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Internationalization Periodization Of Indonesian Msmes: Historical Approach And Global Strategy Transformation

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Abstract

Understanding how small enterprises from emerging economies navigate their way into global markets remains one of the more compelling puzzles in international business scholarship. This study takes up that challenge by tracing the internationalization journey of Indonesian Micro, Small, and Medium Enterprises (MSMEs) through a historical periodization lens mapping not just where MSMEs are today, but how they got there and what forces shaped each transition along the way. Drawing on a Systematic Qualitative Literature Review (SQLR) of sources indexed in Scopus, Web of Science, and authoritative institutional databases spanning 1990 to 2025, this study constructs a four period analytical framework: (1) the preinternationalization era (pre-2000), characterized by domestically confined subsistence economies; (2) the early globalization phase (2000–2010), marked by initial export policy frameworks and ASEAN Free Trade Area integration; (3) the digitalization and strategic transformation phase (2010–2020), driven by e-commerce platform proliferation and the Making Indonesia 4.0 agenda; and (4) the global acceleration and digital integration phase (2020–present), catalyzed by COVID-19 induced digital adoption and RCEP ratification. Empirical data confirm that Indonesia's 65.47 million MSMEs now generate 61.97% of GDP and absorb 97.22% of national employment, yet only 5.2% are currently engaged in international trade a gap that reveals both the scale of the opportunity and the depth of the structural barriers remaining. Theoretically, the study integrates the Uppsala Model, Network Theory, Resource-Based View, Dynamic Capabilities Framework, and Institutional

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Theory to interpret the mechanisms behind each transitional period. The findings contribute a novel 'digital democratization of internationalization' thesis, demonstrating that platform-mediated trade has fundamentally restructured the economics of MSME global market entry in ways that existing frameworks only partially capture. Implications are drawn for policymakers, development agencies, and MSME practitioners committed to accelerating Indonesia's sustainable global integration.

Keywords: MSMEs; internationalization; digitalization; global value chain; dynamic capabilities; emerging economy; Indonesia

INTRODUCTION

Indonesia's Micro, Small, and Medium Enterprises (MSMEs) do more than fill an economic niche they are the structural backbone of the national economy. At 65.47 million registered units as of 2023, they account for 61.97% of Gross Domestic Product (GDP) and provide livelihoods for 97.22% of Indonesia's workforce (Badan Pusat Statistik [BPS], 2024; Kementerian Usaha Mikro Kecil dan Menengah [Kementerian UMKM], 2024). By almost any measure, they are not peripheral actors. And yet, despite this domestic scale, only about 5.2% of Indonesian MSMEs are currently engaged in any form of international trade (Kamar Dagang dan Industri Indonesia [KADIN], 2024) a figure that stands in conspicuous contrast to the 18–22% international engagement rates recorded for MSMEs in comparable ASEAN economies such as Vietnam and Thailand (Economic Research Institute for ASEAN and East Asia [ERIA], 2022). The gap is not incidental; it reflects deep structural, historical, and capability-related dynamics that deserve careful examination.

Scholarship on MSME internationalization has accumulated substantially over the past three decades, producing influential theoretical frameworks including the Uppsala Stage Model (Johanson & Vahlne, 1977, 2009), the Network Theory of Internationalization (Johanson & Mattsson, 1988; Coviello & Munro, 1997), and the Born Global perspective (Oviatt & McDougall, 1994; Knight & Cavusgil, 2004). More recent contributions from the Dynamic Capabilities Framework (Teece et al., 1997; Teece, 2007; Eisenhardt & Martin, 2000) and Institutional Theory (North, 1990; Scott, 1995; Peng et al., 2008) have added contextual and adaptive dimensions that earlier models lacked. Together, these frameworks offer rich conceptual tools. But their application to large, geographically diverse, and institutionally complex developing economies like Indonesia and particularly their application through an explicitly historical lens remains underexplored in the literature (Ruzzier et al., 2006; Tambunan, 2019).

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This study responds to that gap. Rather than treating MSME internationalization as a static phenomenon or a one directional process, it examines it as an evolving, period specific trajectory shaped by the interaction of macro level forces (globalization waves, technological disruptions, policy reforms, and economic crises) with firm level strategies and capabilities. The result is a four period periodization framework spanning pre internationalization, early globalization, digitalization, and global acceleration that provides a structured historical account of how Indonesian MSMEs have moved, however unevenly, toward global integration over the past five decades.

Beyond descriptive periodization, the study advances three substantive analytical claims. First, MSME internationalization in Indonesia is neither the linear stage by stage process predicted by Uppsala nor the overnight born global leap, but a multi-speed, crisis-punctuated, and sector differentiated evolutionary process. Second, exogenous shocks particularly the 1997–1998 Asian Financial Crisis and the 2020 COVID-19 pandemic have functioned as critical institutional junctures that fundamentally realigned government priorities, firm strategies, and market structures in ways that endogenous forces alone could not have produced. Third, digitalization has not merely facilitated internationalization but has reconfigured its fundamental economics, effectively lowering entry thresholds in ways that merit a distinct theoretical concept: the 'digital democratization of internationalization.'

The paper is organized as follows. Section 2 details the research methodology. Section 3 develops the theoretical framework. Section 4 presents the general landscape of Indonesian MSME internationalization. Section 5 constructs the four period framework in detail. Section 6 examines strategic transformation across periods. Section 7 maps challenges and opportunities. Section 8 traces policy evolution. Section 9 synthesizes theoretical contributions. Section 10 provides conclusions and policy implications.

