

ANALYSIS OF COMPETITIVE ADVANTAGE IN IMPROVING THE QUALITY OF INDONESIAN MSME PRODUCTS TO FACE THE DOMINATION OF CHINESE IMPORTED PRODUCTS IN THE ASEAN CHINA FREE TRADE AREA (ACFTA).

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Abstract

This study discusses Indonesia's strategy in helping MSMEs face the dominance of imported Chinese products in the Indonesian domestic market. Since the enactment of the ACFTA agreement, MSMEs, which are an important pillar of the Indonesian economy, have felt a significant negative impact. This is due to globalization that has changed the order in various aspects of life, especially the world economy, where countries are required to carry out free trade which includes the application of a 0 tariff policy in import exports. Due to Indonesia's lack of readiness in facing the free trade era, this caused MSMEs and domestic industries to go out of business because they were unable to compete with various imported goods originating from China. The purpose of this study is to analyze how the Indonesian government supports MSMEs in facing the dominance of imported Chinese products in Indonesia after the ACFTA cooperation. In this study, researchers discussed the increase in MSMEs in terms of product quality and quantity and the increase in human resources, which has never existed in previous research in accordance with the title that the researchers took, namely "Analysis of Indonesia's Strategy to Support the Improvement of MSME Product Quality in the Face of the Dominance of Chinese Imported Products within the scope of *the ASEAN China Free Trade Area (ACFTA)* with Theory *Competitive Advantage*". This research uses the theory of *Competitive Advantage* as an analytical knife in this study because the theory is in line with the focus of the research that the researchers took, namely the Indonesian government's strategy in increasing MSMEs through the quality and quantity of products and increasing human resources. This research uses qualitative methods with a descriptive approach. This research in collecting data is carried out through document analysis and meaning. The results of this study show that since the enactment of the ACFTA agreement, MSMEs, which are an important pillar of the Indonesian economy, have felt a significant negative impact. This is due to the implementation of the 0 tariff policy in import

exports. Therefore, the government launched programs in suppressing the dominance of imported Chinese products in Indonesia such as the holding of BLK to improve the quality of human resources, the AOSD program to expand the market reach of MSMEs, Rumah BUMN as a liaison between MSMEs and partner companies, The EHP program is a program to eliminate import duty tariffs, cooperation in infrastructure development that supports the absorption of human resources, investment investment and cooperation between government institutions such as Indonesian SOEs and China Railway International Co.Ltd in the construction of high-speed trains, and the establishment of rules of origin to prevent trade deflection.

Keywords : strategy, dominance, MSMEs, ACFTA.

Background

The increasingly massive influence of globalization in this era has made changes in all aspects both from economic, technological, and political aspects. Especially in the economic aspect, globalization requires countries to cooperate with each other in order to maintain existence and improve the welfare of their countries. Globalization in trade and investment initiated the birth of the free market. This free market then creates a pattern of cross-border relations that aims to create competitive prices for goods and services. Activities in trade globalization include exports and imports in accordance with agreements between countries that cooperate with each other. ¹

In this globalization of trade, Indonesia cooperates with China in the ACFTA agreement. This is due to the rapid growth of the Chinese economy since the end of 1970 which is commonly referred to as the initial milestone of reform for China. The reform is the influence of globalization which makes China more open and global. In its reforms, China changed the entire country's economic system starting from the agricultural system, industrial base, and all aspects related to the economy. Furthermore, in March 1989, China created an important instrument that influenced its economy, namely the "Resolution on Industrial Strategy" which regulated cutting-edge fields such as biotechnology, communications, and transportation. The influence of globalization has had a major influence on world politics to changes in a country's policy. With the reforms carried out China has² managed to rival Japan and ranked second in the world economy P there in 2010. The success of Cina is inseparable from the management

¹ Satria Superior Wicaksana Prakasa, 'Trade International than HAM: The relationship with Sustainable Development', *Journal Novelty's Law*, 9.1 (2018), 36 <<https://doi.org/10.26555/novelty.v9i1.a9224>>.

