

Potential, Challenges and Prospects: Internationalization of Small and Medium Enterprises (SMEs) in Malang Raya

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Abstract This research aims to investigate issues related to the phenomenon of internationalization of SMEs in Malang Raya, analyze the potential and challenges faced, and formulate future prospects. The method used in this research is qualitative phenomenology. The results of this research are that internationalization has become an important strategy for Small and Medium Enterprises (SMEs) in various parts of the world, including in Malang Raya. Malang Raya, with its rapidly growing economic potential and product diversity, offers great opportunities for SMEs to expand their market reach to an international level. However, to achieve success in internationalization, SMEs in Malang Raya are faced with various challenges, including capital issues, human resource management, technology and market access.

Keywords: Potential, Challenges, Prospects, Internationalization of SMEs, Malang Raya

INTRODUCTION

Small and Medium Enterprises (SMEs) play an important role in the global economy, not only as providers of employment but also as drivers of innovation and economic growth. In Indonesia, the SME sector is the backbone of the economy, contributing most of the country's Gross Domestic Product (GDP). (Moini and Kuada 2018). However, to remain competitive in an increasingly competitive global market, SMEs need to adopt an internationalization strategy (Lakshman, Kumarasinghe, and Weerasinghe 2023).

The development of SMEs that carry out import and export in Greater Malang has made a significant increase. SME exports in Malang Raya were around IDR 1.3 billion in 2021, but in 2022, SME exports have increased drastically to IDR 5.8 billion. SME exports in Malang Raya are dominated by snacks such as chips, fashion and crafts. Malang City Government Authorities have also allocated 46 percent of the procurement of goods and services intended for small businesses and/or cooperatives in the 2022 budget year. The SME sector in Malang City is growing increasingly rapidly, and currently there are around 21 thousand SMEs operating in Malang City. Malang Customs and Excise also encourages SMEs to be able to penetrate the export market by providing a number of facilitations to business actors, such as through the Malang Customs Export Clinic Program. His party is also targeting an export value of around IDR 9.97 billion this year (BPS.malangkota.co.id).

From these developments, it can be concluded that SMEs in Malang Raya have the potential to develop the local economy through internationalization. However, there are several challenges that need to be overcome, such as resource shortages, technology shortages, and skills shortages. The prospects for internationalization of SMEs in Greater Malang are also still

limited by economic uncertainty and political uncertainty (Revindo, Indrawati, and Hambali 2019); (Ariyani 2022).

Internationalization of small and medium enterprises (SMEs) is an important strategy for the government and society to develop the local economy. Malang Raya, as a region that has many SMEs, has the potential to develop the local economy through internationalization. The aim of this research is to analyze the potential, challenges and prospects of internationalization of SMEs in Malang Raya.

LITERATURE REVIEW

Challenges of internationalization of SMEs

The challenges of internationalization of SMEs in Indonesia are largely related to the policies and support of central and regional governments in facilitating the growth of SMEs in promoting various schemes and programs to facilitate innovation. Some of the barriers identified include (Hartanti and Setiawati 2017); (Gerschewski 2020); (Junita et al. 2023):

1. Central and regional government policies and support in terms of facilitating the growth of SMEs in promoting various schemes and programs to facilitate innovation
2. The use of technology and innovation is increasingly important in the Industrial 4.0 era, which categorizes innovation and technological capabilities as an inseparable part of competitive value
3. Opening wider market access and helping SMEs players to move up in class
4. Ensure that the benefits of innovation will have a broad impact across society to prevent social inequality between those affected and those not affected by these developments

In the process of increasing the power of digitalization, the government also needs to address this issue at the educational level, as well as in business, including training models that are centered on developing creative, social and emotional skills.

Prospects and Potential of SMEs in Greater Malang

Indonesian SMEs have significant potential, reaching 61% of national Gross Domestic Product (GDP) and are able to absorb 97 percent of the total workforce. Globalization of trade requires a higher response from business actors, including SMEs, which are only able to produce goods/services for only around 2% (Lobo 2020); (Jafari-Sadeghi 2021). SMEs development has a significant positive impact on international trade in Indonesia, which indicates that SMEs development can encourage export growth and reduce dependence on imports. Exports have positive implications for the country's economic growth, while imports can lead to dependence on imports (Calvo 2018); (Weerawardena 2020).

The development of culinary tourism in the Greater Malang area has the potential to become a means of economic empowerment for local communities. The government and related stakeholders need to pay attention to and support the development of SMEs with the aim of encouraging export growth and reducing dependence on imports. SMEs in Malang Raya have the potential to encourage economic growth through international trade, such as exports and imports. However, the prospects for internationalization of SMEs in Greater Malang are still limited.

The potential and prospects for SMEs in Malang Raya to advance to class can be explained through various government programs established to develop import-export businesses. Some of the benefits that SMEs in Malang Raya get from government programs include:

1. **Training and Development:** Government programs such as Training on Making Cookies/Pastries at the Montana Hotel, Malang City, training on registering MSME product brands digitally, and training on business management and law in the context of Covid-19 pandemic recovery.
2. **Digital Infrastructure Support:** Government programs support SMEs with digital infrastructure support, such as training and creative economy networks.
3. **People's Business Funding and Credit:** Government programs such as the People's Business Credit and SMEs Development framework can help SMEs with funds for business development in collaboration between banking and cooperative services and SMEs.
4. **Optimize Spending:** Regional governments in Greater Malang, including Malang City, Malang Regency, and Batu City, optimize spending for productive sectors, especially strengthening SMEs, the creative economy, and tourism

METHOD

The method used in this research is qualitative phenomenology. The research method takes an approach that focuses on in-depth understanding of social and cultural phenomena. It involves collecting data through in-depth interviews, observation, and document analysis. With steps like In-depth interviews allow the researcher to gain an in-depth understanding of the subject's views and experiences. Observations can provide insight into social context and dynamics. Document analysis can help understand the structure and patterns in data. Once the data is collected, conduct qualitative analysis to find themes and patterns. This involved coding data, creating places, and combining places to identify key themes. The results of this analysis

obtain comparisons and updates from the social and cultural context of the research subjects, so that the results can be interpreted.