RESEARCH METHODOLOGY

This study adopts a Systematic Qualitative Literature Review (SQLR) design, following established protocols for rigorous evidence synthesis in management and international business research (Tranfield et al., 2003; Denyer & Tranfield, 2009). The SQLR approach was selected for two reasons. Practically, the research objective constructing and validating a historical periodization framework requires synthetic engagement with a large, heterogeneous body of evidence rather than primary data collection from a bounded sample. Epistemologically, the interpretive depth required to

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explain why certain historical transitions occurred demands qualitative analytical judgment that purely quantitative methods cannot provide.

Literature was retrieved through structured Boolean searches of Scopus, Web of Science (WoS), Google Scholar, and the Directory of Open Access Journals (DOAJ), using the following term combinations: ("MSME" OR "SME" OR "small firm") AND ("internationalization" OR "globalization" OR "export") AND ("Indonesia" OR "ASEAN" OR "developing economy") AND ("digitalization" OR "e-commerce" OR "digital transformation"). The temporal scope spanned 1990 to 2025, permitting both historical contextualization of the pre-globalization era and contemporaneous analysis of the current acceleration phase. Institutional and grey literature from the World Bank, OECD, UNCTAD, ERIA, IFC, BPS, KADIN, and relevant Indonesian government ministries was systematically incorporated to ensure policy and empirical grounding.

Sources were included if they: (a) directly addressed MSME internationalization processes in Indonesia or in comparable ASEAN and developing-economy contexts; (b) appeared in peer-reviewed journals, official government publications, or recognized multilateral institutional reports; and (c) contributed empirical evidence, theoretical frameworks, or analytical policy content relevant to the research questions. Sources were excluded if they consisted of non-peer-reviewed popular press commentary, if they presented duplicate findings already captured by higher-quality primary studies, or if their country-case focus had no defensible comparative relevance to the Indonesian context.

Analysis proceeded through three sequential stages. In the first stage, thematic coding was applied to all included sources using coding categories organized around periodization markers, strategic pattern descriptors, and driver-constraint classifications. In the second stage, cross-case synthesis was conducted within each temporal period to identify convergent findings, contradictions, and evidence gaps. In the third stage, theoretical triangulation was applied by systematically testing the emerging periodization schema against the six theoretical frameworks reviewed in Section 3. Quantitative indicators from authoritative secondary sources served throughout as empirical anchors, corroborating and grounding the qualitative narrative.

THEORETICAL FRAMEWORK

No single theory of internationalization captures the full complexity of the Indonesian MSME experience. Each major framework illuminates part of the picture while leaving other dimensions in shadow. The analytical strategy adopted here is therefore deliberately integrative: six complementary theoretical perspectives are selected and

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applied in combination, with each framework assigned primary explanatory responsibility for the period or dimension it best accounts for. Table 1 summarizes the frameworks and their specific applications.

Table 1. Theoretical Frameworks Applied in This Study

Theory / Model	Key Proponents	Core Argument	Application to Indonesian MSMEs
Uppsala Stage Model	Johanson & Vahlne (1977, 2009)	Internationalization unfolds incrementally through stages driven by accumulated market knowledge and reduced psychic distance	Accounts for the gradual regional expansion of Indonesian MSMEs into ASEAN markets before venturing into more distant Western markets
Network Theory of Internationalization	Johanson & Mattsson (1988); Coviello & Munro (1997)	International expansion is embedded in and enabled by inter-firm network relationships that lower entry barriers	Explains how digital platforms function as network infrastructure, substituting for physical relationship capital in cross-border trade
Resource-Based View (RBV)	Barney (1991); Wernerfelt (1984)	Sustained competitive advantage stems from firm-specific resources that are valuable, rare, inimitable, and non-substitutable	Frames digital capabilities, brand equity, and entrepreneurial human capital as key strategic assets underpinning MSME internationalization
Born Global / International New Venture	Oviatt & McDougall (1994); Knight & Cavusgil (2004)	Certain firms pursue international markets from founding or very early stages without prior domestic consolidation	Describes digitally native MSMEs that enter global markets directly through e-commerce, bypassing traditional export stages entirely
Institutional Theory	North (1990); Scott (1995); Peng et al. (2008)	Formal rules, regulatory frameworks, and informal norms collectively shape the strategic choices available to firms	Explains how Indonesia's shifting regulatory architecture from protectionist policies to the Omnibus Law has progressively enabled MSME global integration
Dynamic Capabilities Framework	Teece et al. (1997); Teece (2007);	Competitive advantage in volatile environments requires the capacity to	Explains how MSMEs pivoted rapidly to digital internationalization

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Theory / Model	Key Proponents	Core Argument	Application to Indonesian MSMEs
	Eisenhardt & Martin (2000)	sense, seize, and continuously reconfigure organizational capabilities	strategies in response to COVID-19 disruptions and changing market dynamics

Note. Compiled from Johanson & Vahlne (1977, 2009); Johanson & Mattsson (1988); Barney (1991); Oviatt & McDougall (1994); North (1990); Scott (1995); Teece et al. (1997).

The Uppsala Model provides the most intuitive entry point for the early globalization period (2000–2010), when Indonesian MSMEs began cautiously probing regional ASEAN markets where psychic distance was minimal. As Johanson and Vahlne (2009) noted in their influential revision of the original 1977 model, market knowledge and network embeddedness are what ultimately drive the commitment decisions that move firms along the internationalization continuum. For Indonesian MSMEs, this translated into a preference for ASEAN destinations particularly Malaysia, Singapore, and Thailand before venturing toward more culturally and institutionally distant Western markets.

Network Theory extends this picture meaningfully. Johanson and Mattsson (1988) argued that a firm's international position is less a product of its internal capabilities than of its position within an inter-firm network of relationships. Coviello and Munro (1997) later showed that small software firms in particular relied heavily on network ties to access foreign markets that their own resources could never have reached independently. For Indonesian MSMEs, digital platforms now perform a structurally analogous function: they compress network distance, generate transaction credibility, and provide access to global buyer communities that would otherwise require years of relationship-building to reach.