² Anton Suharto, S.P, M.A. 'Influence Globalization of Local and Regional Economies', *Journal of Regional Development*, 2009. <<https://pembangunandaerah.wordpress.com/2009/02/25/pengaruh-globalisasi-terhadap-perekonomian-lokal-dan-regional/>> [accessed 27 September 2022].

of human resources (human resources) and industrial networks that produce from children's toys to household needs and electronics that have spread throughout the world. Various shape thing

After the reforms carried out by China is considered successful. A further effort made by China is to join the World Trade Organization (WTO) of year 2001). This is an effort by China to strengthen its position as a center of world trade and manufacturing. The efforts bore good results with the fact that China became the second largest investor and recipient of investment in the world in the period 2015-2017.³ Not only that, China has an ambitious *One Belt One Road* (OBOR) connectivity project which is an instrument of diplomacy while building relations and cooperation with countries in Eurasia. The connectivity project is a threat to America as a superpower because it is feared to shift American leadership in the eyes of the world in the field of political economy.⁴

Cooperation between ASEAN and China is one of the threats to the United States because ASEAN is a very important sea lane for the transportation of US military power between the Western Pacific, the Indian Ocean and the Persian Gulf. In addition, in its economic interests, America imports oil from Southeast Asia. Southeast Asia's large population makes it a potential object for the U.S. service sector and lastly, Southeast Asia is an attractive region for investment.⁵

Good cooperative relations between ASEAN and China have more or less shifted America's influence in the Southeast Asian region. This can be seen in terms of the economy of the Southeast Asian region which is dominated by Chinese products and all infrastructure is supported by assistance from China. This phenomenon causes the dependence of ASEAN countries on China compared to America. *Association of South-East Asian Nations* (ASEAN) is a regional organization in the Southeast Asian region established on August 8, 1967 and has the main objective of uniting the perceptions of Southeast Asian countries in improving the political, economic, social, and educational fields. In 2015, ASEAN established the *ASEAN Economic Community* (AEC) which is a program to improve the economy, more specifically in the field of trade and has 4 strategic frameworks: Achievement of a single market and unity

³ Story China: Used Dirty Now So Giant Economics New - Page 2 (cnbcIndonesia.com)

⁴ Samti Wira Wibawati, Marina Ika Sari, and Yuli Ari Sulistyani, 'THE POTENTIAL AND CHALLENGES OF ONE BELT ONE ROAD (OBOR) FOR INDONESIA'S NATIONAL INTEREST IN THE MARITIME SECTOR', *Journal of Regional Studies*, 9.2 (2018), 109–23 <<https://doi.org/10.14203/jkw.v9i2.801>>.

⁵ dewi Triwahyuni, 'The Significance of the Southeast Asian Region in the Interests of the United States', 1, 10.

of production base, competitive economic zones, equitable economic growth, integrated with the global economy. The existence of a framework that mentions economic integration is the initial stage towards free trade. In addition, the establishment of the AEC has strengthened ASEAN's position in the global realm through ease in holding international negotiations with strategic countries outside the region such as China, Korea, Japan, Australia-New Zealand, and India.⁶

The rapid economic growth in China and China's seriousness to cooperate with ASEAN gave birth to an initial agreement to implement safe free trade. This agreement continued with the signing of *the Framework Agreement on Comprehensive Economic Cooperation Between The Association of Southeast Asian Nations and The People of Cambodia* in 2004. The agreement is about minimizing barriers and deepening economic ties between the parties, lower costs, increasing intra-regional trade and investment, increasing economic efficiency, creating markets with greater opportunity and scale, and strengthening each country's business through improvements in domestic capacity, efficiency and competitiveness.⁷ The agreement aims to strengthen cooperation between ASEAN and China, as well as the implementation of free trade with the elimination of tariffs and import duties.⁸

Indonesia as an ASEAN member state that ratified the ACFTA cooperation agreement has signed the *ACFTA Upgrading Protocol* on November 12, 2017 and was effective on August 1, 2019.⁹ One of the regulations implemented from this agreement is the exemption of tariffs up to 0% and in 2017. The agreement that has been signed is the elimination of the 94.6% tariff.¹⁰ This has sparked an economist debate in Indonesia.¹¹ According to the State Secretariat of the Republic of Indonesia, the positive impact of ACFTA is an increase in the purchasing power of consumers or the community because these products have low prices and are more varied, thus impacting people's welfare. On the other hand, the negative impact felt is that the agreement causes unrest for local industries or MSMEs. Because domestic products have not been able to compete on prices in the market, the cause is too high production costs. If this situation cannot be organized properly, it will increase the number of layoffs (layoffs) because

⁶ Andi Putra Sitorus, 'Legal Politics of Micro, Small and Medium Enterprises (MSMEs) Protection in the ASEAN Economic Community', *DOCTRINA: JOURNAL OF LAW*, 1.2 (2018), 125–44 <<https://doi.org/10.31289/doktrina.v1i2.1920>>.

