

Globalization Challenges Of Micro Small And Medium Enterprises

Maya Utami Dewi¹, Ani Mekaniwati², Yulia Nurendah³, PanduAdi Cakranegara⁴,
Abdul Samad Arief⁵

¹Universitas STEKOM, Semarang, Indonesia. Email: maya@stekom.ac.id

²Institut Bisnis dan Informatika Kesatuan, Indonesia. Email: a.meka@ibik.ac.id

³Institut Bisnis dan Informatika Kesatuan, Indonesia. Email: lia_niceone@yahoo.com

⁴Universitas Presiden, Bekasi, Indonesia. Email: cakranegara@gmail.com

⁵Universitas Fajar, Makassar, Indonesia. Email: abdulsamad@unifa.ac.id

Abstract

Globalization has become a concept often used to describe contemporary world phenomena. The globalization phase is marked by the process of integrating the national economy into an economic system based on the belief in free trade. Efforts to smooth the way of integration are pursued by changing all policy rules that prevent globalization actors, especially transnational companies (TNCs) from operating in the form of production, market and investment expansion. The logic of free trade is constructed by basing the assumption that a country's economic growth will be achieved when there is the superiority of free markets and individual liberty. In the era of economic globalization, we will witness how goods, industry and services from one country freely and freely penetrate other countries' territories. Thus, technical and cultural obstacles that have been carried out by each country to protect the economy of their own country must be suppressed and minimized as low as possible.

Keywords: globalization, MSME, SME, protection, trade area

1. INTRODUCTION

Economic globalization will have both positive and negative impacts. In the internal impact, economic globalization will change the behavior patterns of economic actors in production processes. This is indicated, among others, by the increasing use of competitive factors of production, trade and investment in salable sectors as well as the development of competitive national industries as well [1]. This change resulted in the scattering of industries that were unable to follow this global logic. In addition, structurally, changes in government economic policy will also occur. To survive in the global arena, the government will direct its attention from the traditional-oriented economic sector to the modern sector. This development has implications for changes in microeconomic and macroeconomic policies. market policy. and others [2]. On external conditions, changes that may occur include international trade and investment policies, the international monetary system, and other international economic relations. The changes were not subsequently be identified as a national activity, but already coexist fat global.

World trade liberalization that Indonesia must face. eg within the framework of multilateral agreements such as the World Trade Organization (WTO), the General Agreement on Tariffs and Trade (GAIT), the Asia-Pacific Economic Cooperation (APEC) and the ASEAN- China Free Trade Area (ACFTA), demanding all sources national power to have a higher bargaining position. The market is becoming wider and the trade traffic is getting higher. This is one of the main faces of the globalization era, where competitiveness is the ultimate weapon to survive and win over the market [3]. However, furthermore, the challenges of globalization will be able to overcome as long as the economic system being developed is a moralistic, humane, nationalistic, and popular system will be able to realize social justice for all Indonesian people. It contains

mechanisms that take sides and protect the economic interests of the people through efforts and programs for people's economic empowerment.

The study of the Pacific Economic Cooperation Council shows that members of the developed economies of APEC generally have a greater ratio of entrepreneurship to population compared to members of the developing APEC. To support APEC's economic growth, it takes one UMKM-class unit for every 20 residents. This means that an additional 70 million MSMEs are needed in APEC member regions by 2020. For Indonesia, an additional 20 million MSME units outside the agricultural sector are needed by 2020. This is important to increase the carrying capacity of economic growth and job creation [4]. This condition is a big challenge as well as a great opportunity for people's economic efforts to develop themselves.

In another perspective, the globalization process has the potential to cause small entrepreneurs to become cornered and vulnerable to collapse. Competition occurs in many ways including price, quality, even the form of after-sales services and product appearance design. The limitations of these small entrepreneurs lead to low competitiveness. Especially now that large and large-scale industries are ready to be market oriented and efficient in production and in managing resources more productively [5]. Globalization also makes it easy to access media, both printed media, electronic media, and new media such as social media. This makes it easy for the public to notice the latest trends in various fields. As a result, there has been a shift in consumer taste to prefer well-known brands. This condition certainly presents a big challenge for local entrepreneurs.