The Resource Based View (Barney, 1991; Wernerfelt, 1984) reorients attention from the external environment to the internal capabilities that determine which firms actually succeed in international markets. Digital literacy, brand equity, product innovation capacity, and entrepreneurial human capital function as the VRIN (Valuable, Rare, Inimitable, Non-substitutable) resources that differentiate internationally successful Indonesian MSMEs from those that remain domestically confined. The Dynamic Capabilities Framework (Teece et al., 1997; Teece, 2007) extends this by explaining not just what resources matter, but how firms must continuously sense environmental change, seize emerging opportunities, and reconfigure their capability portfolios in

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response which is precisely what the COVID-19 pandemic demanded of Indonesian MSMEs in 2020.

Institutional Theory (North, 1990; Scott, 1995; Peng et al., 2008) completes the integrative framework by explaining how the formal regulatory environment shapes what internationalization strategies are even available to MSMEs at any given historical moment. The shift from protectionist New Order policies to AFTA aligned liberalization, and subsequently to the Omnibus Law's risk-based licensing regime, represents exactly the kind of institutional transition that determines whether small firms can realistically pursue global markets. Born-Global theory (Oviatt & McDougall, 1994; Knight & Cavusgil, 2004) captures the subset of Indonesian MSMEs that have bypassed the Uppsala trajectory entirely, entering international markets at or near inception through digital channels a phenomenon that has become increasingly common in the post 2015 era of platform commerce.

GENERAL LANDSCAPE OF MSME INTERNATIONALIZATION IN INDONESIA

Before examining how Indonesian MSMEs arrived at their current position in global markets, it is worth taking stock of where they stand and how far they have come. Table 2 presents key performance indicators across three benchmark years, capturing both the scale of the MSME sector and the trajectory of its internationalization dimensions.

Table 2. Key Performance Indicators of Indonesian MSMEs (2015–2023)

Indicator	2015	2020	2023
Number of MSMEs (million units)	59.26	64.19	65.47
Contribution to GDP (%)	57.8	61.1	61.97
Employment absorption (%)	96.7	97.0	97.22
Share of total business entities (%)	99.9	99.9	99.99
Export contribution (%)	14.1	15.6	15.72
MSMEs using digital platforms (%)	8.0	19.5	27.0
MSMEs engaged in international trade (%)	2.1	3.8	5.2

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Note. Data sourced from BPS (2024), Kementerian UMKM (2024), KADIN (2024), World Bank (2023), and ERIA (2022).

The data in Table 2 tell two stories simultaneously. The first is a story of remarkable scale: 65.47 million enterprises generating nearly two-thirds of GDP and employing virtually the entire national workforce outside the formal corporate sector. The second is a story of unrealized international potential. Only 5.2% of MSMEs are engaged in international trade, and the export contribution figure 15.72% of total national exports is structurally disproportionate given MSMEs' share of economic output. This asymmetry is not accidental. Tambunan (2019) traces it to the deeply domestic embeddedness of most Indonesian MSMEs, whose supply chains, financing relationships, and market orientations are calibrated for local rather than global demand.

The digital adoption indicator tells perhaps the most important story of recent years. The share of MSMEs using digital platforms tripled from 8.0% in 2015 to 27.0% in 2023 a compound growth rate that tracks closely with Indonesia's rising smartphone penetration and the expansion of domestic e-commerce infrastructure. Yet even this figure invites caution: 'using digital platforms' ranges from simply having a social media presence to actively conducting cross-border e-commerce, and the former vastly outnumbers the latter. The 13.6% cross-border e-commerce engagement rate documented for 2023 (Table 4, Section 5.3) gives a more realistic picture of genuine international digital participation.

Regional benchmarking sharpens the analysis. Indonesia's 5.2% international trade participation rate looks even more modest when placed alongside Vietnam's and Thailand's 18–22% MSME export engagement (ERIA, 2022). Indonesia's digital adoption rate of 27.0% trails Malaysia (51.0%) and Thailand (42.0%) significantly. The ASEAN comparison presented in Table 5 (Section 6) elaborates these gaps further and situates them within a regional competitive context that makes Indonesia's policy challenge concrete rather than abstract.

Indonesia's standing as Southeast Asia's largest digital economy USD 82 billion in 2023, according to Google, Temasek, and Bain & Company (2023) offers a counterpoint to the participation gap narrative. The infrastructure for MSME digital internationalization is being built at scale. The real constraint lies less in platform availability than in MSME readiness to use those platforms for genuine cross-border commerce: a readiness that depends on product quality, certification compliance, digital marketing capability, and

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logistics integration that the current MSME population largely does not yet possess at the scale required (Kemkominfo, 2023).

PERIODIZATION OF INDONESIAN MSME INTERNATIONALIZATION

The four period framework that follows is not a simple timeline. Each period is analytically distinct defined not by calendar dates alone but by a characteristic configuration of policy environment, technological affordance, dominant strategy, and MSME capability. Table 3 provides an overview of these configurations before the subsequent sub-sections examine each period in depth.

Table 3. Periodization Framework of Indonesian MSME Internationalization

Period	Timeframe	Key Characteristics	Dominant Strategies	Principal Constraints
Pre-Internationalization	Pre-2000	Local and subsistence orientation; minimal technology adoption; largely informal economic activity	Domestic market focus; artisanal and family based production; informal regional trade networks	Structural market exclusion; policy neglect of small enterprises; limited trade finance
Early Globalization	2000–2010	Initial export policy frameworks; AFTA trade liberalization; KUR credit program launch	Export facilitation programs; trade fairs; capacity building initiatives; export consortia	Quality certification gaps; bureaucratic trade barriers; limited export literacy
Digitalization & Strategic Transformation	2010–2020	E-commerce platform scaling; smartphone proliferation; Making Indonesia 4.0 roadmap	Platform based cross border trade; digital branding; B2B digital networks; social commerce	Digital literacy deficits; cybersecurity risks; logistics and payment integration challenges
Global Acceleration & Digital Integration	2020–Present	COVID-19-driven digital acceleration; RCEP ratification; omnichannel and GVC integration	Omnichannel commerce; global marketplace platforms; digital diplomacy; green export programs	Trade policy volatility; green trade compliance; AI readiness and skills gaps

Note. Synthesized from Iskandar et al. (2025), Ariyani (2022), Tambunan (2006, 2019), Hill (2000), and OECD (2021).