⁷ *Framework-Agreement-on-Comprehensive-Economic-Co-Operation_ASEAN-Rep-of-China.Pdf* <https://asean.org/wp-content/uploads/2021/08/Framework-Agreement-on-Comprehensive-Economic-Co-Operation_ASEAN-Rep-of-China.pdf> [accessed 28 August 2022].

⁸ Gandhi Pawitan. 2012. Characteristics of Small Medium Manufacturing Industries In the Era of ACFTA : case study from West Java. *Procedia Economics and Finance* 4 130 – 139

⁹ ACFTA (kemendag.go.id)

¹⁰ document-agreement-asean-China-fta-v.1-update.pdf (kemendag.go.id)

¹¹ And, Sartono. (2010). *Management Finance Theory and Application* (4thed.). Yogyakarta: BPFE

the company is out of business due to being unable to compete with imported Chinese products.¹²

In 2019, the implementation of the *ACFTA Upgrading Protocol* agreement caused an increasingly massive increase in Chinese imported products entering the territory of Indonesia consisting of cosmetics, electronics, children's toys, textile products and others. This is further exacerbated by the Covid-19 which has changed the world economic order and changed people's habits to meet their needs, which originally they shopped offline to become online shopping. This phenomenon makes MSMEs in Indonesia threatened due to several obstacles mostly experienced by MSME actors, namely limited capital and lack of competent human resources, of these two obstacles that affect the implementation of a business both in terms of quality, reach and competitiveness. So that domestic products are unable to compete with Chinese products that have more affordable prices and better quality, this causes¹³ Indonesia's market to be controlled by China and has an impact on the collapse of the Indonesian economy and the level of people's welfare.

With this phenomenon, the Indonesian government exerts several efforts in improving the quality of MSME products by relying on several resources it has such as abundant natural resources, dense human resources which have reached 270,203,917 people in 2020, state-owned enterprises such as Telkom Indonesia, Bank BNI, Bank BRI which will be partners and providers of loan funds for MSMEs, government policies such as the Gernas BBI program, and organizations that it participates in within the scope of ASEAN such as participating in¹⁴ *ASEAN Online Sale Day*. In addition to the domestic domain, ACFTA as a *framework agreement* which is the basis for cooperation between Indonesia and China also facilitates it with several policies that have been made between the two aimed at increasing the economic capacity of countries that cooperate with each other, including policies to reduce and eliminate non-tariff barriers, create a competitive and open investment climate, increase *capacity building* both in terms of technology and managerial, and the existence of trade access to services. All of these things are integrated with each other. Therefore, researchers take the¹⁵ *theory of*

¹²Secretariat Country Republic Indonesian. 2010. ACFTA as Challenge Towards Economy that Competitive.

¹³ Ismail Halim, 'DEFINITION, CRITERIA, AND CONCEPT OF MSMEs' (OSF Preprints, 2022) <<https://doi.org/10.31219/osf.io/amn9h>>.

¹⁴ [Census Inhabitant 2020 - Central Agency Statistics \(bps.go.id\)](https://bps.go.id)

¹⁵ From Latif Adam Siwage Dharma Negara, ASEAN-CHINA FREE TRADE AGREEMENT: CHALLENGES AND OPPORTUNITIES FOR INDONESIA, Institutions Science Knowledge Indonesia, EDITION XXXVI / NO.1 / 2010.

competitive advantage (diamond model porter) which will be used as a tool for analyzing strategies and government efforts in dealing with the dominance of imported products from China, because it is in accordance with the factors and conditions of Indonesia's existing resources.

Theoretical review

1. Teori *Competitive Advantage*

Michael Porter (1985) theory *competitive advantage* is the ability needed by a country to improve its performance through industry and competitive domestic business. This theory was born in 1980 and was initiated by strategic management expert and educator at Harvard University business school, Michael Eugene Porter, In his theory Porter has a ¹⁶ *Diamond Model* which consists of factors that determine the competitiveness of a country including the following¹⁷:

1. Factor conditions

Factor conditions include natural resources, infrastructure, capital, and labor. According to porter, the main factor in a production is "created", not hereditary. And limited resources can encourage a country to innovate.