In its development, the era of globalization and trade liberalization has indeed provided opportunities and problems for the community. Several countries that are able to capture globalization as an opportunity include China. In China, the liberalization of international trade since the end of the decade of the 1970s have made SMEs in the country are very dynamic. In China, the existence of SMEs and local private businesses called Township and Village Enterprises (TVEs) has played a significant role in driving economic growth. TVEs is a development of the rural industry which is promoted by the Chinese government. If in 1960 the number only reached 117 thousand, since the reforms in 1978 the number has experienced spectacular growth. Then, the 1990s have accommodated half of the workforce in rural China. Production of TVEs increased by an average of 22.9 percent in the period 1978 - 1994. National, the output of TVEs in 1994 reached 42% of all national production, while for export volume, TVEs contributed one third of the total export volume of China in 1990s.

2. Small and Medium Enterprises in Some Countries

In India, small and medium enterprise sector is also growing rapidly, especially in the field of energy industry, obat pharmaceuticals, automobiles, textiles, and information technology. Economic progress is mostly supported by small and medium enterprises. The small business sector has been able to contribute 32% of the total export value and 40% of the output value of the manufacturing industry sector in the country. In India, many small and medium enterprises are growing rapidly. They are mainly engaged in the energy and pharmaceutical industries, automobiles, textiles and information technology. In addition, they become a market for Indian products themselves. A number of well-known foreign retail names have become the largest contributors to India's foreign exchange from the garment and apparel sector [6], such as Carrefour, Decathlon, Gap, H&M, JC Penny, Levi Strauss, Mark & Spencer, Metro Group, Niké, Reebok, Tesco, Tommy Hilfiger and Walmart. After the elimination of quotas, India has transformed into the world's largest textile producer supported by highly competitive textile companies.

Apart from textiles, the development of the information technology industry in India is also growing rapidly. Since the 1990s, major cities in India have continued to develop into fertile ground for the development of the information technology industry. In its development, there are two states in India, namely Bangalore and Andhra Pradesh which are developing faster so that they are directed to become digital cities [7]. These two states record economic growth of 25% per year. Across India, there are now thousands of software companies of all sizes. Its production has penetrated the markets of the United States, Europe, and of course Asia. Of the 12 software companies observed by stock analysis, 6 were Indian companies, namely Infosys

Technologies, Satyam Computer, Tata Infitech, Aptech Software Solution, BFL Software, and National of Information Technology.

Several countries which also developed their small industrial sector in this globalization era were Japan. In its development until 2007, the number of IKM in Japan has reached 4.69 million units compared to the number of large companies (13 thousand units). All of them are able to absorb a workforce of around 30 million people and generate an export value of 137 billion yen.

Although in some countries the era of globalization has had a positive impact on the development of the MSME sector, in reality the process of globalization also has an unpleasant impact on rural communities [8]. The results of research that took place in Sri Lanka, for example, show that trade liberalization has had a negative impact on the existence of small industries. The small industrial sector actually received very little profit from the expansion of several leading sectors such as garments and chemical products. In rural areas, several major industries such as handicrafts and pottery experienced a decline as a result of economic liberalization [9].

The experience that occurred in Sri Lanka also occurred in several other countries such as African countries. In Ghana, due to the liberalization of foreign trade, many MSMEs in the country have experienced decreased profits due to increased input costs, weak domestic demand for their products, and the entry of imported goods with better competitiveness. In Chad and Gabon, reforms of foreign trade towards a more open system together with the devaluation of the currency's value failed to create growth for local MSMEs. On the other hand, many of these groups of businesses were found to be experiencing financial difficulties due to high costs of raw materials and other inputs.

3. Trade Liberalization Policies

In Indonesia, trade liberalization policies have had more unpleasant impacts on rural communities. The unpreparedness of domestic products to compete with global products has caused many small industries to go out of business. The business sector that was hardest hit was the food business sector because around 60% of the 48.93 million small and medium enterprises in Indonesia are based on food commodities, most of which are imported. Based on data from the combined Indonesian Food and Beverage Entrepreneurs, at least 25% of the members have gone out of business because of the soaring flour prices. More or less the same fate is experienced by the tofu tempe craftsmen who are faced with an increase in the price of soybeans by more than 100 percent. So far, 70 percent of soybeans must be imported. In labor-intensive manufacturing sectors such as textiles and footwear, the wave of bankruptcies had even started long before due to fuel hikes, limited capital for machinery restructuring, and the inability to compete with cheap, smuggled products from China. Heavy industry such as foundry is the same. The scarcity of raw materials and the increase in fuel costs made hundreds of entrepreneurs in metal casting industrial centers [10].

During 1997 - 2002, China and Vietnam surpassed Indonesia, especially in the top 30 non-oil and gas export commodities including textiles, furniture, garments and shoes. Invasion of textiles and textile products (TPT) of Chinese origin make textiles local lose the market. As a result, the local industry began to go bankrupt. Several industries have stopped production because there are no production costs.