RESULTS AND DISCUSSION

Government Program for Greater Malang SMEs in Export-Import

The government program established to encourage SMEs in Malang Raya to develop import-export businesses includes:

1. Culinary Tourism Development: Malang City Government and Surabaya State University are developing a culinary tourism development program in the Greater Malang area, which can be a means of economic empowerment for local communities
2. Encourage digitalization of SMEs: The regional government in Malang Raya is developing a program to encourage digitalization of SMEs, which can help SMEs access digital-based marketing
3. MSME of The Week: Malang City Government developed the MSME of The Week program as an effort to strengthen digital-based marketing and publication facilitation for SMEs
4. Strengthening SMEs: Regional governments in Greater Malang, including Malang City, Malang Regency and Batu City, are optimizing spending on productive sectors, especially strengthening SMEs, the creative economy and tourism
5. Malang AJI: The Malang Gleerr Community developed the Malang AJI program to encourage the acceleration of Micro, Small and Medium Enterprises (SMEs) in the Malang City Area, East Java

From these programs, it can be concluded that the government and related stakeholders need to pay attention to and support the development of SMEs in Greater Malang with the aim of encouraging export growth and reducing dependence on imports. However, improvements and improvements need to be made in several aspects, such as the quality of human resources, technology and information, so that SMEs can have stronger competitiveness in opening international markets.(Ahimbisibwe 2020);(Coudounaris 2021).

The benefits obtained by SMEs in Malang Raya from the government program to develop import-export businesses include:

1. Online-Based Marketing: Malang City Government developed the MSME of The Week program as an effort to strengthen the facilitation of digital-based MSME marketing and publication

2. **Ease of Investing:** The Malang City Government is also strengthening infrastructure in the form of public facilities, such as online marketing and ease of investment
3. **MSME Development:** Malang City Government also regularly provides guidance to MSME players, such as education and virtual exhibitions
4. **Local MSME Support:** Acting Mayor of Malang Dr. Ir. Wahyu Hidayat initiated Thursday Mbois to increase love for Malang City MSME products and stimulate the enthusiasm of SMEs in Malang City
5. **Benefits of Exports and Imports:** Government programs to develop import-export businesses can increase a country's economic growth, help increase industrial growth, meet a country's needs, help control the price of a country's products, and help control product overcapacity.

From these benefits, it can be concluded that the government program to develop the export-import business in Malang Raya can help SMEs develop their business and exploit the export-import potential.

Implementation of SMEs Go International in Malang Raya

The research results show that SMEs in Malang Raya have great potential for internationalization, especially in the crafts, food and beverage and textile sectors. Factors such as the diversity of local products, accessibility to international markets via sea and air ports, as well as developments in information and communication technology, provide great opportunities for SMEs to expand their business to global markets.(Mäki 2021). However, some of the main challenges faced by SMEs include lack of capital, limited human resources, and lack of effective international market access. The role of local governments and MSME supporting institutions is very important in providing support and guidance to SMEs in overcoming these challenges. Collaboration between SMEs, government and the private sector can also increase the competitiveness of SMEs in the global market(Battaglia 2018);(Paul 2020);(Liñán 2020);(Dwi Hernanik, Sudarmiatin, and Sumarsono 2023).

The results of this research explain the potential, prospects and challenges of SMEs in Greater Malang which are already carrying out exports and imports which can be implemented through various programs and activities proposed by the research. Some examples of implementation that have been carried out by MSME groups in Malang Raya include:

1. **Digital Infrastructure Development:** Regional governments in Greater Malang, including Malang City, Malang Regency and Batu City, can establish the Malang Creative Center

(MCC) which will become a home for SMEs or creative economy actors to be able to collaborate and grow together

2. Providing an analysis of the sustainability of micro businesses in Malang Raya from an Islamic economic perspective, which shows that factors such as the number of employees, amount of capital, product innovation, website use, and compliance with paying zakat malls and ethics of honesty and ethics of transparency can influence the sustainability of micro businesses in Malang Raya
3. Development of the creative economy in Malang Raya, which shows that new sectors such as SMEs have the potential for economic recovery in East Java
4. Business development strategy (UKM) to improve the image of Malang City in culinary tourism and tourist attractions, which shows that factors such as culinary delights that have a strong brand name, special or mainstay menus, trained human resources, and product marketing can influence SME business development in Malang City

CONCLUSIONS AND RECOMMENDATIONS

SMEs in Malang Raya have significant potential to develop and compete at the international level. This potential includes local product diversity, high quality, and the ability to adapt products to global market needs. However, the internationalization of SMEs is also faced with various challenges. First, Limited Access to Markets, namely that SMEs often face difficulties in accessing wider international markets, especially due to limited capital and lack of knowledge about international market regulations and practices. Second, Global Competition, namely a highly competitive global market that requires SMEs to have unique and high quality products or services to compete. Third, Regulations and Standards, namely SMEs must comply with various international regulations and standards, which can be a challenge for those who are not familiar with the system.

The prospects for internationalization of SMEs in Malang Raya appear promising, but require concerted efforts to overcome these challenges. This includes developing the capacity of SMEs in terms of management, marketing and capital procurement, as well as collaboration with educational and research institutions to increase knowledge about international markets. To reach more specific and accurate conclusions, further research is needed to examine the internal and external factors that influence SMEs in Malang Raya in their internationalization efforts.

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