2. Demand conditions

The existence of a market to give birth to competitiveness in which there is demand related to quality goods or services and the existence of a close relationship between producers and consumers.

3. Related and supporting industries

There is a close relationship between a company and supporting industries that can provide knowledge about potential technology and the existence of good relationships with consumers can form *market power*.

4. Firms strategy, structure, and rivalry

This is related to the strategy and structure owned by a company. Strategy has at least two aspects: individual career choices and capital markets. The structure to regulate the course of strategy and high competition create innovations that can be achieved with a mature and good SWOT analysis.

¹⁶ Michael E. Porter, & Advantage, C. (1985). Creating and sustaining superior performance. *Competitive advantage*, 167, 167-206.

¹⁷ Jasanta, Peranginangin, 2015. A Conceptual Mapping Resource Advantage Theory, Competitive Advantage Theory, and Transient Competitive Advantage. *Expert Journal of Business and Management*, Volume 3, Issue 2, pp. 140-149.

Competitive advantage is not only obtained by innovation that meets the priority needs of the international community, but the role and support of the government in creating a conducive atmosphere, creating markets, providing raw materials for industrial continuity is also necessary to increase this competitive advantage.

This theory is used by researchers because it is able to answer questions in the formulation of the problem in this study, namely related to Indonesia's strategy to support MSMEs in facing Chinese dominance in Indonesia after the ACFTA cooperation. To implement this theory, MSME innovation or domestic industry is needed because a *competitive advantage* can be obtained when companies in a country can produce with better quality than existing products. Then it is aligned with the priority needs of the national and international community. Government intervention as a facilitator for MSMEs and domestic industries can maximize the competitiveness of MSMEs, namely by creating a conducive atmosphere, creating markets, providing raw materials for industrial continuity so as to suppress China's dominance in the Indonesian market.

As an effort to maximize the competitiveness of Indonesian MSMEs, the government has launched several programs to support the empowerment of MSMEs, including Approving the 2020 Job Creation Law which will provide empowerment, convenience and security for MSMEs, People's Business Credit (KUR), and Expanding Indonesian Product Exports through¹⁸ *ASEAN Online Sale Day* (AOSD). Some of these programs have improved the quality and competitiveness of Indonesian MSMEs such as the AOSD Indonesia program has included 16 e-commerce which is expanding the Indonesian MSME market to the Southeast Asian market, and from this activity exports of domestic products have increased. In addition, the KUR assistance distributed through state-owned / state-owned banks and other private banks has facilitated MSME access to develop their business and ultimately can increase the number of MSMEs in Indonesia. and the last is the relationship between MSMEs and their partners which has been bridged by SOEs through the BNI village program which has succeeded in empowering MSMEs in terms of facilities, skills and capital.

In addition, ACFTA also facilitates the improvement of the economy of the countries incorporated in it such as the holding of cooperation between PT Amarta Karya or AMKA which is an Indonesian SOE and PT China Communication Construction Indonesia (PT

¹⁸ Attempt Government Advance Indonesian MSMEs | BKPM.go.id.

CCCI) in improving the efficiency and quality of products from the manufacturing sector. the establishment of the *Early Harvest Program* as part of the policy of eliminating tariff barriers in the fields of agricultural, marine, fisheries, food and beverage products. As well as the establishment of *Rules of Origin* for the determination of goods that have been incorporated in free trade in order to get a reduction in entry tariffs and prevent trade deflections.

Research Methods

1. Research Design

In this study, researchers used qualitative methods with a descriptive approach. This research in collecting data was carried out through document analysis and meaning. According to Michael Patton and Michael Cochran, this qualitative research methodology is distinguished by its purpose, which is to understand some aspect of social life, and by using procedures in general to generate words as data for analysis. Descriptive research is research that provides a clearer picture of social situations. This study aims to explore and clarify social phenomena by describing variables that have been formulated.¹⁹²⁰

2. Object of Research

The object of this study is show Indonesia's strategy to support MSMEs in facing Chinese dominance in Indonesia after ACFTA cooperation

3. Collection Techniques

In data collection techniques, researchers use secondary types of data, namely data sources obtained from literature, therefore researchers will take data from or literature studies. Researchers conduct document-based literature studies to collect the necessary data. Any item that provides details about a particular social phenomenon and whose existence is not related to the researcher's actions is referred to as a document. Data sources that will be used as references are books, documents, journals, obtained from online media and other library sources, this will also be equipped with information obtained from news, the internet, magazines and newspapers.*library research*²¹

¹⁹ Mestika Zed «Method Research Libraries (Jakarta : Foundation DomainJaCard:2004)»

²⁰ Michael Q. Patton dan Michael Cochran, 2002, "*A Guide to Using Qualitative Research Methodology* (Geneva: Medicins Without Frontiries), thing. 2.

