the government and relevant stakeholders to ensure that MSMEs across Indonesia continue to operate and survive, especially in the era of Society 5.0.

The Society 5.0 era, or super-smart society, was first popularized by the Japanese government in 2019 as a response to the disruption caused by the implications of Industry 4.0, which raised concerns about the potential loss of human values that have been upheld for so long (Ministry of Education and Culture, 2024). The emergence of Society 5.0 as a successor to Industry 4.0 aims to create a human-centered society in the context of global economic development and address societal challenges, enabling people to enjoy a high quality of life and uplift the poor (Handayani et al., 2020).

In this context, the uncertainties of the global economy and technological advancements in the Society 5.0 era present medium-scale businesses like MSMEs with a challenging crossroads, where the opportunity for global market expansion comes with increasingly complex risks. Analyzing global export markets has become a necessity for companies, including MSMEs. This is because national economic growth not only depends on domestic strengths but also on the ability to navigate and respond to the dynamics of the global market (Sari, 2024). For MSMEs, a simple yet effective strategy is crucial to face challenges and seize opportunities in an interconnected business world. However, in practice, many MSME actors still face difficulties in adapting to the global market economy and technological advancements in the Society 5.0 era.

Based on available data, Indonesian MSMEs still face several significant issues, especially regarding their low contribution to global export markets. In 2023, Indonesian MSMEs only contributed 16% to national exports, which is far behind countries like Thailand (29%) and the Philippines (20%) (Ministry of Finance, 2024). Furthermore, MSME actors in Indonesia face weaknesses in management, organization, technology, capital, operations, and fieldwork due to limited market access, licensing issues, and non-technical costs that are difficult to avoid (Lestari, 2013). Other research also highlights the challenges faced by MSME actors in Indonesia, particularly related to unclear business plans, visions, and strategies (Aini et al., 2024).

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Another weakness among some MSME actors in Indonesia is the difficulty in adopting digital technology, which is crucial for business expansion in the global market in the Society 5.0 era. Despite this, by 2022, the Ministry of Communication and Information (Kominfo) reported that only about 19 million MSMEs had moved their businesses online, which is equivalent to 29% of the total MSMEs in Indonesia (Ahdiat, 2022). According to data from the Boston Consulting Group (BCG) and Telkom Indonesia, from around 3,700 local MSMEs surveyed, most faced challenges in digital transformation due to a lack of financing (Ahdiat, 2022).

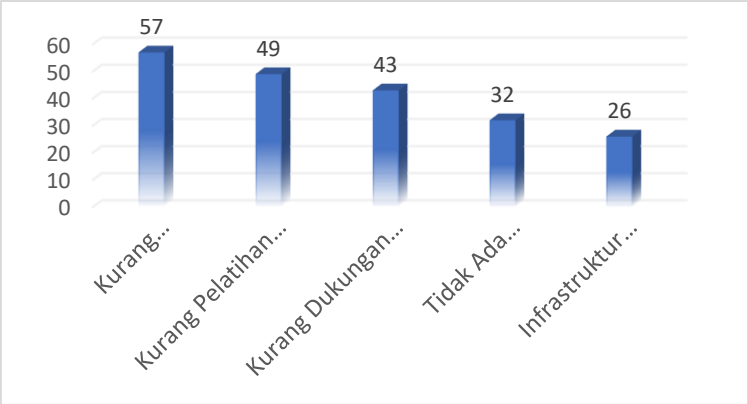


Figure 1. Challenges Faced by Indonesian MSMEs in Digital Transformation (August 2022)

In addition to the challenges in digital transformation in the Society 5.0 era, another issue that has become one of the weaknesses of MSMEs in Indonesia is the status of MSMEs in Indonesia, which are only acting as sales partners and not engaging in production activities. According to data from Continuum Data Indonesia and the Institute for Development of Economics and Finance (INDEF), at least 98.2% of stores in Indonesian local markets are MSMEs, but only 6.28% of these MSMEs engage in production activities. The remaining 93.72% are only acting as resellers (Nugraha, 2024). Furthermore, the Special Staff to the Minister of Cooperatives and Small and Medium Enterprises (SMEs) has also stated that the digitalization of MSMEs in the productive sector in the Society 5.0 era is still low (Nugraha, 2024). These conditions raise concerns that Indonesian MSMEs will not be able to compete in the global market, and the large-scale potential of the national digital economy will not have a significant impact on job creation, ultimately leading to an increase in poverty rates.

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In light of the challenges and weaknesses faced by many MSME actors in Indonesia in their efforts to enter the global market in the Society 5.0 era, a comprehensive and complex strategy is needed, particularly in terms of understanding the opportunities that MSMEs in Indonesia could gain by entering the global market and the challenges they must face to facilitate the digital transformation of businesses in the Society 5.0 era. Based on the background presented above, this academic article aims to explore the opportunities and challenges faced by Indonesian MSMEs in the global market, particularly in the Society 5.0 era.