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Pre-Internationalization: The Subsistence Foundation (Pre-2000)

The pre 2000 period is best understood as a phase of structural invisibility for Indonesian MSMEs in global trade. The dominant development paradigm of the New Order era (1966–1998) was organized around state led industrialization, with large state-owned enterprises and private conglomerates assigned the primary role in export production (Hill, 2000). MSMEs existed in the interstices of this system providing labor, locally sourced inputs, and domestically consumed goods but they were not designed for, nor expected to participate in, international markets.

The Asian Financial Crisis of 1997–1998 disrupted this picture in a way that would prove consequential for MSME policy for the following two decades. While the crisis devastated Indonesia's large corporate sector whose USD denominated debt became catastrophically unserviceable MSMEs proved far more resilient, largely because their domestic orientation and informal financing structures shielded them from the same currency and credit risks (Berry et al., 2001; Tambunan, 2006). The crisis thus functioned as what Mahoney and Thelen (2010) call a critical juncture: a moment when existing institutional arrangements break down, creating space for policy entrepreneurs to reshape the rules of the game. In Indonesia's case, the post-crisis revaluation of MSMEs as economically resilient actors laid the political groundwork for the more deliberate MSME development programs that would follow in the 2000s.

Where international engagement did occur during this period, it was primarily informal, mediated through ethnic business networks particularly among Indonesian-Chinese business communities with established commercial ties to Malaysia, Singapore, and Hong Kong and through artisanal export of cultural products such as batik, woodcraft, and traditional textiles (Wibowo & Haryono, 2012). These informal channels were commercially real but institutionally invisible: they did not generate the customs data, policy attention, or capacity-building infrastructure that formal export participation would eventually require.

5.2 Early Globalization and the Emergence of Export Policy (2000–2010)

The post-crisis decade brought a meaningful reorientation of the policy architecture around MSMEs. Three institutional developments were particularly formative. First, Indonesia's deepening engagement with the ASEAN Free Trade Area (AFTA) progressively reduced tariff barriers within the region, creating genuine market access opportunities for Indonesian exporters at all scales. Second, Law No. 20 of 2008 on Micro, Small, and Medium Enterprises provided the first comprehensive legal framework specifically governing MSME development, establishing clear definitions, government

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obligations, and program mandates. Third and most practically significant for MSME financing the People's Business Credit (Kredit Usaha Rakyat, KUR) was launched in 2007, providing government-guaranteed loans to MSMEs at subsidized interest rates that the commercial banking system would not have offered on its own (Bank Indonesia, 2008; Ariyani, 2022).

Despite these advances, the internationalization of Indonesian MSMEs during this decade remained narrow in scope and heavily concentrated geographically. Fewer than 3% of MSMEs participated in export activities, and those that did were overwhelmingly based in Java specifically in the manufacturing clusters of Greater Jakarta, Bandung, Solo, and Surabaya (Nugroho & Susilo, 2023). Export activity was also concentrated sectorally: handicrafts, furniture, garments, and food processing accounted for the majority of MSME export value, reflecting both Indonesia's comparative advantages in natural-resource-intensive production and the relatively low quality standards required in those product categories (Prihandini et al., 2023; Maurina & Rusdianto, 2023).

A recurring structural constraint was the absence of internationally recognized quality certification. Without ISO, Halal, SNI (Standar Nasional Indonesia), or other certification marks recognized by target markets, MSME products were effectively excluded from premium retail channels and forced to compete on price alone in commodity-oriented export markets a position that made sustainable export engagement extremely difficult to maintain. The certification gap was not simply a matter of firm level incapacity; it reflected wider deficiencies in Indonesia's testing infrastructure, certification bureaucracy, and quality-extension service provision that would require years of investment to address (Ariyani, 2022; Setiadi & Perkasa, 2025).

Digitalization and Strategic Transformation (2010–2020)

The decade from 2010 to 2020 represents the most structurally disruptive period in the history of Indonesian MSME internationalization not because MSME exports grew dramatically in volume terms, but because the mechanism of international market access changed fundamentally. Three convergent forces drove this change.

The first was the rapid diffusion of smartphones and affordable mobile internet. Between 2012 and 2019, Indonesia's smartphone penetration rate rose from approximately 13% to over 60% of the population (APJII, 2023), putting internet-connected devices into the hands of MSME owners across Java and increasingly in Sumatra, Sulawesi, and Kalimantan. The second force was the emergence and scaling of e-commerce platforms both domestic (Tokopedia, Bukalapak, Shopee Indonesia) and

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international (Lazada, Alibaba, Amazon) that provided ready-made marketplace infrastructure for MSME product listings, payment processing, and customer reach. The third was deliberate government policy: the Making Indonesia 4.0 roadmap, launched by the Ministry of Industry in 2018, set explicit targets for MSME digital adoption and established the institutional vocabulary Industry 4.0, digital economy, e-commerce ecosystem that would define subsequent policy debates (Kemenperin, 2018).

Table 4 quantifies the digital transformation that unfolded across this period and into the following phase.