²¹ Dr. Christopher Lamont, 2015, *Method Research Relationship International*, Translated by Umar Suryadi Bakry, Yogyakarta: Library Students, thing. 171.

4. Data Analysis Techniques

In data analysis techniques, this research will use qualitative methods, namely methods that describe statistical data such as tables and numbers into paragraphs to analyze and explain the formulation of the problem to be studied.

Research Results

Based on the explanation of the theory above, researchers draw two things, namely Indonesia can suppress China's dominance in the domestic market by developing MSMEs and domestic industries in terms of superior competitiveness and competitive human resources. In increasing competitiveness for MSMEs and domestic industries, several ways are needed, namely innovation that meets the priority needs of the international community and the role and support of the government in creating a conducive atmosphere, creating markets, and providing raw materials for industrial sustainability. From these steps, good cooperation between the government and MSMEs and industry is needed in order to maximize existing facilities and in accordance with the theory used, namely *competitive advantage (diamond model porter)* which will be detailed as follows, *factor conditions* such as the holding of the BLK program (job training center) and People's Business Credit (KUR), *demand conditions* which includes the Expansion of Indonesian Product Exports through *ASEAN Online Sale Day (AOSD)*. *Related and supporting industries* bridged by SOEs are the establishment of BNI villages, *firm strategy, structure, and rivalry* which are formed by two factors, namely individual careers and capital markets / investments which require a good SWOT analysis. If it goes well, Indonesia can fight the dominance of imported Chinese products with MSME products that are superior and according to the needs of the community so that MSMEs not only fight the dominance of imported Chinese products but can also expand their market to the international arena. In cooperation, ACFTA has facilitated several programs for domestic economic growth such as the establishment of the rule of origin, *Early Harvest Program*, as well as increasing cooperation in the fields of fisheries, trade and investment, public health, aviation, space, and maritime, strengthening cultural exchanges and strengthening the foundation of friendship. encourage the completion of the Jakarta-Bandung high-speed train on schedule.

Discussion

Seeing the potential of MSMEs that were able to survive after the 1998 economic crisis and became the main domestic economic power. The government is encouraged to continue empowering Micro, Small and Medium Enterprises (MSMEs) because there are no strong

fundamentals in the Indonesian economy today. Even though MSMEs are a sector that is able to accommodate a large workforce. This can provide opportunities for MSMEs to grow and compete with large businesses that often use large capital (capital intensive). The existence of MSMEs is undoubtedly because they have shown their capabilities. However, on the other hand, MSMEs are also plagued by a number of problems, including lack of business capital, inadequate human resources, and low understanding of science and technology. In addition, there are several other challenges faced by MSMEs, such as relationships with the vague and ambiguous prospects of large companies in planning, vision and mission. This is because MSMEs generally focus on income gathering, especially income growth, and have the following characteristics: are family-owned businesses, use technology that is still fairly simple, lack access to capital (bankable), and do not separate capital for business needs from personal needs.²²

Trade liberalization, such as the implementation of the ASEAN-China Free Trade Area (ACFTA) which came into effect in 2010, is another problem that must be faced by SMEs. Instead, the government ratified the ACFTA cooperation agreement without first taking into account the readiness of MSMEs to compete. Such as not considering the readiness of product quality, less competitive prices, market readiness, and unclear maps of imported products. If the government does not immediately follow up on this, the country's economic condition will worsen along with the enactment of the ASEAN Community in 2015. Although MSMEs have strong resilience to economic crises, in the end they will also fail if this condition is left unchecked. Therefore, serious efforts must be made to support MSMEs as the essence of the national economy in order to increase the domestic market and make MSMEs a buffer for the overall economy.²³

As an initial effort to increase MSMEs, it can use one of the factors used to assess a country's ability to achieve its greater goals in increasing income and economic growth, namely its competitiveness. Competitiveness is related to productivity, namely by looking at the amount of output produced from each input used to identify competitiveness. The amount of physical capital and labor inputs, the quality of inputs used, and technological advances all contribute to this increase in productivity. There are several methods that are