RESULT

According to Law No. 20 of 2008 on Micro, Small, and Medium Enterprises (hereinafter referred to as Law No. 20 of 2008 on MSMEs), there are several criteria used to define the meaning and criteria of Micro, Small, and Medium Enterprises. In this case, Micro Enterprises are defined as productive businesses owned by individuals and/or individual business entities that meet the criteria of Micro Enterprises as outlined in Law No. 20 of 2008. Meanwhile, Small Enterprises are defined as productive economic businesses that operate independently, conducted by individuals or business entities that are not subsidiaries or branches of medium or large businesses, either directly or indirectly controlled or owned by such businesses, which meet the criteria for Small Enterprises as referred to in Law No. 20 of 2008. Medium Enterprises are defined as productive economic businesses that operate independently, conducted by individuals or business entities that are not subsidiaries or branches of businesses owned, controlled, or directly or indirectly linked to small or large enterprises, with net assets or annual sales as outlined in Law No. 20 of 2008.

According to the Minister of Finance's Decree No. 40/KMK.06/2003 dated January 29, 2003, MSMEs can be defined as follows:

1. **Micro Enterprises**: Micro enterprises are productive businesses owned by families or individuals who are Indonesian citizens, with annual sales of up to IDR 100,000,000 (one hundred million rupiah). Micro enterprises can apply for loans from banks of up to IDR 50,000,000. Characteristics of Micro Enterprises include: a) The type of product/commodity is not always fixed and may change from time to time. b) The business location is not always fixed and may change. c) They have not yet conducted even simple financial administration and do not separate family finances from business finances. d) The business owner or human resources generally have very low education, typically at the elementary school level, and

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lack adequate entrepreneurship skills. e) Generally, they are not familiar with banking but are more familiar with loan sharks. f) They typically do not have business permits or other legal requirements, including a tax identification number (NPWP). g) The workforce or employees are fewer than 4 people.

2. **Small Enterprises**: According to Law No. 9 of 1995, small enterprises are productive businesses on a small scale with net assets of up to IDR 200,000,000, excluding land and buildings used for the business, or annual sales of up to IDR 1,000,000,000, and are eligible for loans from banks ranging from IDR 50,000,000 to IDR 500,000,000. Characteristics of Small Enterprises include a) Their human resources are more advanced, with an average education level of high school and some business experience. b) They generally have started bookkeeping/financial management, even though it is still simple, and have separated business finances from family finances, and have started preparing financial statements. c) They generally have business permits and other legal requirements, including NPWP. d) Most have established relationships with banks but are not yet able to create business plans, feasibility studies, or credit proposals, so they still require consultation or mentoring services. e) They employ between 5 and 19 workers.
3. **Medium Enterprises**: According to Presidential Instruction No. 10 of 1999, medium enterprises are productive businesses that meet the criteria of having net assets greater than IDR 200,000,000 (two hundred million rupiah) and up to IDR 10,000,000,000 (ten billion rupiah), excluding land and buildings used for the business. Characteristics of Medium Enterprises include a) Generally, they have better management and organization, with a clearer division of labor, including finance, marketing, and production departments. b) They have established financial management with a regular accounting system, making auditing and assessments, including by banks, easier. c) They have labor management regulations, such as having social security, health maintenance, etc. d) They have all the necessary legal requirements, such as business permits, location permits, NPWP, and environmental management efforts. e) They have access to banking funding sources. f) They generally have trained and educated human resources.

Based on the scope of business owned by each MSME actor, whether micro, small, or medium enterprises, they each face different challenges and obstacles. However, in the digital transformation process in the Society 5.0 era, these challenges are not exclusive to any specific type of MSME. Digital transformation is understood as a

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process applied by an organization to integrate the use of technology to transform analog processes into digital in all areas or business sectors (Mashita, 2024). New technologies, such as artificial intelligence (AI), cloud computing, and the Internet of Things (IoT), can accelerate transformation, while data management and analytics are necessary for analyzing the large volumes of data generated from digital transformation.

The importance of digital transformation or adaptation for MSME actors has significant implications for the existence of their products to compete in the global market and reduce the import of foreign products into Indonesia. Data from the Central Statistics Agency (BPS) for 2023 shows that Indonesia's import volume has grown annually by 8.04%. Sectorally, the value of imports of consumer goods rose from IDR 1.81 trillion in December 2022 to IDR 2.05 trillion in December 2023 (Ahdiat, 2024).