Table 4. Digital Economy and MSME Digitalization Indicators, Indonesia (2018–2023)

Indicator	2018	2021	2023
MSMEs active on e-commerce platforms (million units)	8.0	17.2	22.0
Digital economy valuation (USD billion)	27	70	82
MSMEs engaged in cross-border e-commerce (%)	4.2	9.1	13.6
National internet penetration rate (%)	62.5	77.0	79.5
Social media commerce active users (million)	31.0	61.0	79.1
Mobile payment adoption among MSMEs (%)	12.0	38.4	54.7

Note. Data sourced from APJII (2023), Kemkominfo (2023), Google et al. (2023), KADIN (2024), and BPS (2024).

The most theoretically significant development of this period was the emergence of what can be called 'leapfrog internationalization' among digitally native Indonesian MSMEs. Firms in creative industries handmade jewelry, batik fashion, specialty food, and artisanal cosmetics began entering international markets directly through e-commerce channels without the prior domestic market consolidation, relationship-building with foreign distributors, or physical presence in target markets that traditional models assumed to be prerequisites (Oviatt & McDougall, 1994; Rialp et al., 2005). This phenomenon sits in direct theoretical tension with the Uppsala Model's stage wise

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progression: for these firms, psychological and institutional distance was effectively compressed by platform intermediation to the point where it ceased to function as a meaningful barrier (Chetty & Campbell-Hunt, 2004).

A parallel development was the emergence of more systematic strategic frameworks for MSME internationalization. The DICCIO Business Framework (Deni et al., 2025) articulates five pillars Digitalization, Innovation, Collaboration, Competitive Intelligence, and International Orientation as the integrated capability configuration that distinguishes internationally successful MSMEs from those that remain domestically confined. This framework is empirically grounded in Indonesian MSME practice and provides a practically actionable complement to the theoretical models reviewed in Section 3. Its emphasis on simultaneous rather than sequential capability development also implicitly challenges the stage-wise assumptions of the Uppsala tradition.

Global Acceleration and Digital Integration (2020–Present)

The COVID-19 pandemic arrived in Indonesia in March 2020 and proceeded to compress a decade of digital transformation into approximately eighteen months. The mechanisms were simultaneously destructive and adaptive: lockdowns and mobility restrictions obliterated traditional market channels street markets, trade fairs, physical retail while simultaneously making digital channels the only viable path to commercial survival for many MSMEs. OECD (2021) documented that while MSMEs globally suffered disproportionate revenue losses during 2020, those with pre-existing digital capabilities demonstrated markedly faster recovery trajectories. Indonesia's government responded with the National Economic Recovery (Pemulihan Ekonomi Nasional, PEN) program, which channeled IDR 123.46 trillion specifically toward MSME support in 2020–2021 including subsidized KUR rates, digital onboarding assistance, and marketplace integration programs (Kementerian Koordinator Bidang Perekonomian [Kemenko Perekonomian], 2021).

The post pandemic competitive landscape carries several structurally new characteristics that distinguish the current period from all prior phases. Omnichannel business models integrating marketplace platforms, social commerce (Instagram, TikTok Shop, Tokopedia, Shopee shop, Facebook), direct-to-consumer websites, and export logistics partners have replaced single-channel export strategies as the competitive standard for internationally engaged MSMEs. The boundaries between domestic digital commerce and international digital commerce have blurred to the point where MSMEs frequently serve international customers without initially intending to: a customer inquiry

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on Instagram from Singapore or Malaysia can be the starting point of an export relationship (Putri et al., 2024; Rizky et al., 2024).

Indonesia's ratification of the Regional Comprehensive Economic Partnership (RCEP) agreement, which entered into force for Indonesia in January 2023, added a significant institutional dimension to the current period. RCEP's SME-specific chapter creates new obligations on member governments to share market information, simplify regulatory procedures, and provide capacitybuilding programs specifically designed for small enterprises engaged in cross border trade (ASEAN Secretariat, 2022). For Indonesian MSMEs, RCEP membership means preferential access to a bloc that encompasses 30% of global GDP and 47% of global population including Japan, China, South Korea, and Australia alongside ASEAN partners under a single unified trade framework.

Sustainability compliance has also emerged as a defining constraint of the current period, particularly for MSMEs targeting European and North American premium markets. The European Union's Carbon Border Adjustment Mechanism (CBAM), coupled with rising retailer demands for supply chain transparency, ESG reporting, and environmental certification, imposes compliance costs that most Indonesian MSMEs are currently ill-equipped to absorb (IFC, 2023). This creates a paradox: digital platforms have democratized access to wealthy consumer markets, but the compliance requirements of those markets have simultaneously raised the effective entry bar for sustainable participation. Navigating this paradox is one of the defining strategic challenges of MSME internationalization in the 2020s.

Research from this period also underscores the importance of entrepreneurial orientation as an individual-level driver that mediates between structural opportunity and firm level internationalization performance. Putri and Azizah (2023) find that MSMEs with high entrepreneurial orientation scores characterized by proactiveness, risk tolerance, and innovativeness are significantly more likely to sustain international market engagement over time compared to those with reactive, compliance-only orientations. Sahara and Saputra (2025) add that service innovation, particularly in customer experience digitalization, positively mediates the relationship between internationalization scope and firm profitability, suggesting that the route to financial sustainability in international markets runs through service quality differentiation rather than price competition alone.

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STRATEGIC TRANSFORMATION OF INDONESIAN MSME GLOBAL STRATEGY

Viewing the four periods together, a coherent pattern of strategic transformation emerges one that cannot be fully appreciated by examining any single period in isolation. Indonesian MSMEs have moved from passive, intermediary dependent export relationships to active, platform mediated, and increasingly brand-driven international market engagement. This trajectory maps closely onto what Teece et al. (1997) describe as the dynamic capabilities challenge: firms must continuously sense new competitive opportunities, seize them through deliberate capability investment, and reconfigure their organizational structures before those capabilities become obsolete.