²² Kristina Sedyastuti. Analysis Empowerment UMKM and Increased Power Competitiveness Deep Scene Go Global. INOBIS: Journal Innovation Business and Management Indonesia Volume 2, Number 1, December 2018. thing 117

²³ Ibid. 118

often used to assess competitiveness can be seen from several indicators, including comparative advantage, competitive advantage, and absolute advantage.²⁴

According to Michael Porter (1990) "productivity" which he defined as the value of output produced by labor, is the idea of competitiveness that can be used at the national level. Comparatively, the World Bank notes that "competitiveness is related to the magnitude and rate of change in value added per unit of input achieved by firms." However, neither the World Bank nor Porter, and other national competitiveness literature argue that competitiveness does not exclusively refer to a firm's level of efficiency. The term "competitiveness" encompasses a wider range of factors than just those that affect microbusiness, such as the external business environment, which is certainly beyond the control of the company. National competitiveness is defined by Porter as "the output of a country's ability to innovate in order to gain or maintain a favorable position relative to other countries in critical areas," in more detail.²⁵

As an effort to increase the competitiveness of local products and MSMEs, the Indonesian government has focused the national development design on 3 aspects of economic development, namely: (1) economic growth, (2) economic equity, and (3) national stability. The three designs are integrated with each other in order to realize community welfare and improve the country's economy. To realize economic growth and equity, it is necessary to guarantee a stable, safe and peaceful national environment. Similarly, national stability will never be realized if there are still gaps between regions in a country due to equitable distribution of development that is not comprehensive.

In addition, to maximize the potential competitiveness of MSMEs and domestic industries, it can be analyzed with *competitive advantage* theory using *the diamond porter model*, and some of its components will be explained as follows:

1. Factor condition

Refers to components used as factors of production, such as labor, capital, infrastructure, and natural resources. According to Potter's claims, the main components that matter in production are "made", not acquired through inheritance. Furthermore, the disadvantage factor of resource scarcity often helps countries become competitive. When resources are few, innovation can flourish because there is less chance of waste.²⁶

²⁴ Abdullah, M. Faisal, 2002. Policies Management Finance, UMM Press, Yogyakarta.

²⁵ Ibid. 11

²⁶ Raharjo.T.W., Rinawati.H.S. Strengthening Strategy Marketing and power Competitiveness UMKM Based Partnership Village Tour. CV. Jakad Publishing. Surabaya.2019.Thing 86

a. Natural resources

Indonesia has very rich natural resources consisting of forests, coal, petroleum, natural resources gas, and natural marine resources.

b. Human resources

Human resources are a major aspect of economic growth and are a benchmark for a country in improving its economy. In this case, a large and potentially good human resource population is needed. This can be realized by the existence of educational facilities in a country. In line with what was conveyed by Al humami and later affirmed by Subroto that education not only creates knowledgeable, skilled, and technologically capable human resources but can also encourage a positive and business-friendly environment that is beneficial for economic progress.²⁷

Therefore, there are 3 ways to improve the quality of human resources, namely: Formal education pathways which include elementary schools, junior high schools and high schools, as well as general and vocational education at the upper secondary level. A pathway for job training, this course requires the development of professional abilities and abilities. This job training aims to improve professional abilities and emphasizes more on practice than theory. A path to work experience. In particular, the method by which a person can improve his technical knowledge and work-related skills by observing others, imitating them, and performing the tasks assigned to him.²⁸

From some of the ways above in increasing the competitiveness of MSMEs and domestic industries, the government launched the Job Training Center (BLK) program in which it holds training on what skills are needed in the world of work, besides that other efforts that have been made by the government are to make regulations regarding the convenience, protection and empowerment of cooperatives and MSMEs regulated in government regulation no. 7 of 2021 . If this is maximized by MSME actors, the quality of Indonesian human resources will increase and can affect domestic competitiveness and productivity.²⁹

The above definition is in line with the BLK in the Karawang area which has been

²⁷ Gatot Subroto, —Relationship Education and Economics: Perspective Theory And Empirical, *Journal Education and Culture* 20, no. 3 (2014): 390–400.

²⁸ Muhamad Faizul Amirudin, 'Education Relations and Competitiveness of the Nation', *Belajea: Journal of Islamic Education*, 4.1 (2019), 35–48 <<https://doi.org/10.29240/belajea.v4i1.723>>.