The increasing volume of imports entering the domestic market over time has been able to dominate Indonesian local markets. This is caused by the practice of predatory pricing, which results in imported goods being priced much lower than local products. If this continues, it could jeopardize the existence of MSMEs in both the national and global markets, as consumers tend to prefer cheaper prices. As a result, many MSMEs in Indonesia give up due to being trapped in price competition with global products entering the domestic market.

Another challenge for MSME actors in Indonesia is the limited infrastructure, particularly internet access outside Java. Data from Continuum INDEF indicates that 22,844 MSME samples using local marketplaces face internet infrastructure limitations, especially MSMEs outside Java (Ahdiat, 2024). This limitation of internet infrastructure has far-reaching implications, leading to greater challenges for MSME actors, including limited access to business financing and legal status. Many MSMEs still lack complete permits, such as a Trading Business License (SIUP) and a Business Identification Number (NIB). According to a report from the CEO of the Government Investment Center (PIP), there are at least 44 million MSMEs out of a total of 65 million in Indonesia that cannot access financing from formal financial institutions, resulting in many MSMEs facing collapse or cashflow problems.

The lack of permits and legal proof for MSMEs is closely related to the limited capacity of human resources (HR) in Indonesia, who often lack knowledge about product innovation, research, and technology adaptation. As a result, many MSME actors feel that legal proof of their business is not important. However, many formal and informal financing companies, including private ones, often require proof of business and legal status from MSMEs, which can be shown through the ownership of an NIB.

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Based on the challenges faced by MSME actors in Indonesia, the following are the major challenges they face, especially in terms of their existence in the global market in the Society 5.0 era:

1. **Low Productivity of MSMEs**: Many MSMEs in Indonesia are only resellers (93.72%), while only 6.28% engage in production.
2. **High Import Volume in Indonesia**: Indonesia's import volume increased by 8.04%, leading to predatory pricing practices.
3. **Limited Infrastructure**: Internet access outside Java limits the digital transformation of MSMEs, making it difficult for them to compete in the global market.
4. **Limited Access to Business Financing and Legal Status**: Many MSMEs lack complete permits such as SIUP and NIB, making it difficult to access formal financing.
5. **Limited Capacity of Human Resources**: Many MSMEs face challenges due to a lack of knowledge in product innovation, research, and technology adaptation.

Despite these challenges, the Society 5.0 era and the vast global market also offer greater and more comprehensive opportunities for MSME actors in Indonesia. The emergence of the digital ecosystem or business digitalization, marked by e-commerce, has become a new platform for MSMEs to expand their business digitally in the global market. Furthermore, business digitalization can help MSMEs build personal branding and a stronger image to increase customer loyalty.

Moreover, the Society 5.0 era brings changes to the international trade system, moving towards liberalization. Examples include ASEAN moving towards CAFTA and eventually becoming ME-ASEAN (ASEAN Economic Community), opening up many opportunities for MSMEs (Tambunan, 2012). The global market offers bigger opportunities than when world trade was fragmented due to protectionist measures. International trade liberalization offers MSMEs a bigger opportunity to expand their products in the global market by utilizing business digitalization in the Society 5.0 era, leading to increased profits as consumer access to imports from various countries increases.

In conclusion, the significant opportunities for MSMEs in Indonesia in the Society 5.0 era include:

1. The emergence of the digital ecosystem or business digitalization, marked by e-commerce, enabling MSMEs to market their products without space and time constraints.

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2. Greater global market opportunities due to international trade liberalization.

Several key factors can determine the opportunities for MSMEs in Indonesia in the Society 5.0 era:

1. Accessibility to information related to key aspects of business success.
2. Accessibility to the latest technology.
3. Accessibility to capital sources.
4. Accessibility to qualified and

CLOSING

SMEs (Small and Medium Enterprises) play a crucial role in a country, especially in Indonesia, where they contribute to job creation and the national economy, particularly in terms of Gross Domestic Product (GDP). Therefore, empowering SME actors in Indonesia requires further attention. However, the reality today shows that the performance of many SME actors is still considered low and unproductive. As outlined in this article, Indonesian SMEs continue to face issues related to their low contribution to global export markets, with Indonesian SMEs contributing only 16% to national exports in 2023. This limited contribution is related to the many challenges they face, such as (1) low productivity of SMEs, marked by their tendency to function as resellers, (2) high import volumes leading to predatory pricing practices, (3) limited physical and non-physical infrastructure, (4) limited access to business financing and legal status, and (5) the low capacity of human resources in Indonesia.

Despite these challenges, in the era of Society 5.0, SME actors in Indonesia also have significant opportunities, marked by the emergence of a digital ecosystem (e-commerce) and the larger global market opportunities due to international trade liberalization. Therefore, it is hoped that through these vast opportunities, Indonesian SMEs can continue to thrive in the global market and contribute positively to job creation and the national economy.

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