Three strategic dimensions have undergone the most pronounced transformation. Market access strategy has shifted from reliance on government trade missions and foreign intermediaries who absorbed much of the value generated by MSME exports in earlier periods to direct-to-consumer digital channels that compress the value chain and allow MSMEs to capture greater margins. The innovation strategy has evolved from product-only differentiation (producing a good of sufficient quality to attract foreign buyers) to ecosystem innovation that simultaneously addresses product design, packaging, digital content, customer service, and logistics integration. And the partnership model has transitioned from bilateral buyer-supplier relationships with individual foreign buyers to multilateral ecosystem participation involving platform operators, third party logistics providers, digital payment processors, fintech lenders, and international certification bodies.

Table 5 places Indonesia's current strategic position in regional comparative perspective, revealing both achievements and remaining gaps relative to ASEAN peers.

Table 5. ASEAN MSME Internationalization Benchmarking (2023)

Country	MSME/GDP (%)	Export Share (%)	Digital Adoption (%)	E-commerce Growth (%/yr)	Intl. Access Score (/10)
Indonesia	61.97	15.72	27.0	18.5	5.8
Thailand	38.0	29.0	42.0	22.1	6.9
Vietnam	40.0	32.0	38.5	24.8	6.5
Malaysia	38.5	23.0	51.0	20.3	7.1

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Country	MSME/GDP (%)	Export Share (%)	Digital Adoption (%)	E-commerce Growth (%/yr)	Intl. Access Score (/10)
Philippines	35.7	14.0	30.0	19.7	5.5
ASEAN Average	41.2	22.8	37.7	21.1	6.4

Note. Data sourced from ERIA (2022), ASEAN SME Policy Index (2022), World Bank (2023), ADB (2023), and Google et al. (2023).

The benchmarking data in Table 5 reveal a persistent structural paradox in Indonesia's position. On the GDP contribution metric, Indonesia leads ASEAN decisively 61.97% compared to an ASEAN average of 41.2% reflecting the depth of MSME embeddedness in the domestic economy. Yet on every internationalization metric, Indonesia performs below or at the regional average. The 15.72% MSME export share trails Vietnam (32.0%) and Thailand (29.0%) by margins that cannot be explained by economic development differences alone. Vietnam's MSMEs, operating in an economy with comparable per capita income levels, have achieved export engagement rates more than double Indonesia's a gap that Lakshman et al. (2025) attribute to the more export oriented policy architecture maintained by Vietnam's government since the Doi Moi reforms of the 1990s.

The digital adoption gap is equally revealing. Malaysia's 51.0% MSME digital adoption rate nearly double Indonesia's 27.0% reflects not only a higher-income infrastructure advantage but also more sustained and targeted government investment in MSME digital readiness programs, including Malaysia's SME Digitalization Grant and the Digital Economy Blueprint (ADB, 2023). Indonesia's trajectory is upward, and the absolute number of digitalized MSMEs (22 million) is the largest in ASEAN, but the quality and depth of that digitalization and its translation into genuine international commerce remains a work in progress.

From a global value chain perspective (Gereffi et al., 2005), the strategic imperative facing Indonesian MSMEs is clear: moving from original equipment manufacturing (OEM) and raw material export where value capture is thin toward original design manufacturing (ODM) and ultimately original brand manufacturing (OBM), where value capture is substantial. Digital capability acquisition is beginning to enable this transition for a subset of firms in furniture, fashion, and specialty food, as they establish

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direct relationships with international retail buyers and develop proprietary brand identities for foreign consumer markets (Kemenko Perekonomian, 2021; Zefanya et al., 2025). Scaling this transition from a minority of frontier firms to the broader MSME population represents the central strategic challenge of the coming decade.

CHALLENGES AND OPPORTUNITIES IN MSME INTERNATIONALIZATION

The internationalization landscape facing Indonesian MSMEs is not uniformly constraining or uniformly promising it is both, often simultaneously. Understanding the challenge opportunity matrix with precision is important, because generic policy responses that treat all MSMEs as facing the same barriers or possessing the same potential tend to misallocate resources and underperform. Table 6 structures the principal dimensions of this matrix.

Table 6. Challenges and Opportunities Matrix for Indonesian MSME Internationalization

Dimension	Challenges	Opportunities
Financial Access	USD 165 billion financing gap; high collateral requirements; exchange rate exposure in export transactions	Fintech-based MSME lending; KUR credit guarantee program; LPEI export financing facility
Digital Technology	Low digital literacy outside Java; inadequate ICT infrastructure in eastern Indonesia; cybersecurity vulnerabilities	Rapid smartphone penetration; MSME Digital 2030 Blueprint; cross-border e-commerce platform expansion
Regulatory Environment	Complex multi-agency export procedures; inconsistent regulation enforcement; ISO and Halal certification barriers	ASEAN Economic Community single market; RCEP framework; risk-based licensing under Omnibus Law 2020
Human Capital	Shortage of export-literate entrepreneurs; limited managerial capacity; low foreign language proficiency	Government vocational training centers (BLK); university-based MSME incubators; diaspora talent networks
Market Access	Non-tariff barriers; quality certification deficits; thin global distribution networks; low brand recognition	Global marketplace platforms (Amazon, Alibaba, eBay); trade mission programs; social commerce branding
Sustainability Compliance	EU Carbon Border Adjustment Mechanism; rising ESG reporting	Halal economy (USD 7.7 trillion market); eco-labeling programs;

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Dimension	Challenges	Opportunities
	demands; supply chain transparency requirements	circular economy business model growth

Note. Compiled from IFC (2021, 2023), OECD (2021), Nugroho & Susilo (2023), Salsabila et al. (2025), and DinarStandard (2023).