Many rural industries that produce household appliances using raw materials of soil and bamboo have also gone out of business because they cannot compete with the products of the modern plastic industry [11]. Some have been able to survive by diversifying and improving product quality, as happened in Kasongan, Bantul, Yogyakarta. Even though they are able to survive, they are generally in very poor condition.

Based on the record IGJ (Institute for Global Justice) during the period between the years 2006-2008, there were 1650 industrial bankrupt because of competition from Chinese products. The implication is that no less than 140,584 workers are unemployed due to the rolling down of the industry. Thus, it is not fair if one's contents less government provide support to SMEs, but in s other contents wide open competition with foreign economic actors (which his country supported by the government with various economic incentives). Without extreme caution

globalization would plunge a weak country with increasing inequality, volatility in asset prices, unemployment, and an increasingly frequent economic crisis [12].

In the food industry sector, imported food products in packaged form have long been flooding our domestic production. These products are produced, processed, transported, and marketed no longer in traditional or local ways, but in modern ways. In the label included, we will read in addition to the names of the companies that produce and process, as well as the names of companies that give licenses, most of which are large overseas companies. Food products local welcome to compete [13]. Food industry businesses that are unable to compete must be willing to be increasingly marginalized. Some of the most influential multinational companies in the food industry such as Monsanto (USA), Aventis (France), Syngenta (US), Cargill (US), Nestle (Switzerland), Unilever (UK / Netherlands), Pepsico (US), Coca-Cola (The US), Conagra (US), RJR Nabisco (US), Grand Metropolitan (UK), Elders IXL (Australia), Anheuser Busch (US), and BSN Group (France) have come under sharp scrutiny for their irresistible dominance in the sector today's global food industry. These companies began to move from providing superior seeds, fertilizers, medicines, to the final product of post-harvest processing.

4. Implementation of ACFTA

It is feared that the negative impact of globalization will also increasingly occur in Indonesia when the government further liberalizes its trade with trade agreements, for example by implementing the ASEAN- China Free Trade Area (ACFTA) policy in 2010 and the ASEAN Community in 2015. Ideally, The ACFTA is expected to strengthen and increase cooperation and liberalize trade in goods and services through reducing and even eliminating tariffs or import duties. However, due to the lack of socialization to MSME players and preparations for the ACFTA that seem immature, the implementation of the ACFTA has raised concerns about the destruction of Indonesia's MSMEs (Micro, Small and Medium Enterprises) sector because it fails to compete with products from ASEAN, especially China. The presence of products from ASEAN and China will indeed cause competition to become more competitive because business actors will be increasingly motivated to be able to compete and on the other hand consumers also have a wide variety of product choices. Even so, the existing conditions deserve to make MSME players in Indonesia worry. Competition with products from China that are more varied and with lower prices will cause domestic business actors to be confused. With this condition, it can be ascertained that if the free trade tap is opened, what will survive is the country that is able to produce goods in the most efficient manner so that the goods produced can be cheaper and of equal or even better quality. This position is held by China, which can reduce their production costs as low as possible because of the cheaper production costs. With these unfavorable conditions, the MSME sector in Indonesia will face a serious threat, namely the de-industrialization process [14]. This deindustrialization can be seen from the decline in manufacturing industry activity as seen from the decrease in job absorption and the decrease in business units in an area. In this context, it can be seen that the inability of Indonesian products to compete in the ACFTA era will lead to the closure of business units in Indonesia. The closure of these business units will also have a significant effect on the decline in investment value in the manufacturing industry sector. The wider impact of the closure of these industrial centers is the emergence of social problems in the form of unemployment due to layoffs. If this continues, Indonesia will only become a trading country, not an industrial country. MSMEs do not become producers who produce goods, but only as sales of goods produced by China and other importing countries.

This concern seems to be approaching reality. Since this agreement began to be implemented on January 1, 2010, the ACFTA agreement has had more negative effects on Indonesian Micro, Small and Medium Enterprises (MSMEs) actors. In October 2011, Indonesia actually experienced a trade surplus with China. The value of Indonesia's exports to China was US \$ 2.24 billion, while the import value from China was US \$ 2.2 billion. However, in general, based on BPS, Indonesia-China trade balance from January - October 2011 had a deficit of US \$ 3.57 billion. Combined data from the Indonesian Food and Beverage Association (GAPMMI) showed an increase in imports of food and beverage Indonesia from Malaysia during the months of January to October 2011. If imports from Malaysia from January - April 2011 was only about

US \$ 12.5, October numbers are rose to US \$ 48.4. In real terms, the implementation of the ACFTA also tends not to benefit Indonesia. In the last two years, Indonesia's domestic market has been flooded with products from China and ASEAN countries. Textile, garment, footwear, food and beverage products from China have threatened the existence of local products. Likewise in the SME sector of agriculture, fruits local sold traditional traders slowly began displaced by the fruits that come from China and Thailand. The deindustrialization process has also occurred in several sectors of Indonesian MSMEs [15]. For example, based on records from the Indonesian Employers' Association, as a result of ACFTA, the amount of production in the footwear industry has fallen to 20% and around 300,000 workers have to be laid off. Last year it was also reported that many craftsmen in Sidoarjo, East Java had gone out of business because of the invasion of shoes from China. In West Java, according to APINDO West Java's records, around 20% of companies in West Java went out of business due to ACFTA. entrepreneurs in the children's toy industry also experienced shocks due to the flood of children's toy products from China made of plastic raw materials and more attractive designs. This real fact shows that the implementation of ACFTA tends to be detrimental to Indonesian MSME actors. Various strategies in dealing with ACFTA have been implemented by the government, such as improving human resource management, easy access to capital and marketing, improving product quality and standardization, and so on. However, it seems that there is no unified design in the face of ACFTA. Capital schemes are not prioritized to deal with sectors negatively impacted by ACFTA. The integration of the capital scheme between the government, corporate CSR programs, and various social / religious organizations has not been seen as successful. UMKM development programs made by the government are not well socialized so that many UMKM actors are unable to access policy facilitation carried out by the government.

5. The Absence of Protection

The case that occurred in Indonesia shows that the absence of protection from the state for domestic products has an impact on the defeat of domestic products to compete with products from abroad. The change from protection to rapid liberalization eventually caused many MSME sectors to experience a decline in market share and decline because their products were not able to compete with imported goods which were relatively cheaper and of better quality. Various classic problems faced by the small industrial sector such as the lack of capital, technology, skills, coupled with unsupportive policies in developing the capacity of MSMEs have made this sector unable to compete. The change in policy from the government which refers to the free market has exacerbated this situation. During the New Order era, policies with a patron client model such as a partnership, "foster-foster" pattern still dominated the development of small industries. In the model patron the client is there some sort of protection made by a person of higher social standing economic (patron) with the influence and resources owned by the people of low position (client), which in turn reciprocate the gift by giving support general and assistance, including personal services to patrons. The patron client models of the government ultimately produce policies that are "government and protection policy". Regardless of its weaknesses, the choice of policy that tends to government and protection policy will be more populist and produce faster results. Post-New Order, patron client policies such as protection of the MSME sector slowly began to disappear and were replaced by free market mechanisms and small industries were forced to compete in the free market. As a result, many small industries were unable to compete and were destroyed. This is an indication that the structural aspect (state policy in providing protection for small industries) plays an important role in the sustainability of a small industry [16].

Increasingly competitive market conditions, an unfavorable business environment and increasing cost burdens are problems that greatly disrupt the comfort of doing business for exporters /trading houses. As a result, the competitiveness of products from exporters /trading houses from Bali, which in fact originated from small and medium enterprises, decreased sharply because it was difficult to compete with products from countries with lower production costs. Bali, which is one of the mainstays of SME exports (including products from other regions) is faced with a worsening business climate due to the increasing number of fees and

permits. As a result, the trading house, which has become an export channel for small and medium enterprises to reach foreign markets, is increasingly finding it difficult to maintain their business.

6. CONCLUSION

The countries that seem to have succeeded in taking advantage of change are countries with a strong orientation towards international trade. The ability to compete in the global market will greatly determine the success of a country to keep pace in the economic race. The policies must be carried out simultaneously. Although internal problems can be overcome, if the external environment is not yet supportive, both small businesses and cooperatives will still find it difficult to develop. Moreover, in the face of a strategic environment characterized by increasingly intense competition. A conducive environment needs to be fostered so that small entrepreneurs and cooperatives have the same business opportunities as other economic actors. If the environment for the development of these small entrepreneurs has not been successful, it will be difficult for us to realize the ideals of national development supported by a strong national economy.

Thus, the prospects for small and medium enterprises in the era of free trade will depend on the efforts taken by the government in developing small and medium enterprises. The effort that needs to be done is to develop a conducive climate for small and medium enterprises, such as the elimination of various regulations that hinder small and medium enterprises' activities.

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