Financial exclusion is arguably the most deeply rooted constraint in the matrix. The IFC (2021) estimated Indonesia's MSME financing gap at USD 165 billion, meaning that the credit demand from creditworthy MSMEs exceeds available formal credit by that margin. With formal bank lending to MSMEs representing only 20.6% of total banking credit despite MSMEs comprising 99.99% of all business entities most Indonesian MSMEs finance international market entry out of retained earnings or informal sources, both of which severely limit the pace and scale of internationalization possible. Export related investments including product quality upgrading, international certification, trade fair participation, and foreign-language marketing are precisely the kind of upfront, uncertain return expenditures that informal financing cannot adequately support.

Digital literacy inequality constitutes a second systemic constraint, and one that is spatially patterned in ways that mirror Indonesia's broader regional development disparities. The 2023 MSME Digital Literacy Index published by the Ministry of Communication and Information Technology (Kemkominfo, 2023) recorded a national average score of 3.54 on a 5.0-point scale, with substantial regional variation: MSMEs in DKI Jakarta scored 4.07, while those in Papua and Maluku scored 2.91 and 3.12 respectively. This spatial digital divide creates the real possibility of a two tier MSME internationalization trajectory one where urban, Java-based, and relatively educated MSME owners accelerate toward global markets, while peripheral and rural MSMEs fall further behind, widening inequality rather than reducing it.

On the opportunity side, Indonesia's RCEP membership combined with its standing as the world's largest Muslim-majority nation creates two particularly distinctive competitive advantages that deserve highlighting. The RCEP framework provides preferential access to 15 economies encompassing 30% of global GDP, with SME specific provisions mandating regulatory transparency and cross-border trade facilitation that go beyond what earlier bilateral FTAs provided (ASEAN Secretariat, 2022). Simultaneously, the global Halal economy is projected to reach USD 7.7 trillion by 2025, spanning food, fashion, cosmetics, pharmaceuticals, and financial services

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(DinarStandard, 2023). Indonesian MSMEs that invest in Halal certification and that can credibly position their products as authentically Islamic compliant have access to premium market segments in the Middle East, Southeast Asia, and growing Muslim diaspora communities in Europe and North America that competitors from non Muslim majority countries cannot easily replicate.

POLICY EVOLUTION AND INSTITUTIONAL SUPPORT

Indonesia's MSME policy landscape has not stood still. Across each of the four periods identified in this study, the government's approach to MSME internationalization has been substantially reshaped sometimes by deliberate policy learning, sometimes by external shocks that forced rapid institutional adaptation. Table 7 traces the evolution of principal policy instruments across the periods that matter most for internationalization.

Table 7. Evolution of MSME Internationalization Policy Instruments in Indonesia (2000–Present)

Policy Instrument	Pre-2010	2010–2020	2020–Present
Export Promotion	Trade fair participation; ad hoc government facilitation	National Export Development Program (PEN); LPEI export credit agency; trade attaché network expansion	Digital export ecosystem; Go Global program; international e-commerce diplomacy initiatives
MSME Financing	KUR introduced 2007 with limited outreach; micro-credit cooperatives	KUR at subsidized 7% rate; expanded microfinance network; MSME-dedicated commercial banks	KUR super micro; IDR 123.46 trillion PEN package; green and digital-linked MSME financing
Digitalization Support	No formal digital support framework	8 million MSME onboarding target (2019); Making Indonesia 4.0 roadmap	MSME Digital 2030 Blueprint; 30M digitalization target; digital literacy training programs
Regulatory Reform	Fragmented regulations across ministries; high compliance cost	Online Single Submission (OSS) system; BKPM one-stop investment service	Omnibus Law / Job Creation Law (2020); risk-based licensing system; MSME legal simplification

Note. Compiled from Ariyani (2022), Kemenko Perekonomian (2021), Kemenperin (2018), and LPEI (2023).

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The most consequential single regulatory development of the entire period was the passage of the Omnibus Law on Job Creation (Undang-Undang Cipta Kerja) in 2020. By consolidating 79 existing laws into a unified framework and replacing process-based licensing with risk-based licensing, the law dramatically reduced the regulatory compliance burden for MSMEs seeking export certification, business registration, and access to government support programs (Kemenko Perekonomian, 2021). For MSME internationalization specifically, the Omnibus Law's most significant practical effect has been the reduction of export procedure complexity a binding constraint that the World Bank's Doing Business assessments had consistently identified as a competitive disadvantage for Indonesian MSMEs relative to their regional peers (World Bank, 2021).

The trajectory illustrated in Table 7 reveals a clear directional shift: from supply-side production support (the pre 2010 approach) to demand-side market access facilitation (the 2010–2020 approach), and most recently toward ecosystem-based digital integration strategies that aim to embed MSMEs in sustained global commercial relationships rather than one-off export transactions. This progression reflects genuine institutional learning a recognition that export promotion events and credit programs alone do not produce durable internationalization, and that building the digital, logistical, and relational infrastructure for sustained global engagement requires a more comprehensive and coordinated policy ecosystem.

That said, implementation gaps persist and deserve honest acknowledgment. Lakshman et al. (2025) demonstrate through comparative analysis of developing economy SME policies that institutional effectiveness the actual delivery of intended support to intended beneficiaries is a substantially more important determinant of internationalization outcomes than policy design quality. Indonesia's challenge is not a shortage of well designed programs but a persistent difficulty in delivering those programs to the MSMEs that need them most: those in non-Java regions, those in the micro enterprise segment, and those whose owners lack the organizational capacity to navigate complex program application requirements. This last mile implementation problem is one that no amount of additional program design can solve without concurrent investment in local facilitation infrastructure business service centers, industry associations, and community based digital support networks that can translate national policy commitments into firm-level capability change (Scott, 1995; Ariyani, 2022).

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SYNTHESIS: PERIODIZATION ANALYSIS AND THEORETICAL CONTRIBUTIONS

Stepping back from the period by period account, three overarching contributions to the theoretical literature on MSME internationalization emerge from this study.

The first contribution is a demonstration that Indonesian MSME internationalization is neither adequately characterized by the Uppsala Model's linear stage-wise progression nor by the Born-Global framework's discontinuous leap. It is instead a multi-speed, crisis-punctuated, and sector-differentiated evolutionary process in which different types of MSMEs have moved at very different velocities some crawling through the early globalization stage for years, others leapfrogging it entirely through digital platforms. This finding has implications for researchers and policymakers alike: it suggests that one size fits all internationalization models are likely to misdiagnose the challenges facing heterogeneous MSME populations, and that differentiated support strategies calibrated to different MSME readiness levels are more likely to produce meaningful outcomes.

The second contribution concerns the role of exogenous shocks as catalysts of institutional change. Both the 1997–1998 Asian Financial Crisis and the 2020 COVID-19 pandemic functioned as critical junctures in the Mahoney and Thelen (2010) sense: they broke up existing institutional arrangements the New Order's large-enterprise bias and the pre-pandemic preference for physical commerce and created windows of opportunity for policymakers and entrepreneurs to establish new institutional configurations. This finding challenges internationalization theories that treat firm-level learning and environmental complexity as the primary drivers of trajectory changes, arguing instead that macro-level shocks can and do reshape those trajectories in ways that no firm-level analysis alone can predict or explain.

The third and perhaps most theoretically novel contribution is the 'digital democratization of internationalization' thesis. This study argues that digital platforms have done more than lower transaction costs at the margin they have fundamentally restructured the entry economics of international trade for small firms. In the pre digital era, internationalization required minimum capital thresholds, physical distribution infrastructure, foreign language marketing capacity, and international buyer relationships that effectively excluded most MSMEs from participation. Digital platforms provide all of these imperfectly, but sufficiently at a cost that even micro-enterprises can absorb. The result is not simply faster internationalization but structurally broader internationalization: more firms, from more sectors, in more geographic locations, with lower minimum viable scales of export. This is a qualitatively different phenomenon from cost reduction, and it deserves theoretical recognition as such. Existing frameworks Uppsala, Network Theory,

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RBV illuminate parts of this phenomenon but do not fully theorize it as a systemic transformation of the internationalization opportunity structure. Future scholarship might productively develop this direction.

The integration of quantitative data from authoritative secondary sources BPS, World Bank, ERIA, UNCTAD, IFC, and sector-specific institutional databases provides an empirical robustness to these theoretical contributions that purely conceptual periodization studies cannot match. The convergence between the qualitative historical narrative and the quantitative indicator trajectories across all four periods strengthens confidence in the validity of the periodization schema and the interpretations built on it.

CONCLUSIONS AND POLICY IMPLICATIONS

Indonesian MSMEs have traveled a considerable distance from the subsistence oriented, domestically confined enterprises of the pre 2000 era. They now operate in a world where digital platforms provide real time access to global consumer markets, where preferential trade agreements cover an unprecedented share of global GDP, and where government policy however imperfectly implemented increasingly recognizes international engagement as a strategic development priority rather than an aspirational footnote. The four period framework developed in this study traces that journey systematically, identifying the forces that drove each transition and the constraints that limited how far and how fast those transitions could proceed.

The analysis yields four concrete policy implications. First, bridging the financial exclusion gap is a prerequisite, not a complement, to internationalization promotion. Without adequate working capital, MSMEs cannot invest in the certification, quality upgrading, and marketing required for sustained export participation. The LPEI export financing institution is an underutilized instrument that could be scaled significantly particularly through digital loan origination that eliminates the branch-office access barriers that currently exclude many non-Java MSMEs from its programs.

Second, digitalization support must be geographically differentiated and quality focused rather than quantity-focused. Reaching 30 million digitalized MSMEs by 2024 is a legitimate ambition, but measuring success by the number of MSMEs with platform accounts rather than by the number generating genuine cross-border revenue obscures the gap between digital presence and digital commercial capability. The MSME Digital 2030 Blueprint should incorporate outcome metrics that track export revenue generated through digital channels, not merely platform registration rates.

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Third, RCEP's SME specific provisions should be actively operationalized through a dedicated MSME international trade facilitation program that provides bundled, end to end support combining product certification assistance, digital storefront development, international logistics integration, and cross-border payment solutions in a single coherent service package. Vietnam's 'Made in Vietnam' digital export initiative offers a proven model that Indonesia could adapt to its own institutional context (OECD, 2021).

Fourth, sustainability integration should be treated as an urgent near-term priority rather than a long-run aspiration. The EU's CBAM and evolving global retailer sustainability requirements will reshape the effective market access landscape for Indonesian MSMEs within the next three to five years. A proactive Green MSME Export Certification program leveraging Indonesia's genuine comparative advantages in bio-based materials, certified sustainable forestry products, Halal-certified production, and traditional crafts with inherent circular economy credentials could position a significant segment of Indonesian MSMEs in the premium sustainability differentiated tier of global markets before compliance requirements become prohibitive barriers.

Two limitations of this study warrant acknowledgment. The systematic literature review methodology, rigorous as it is, cannot capture unpublished practitioner knowledge, firm level case study evidence, or primary survey data that might reveal MSME internationalization dynamics not visible in the published literature. Future research employing longitudinal panel surveys of MSME internationalization trajectories, or comparative case studies tracking matched pairs of exporting and non exporting MSMEs across the four periods, would substantially strengthen the causal architecture that this study's correlational periodization approach can only partially establish. Additionally, disaggregated analysis by MSME size tier, sector, and geographic region would reveal important within-sample heterogeneity the micro-enterprise experience likely differs dramatically from the medium-enterprise experience that the current cross sectional synthesis cannot adequately resolve.

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