²⁹ 'Increased Competitiveness UMKM as the Spearhead of Indonesia's Economy Towards the Global Market - Coordinating Ministry for Economic Affairs of the Republic of Indonesia' <<https://ekon.go.id/publikasi/detail/2948/peningkatan-daya-saing-UMKM-as-the-edge-spear-economy-indonesia-to-global-market>> [accessed 25 December 2022].

successful in holding automotive training in the area, this has an impact on improving the skills and knowledge of Karawang residents about automotive and there is a change in the attitude of the participants who take part in the training related to the development of independent businesses to establish workshops. This has had an impact on the trainees, some of whom have obtained jobs in automotive companies and some others have opened their own businesses. The rapid need of the community for motorized vehicles is one of the good opportunities for participants who have attended the automotive training. Therefore, with the establishment of BLK in every region throughout Indonesia, it has been able and succeeded in improving the skills and skills of human resources so that it can create new jobs and improve the quality of workers in the MSME sector and domestic industry.³⁰

Analyzed from the ACFTA framework, the existence of good relations between Indonesia and China has made China successfully enter various sectors in Indonesia, including education, economy, infrastructure development projects, industry, and maritime, which are characterized by cooperation between Indonesia and China. With more and more Chinese immigrants to Indonesia, now Indonesians need to speak Mandarin in addition to English. This ability to speak native Chinese will be used to establish direct communication with Chinese people who know little English. Especially in the corporate sector, where their bosses and most of the workforce are Chinese. Some Chinese companies in Indonesia have also set up special Chinese language training programs for their native staff who cannot speak Mandarin. This makes Indonesian human resources have new skills in terms of language, making it easier for them to do work in several Chinese-owned companies.³¹

c. Capital resources

Humans need capital resources to cultivate natural resources and advance science and technology. Since goods and capital can also boost productivity, capital resources in the form of capital goods are essential for growth and smooth economic development. The economy of a nation will grow faster as a result of these efforts. With that, the people's business credit program (KUR) was created, which is a credit program or loan as working

³⁰ Dayat Hidayat, 'Automotive Skills Training to Increase Job Opportunities at Karawang Regency Job Training Center', *Journal of Nonformal Education and Community Empowerment*, 2017, 55–63 <<https://doi.org/10.15294/jnece.v1i1.15143>>.

³¹ Row Amanda, Hegemony Behind Relationship Bilateral China-Indonesian Journal pamator Volume 14 No 1, April 2021 Pp. 34-39 <http://journal.trunojoyo.ac.id/pamator> ISSN: 1829-7935

capital that has received subsidies from the government.³²

In addition to KUR, there is also LPDB-KUMKM which has the responsibility to manage revolving funds effectively and this aims to generate long-term profits from providing revolving funds for cooperatives and MSMEs. The influence offered by the program has been felt by ³³MSMEs in PTraining Kidul Village, Siman District. These MSMEs benefit significantly from capital derived from loans (KUR). MSME income obtained increased along with the size of KUR's capital loans. The quantity of income to be earned in this situation largely depends on the role of the company's capital loan for investment purposes. In general, business actors use KUR capital for working capital, business expansion, and other needs related to business operations. With the KUR loan, MSMEs always increase work motivation and take advantage of free time to work because the loan money from KUR contains risks related to interest rates and monthly installments. And as a result, the business money received by MSMEs in PTraining Kidul Village, Kec. Siman continues to increase thanks to work entities that continue to be developed and utilize loan funding sources from KUR that are available and have low interest.³⁴

2. Demand condition

Refers to the readiness of the domestic market to play an important role in encouraging competition. The capacity to offer excellent goods in this market is indicative. This is facilitated by the high demand for high-quality products and services as well as the intimacy of the relationship between business and client. In providing a conducive market for MSMEs and domestic industries, the government seeks the Gerakan Nasional Bangga Buatan Indonesia (Gernas BBI) program and³⁵ *participates in the ASEAN Online Sale Day (AOSD)* with the hope of expanding the participation of MSMEs, SMEs, and MSME-related actors, including creative economy players, in the digital ecosystem, increasing the number of transactions or sales of domestic goods, Encouraging consumer purchasing power, market expansion, access to capital, training, data collection, and acceleration of

³² 'Government Efforts to Advance UMKM Indonesia', *BKPM* <<https://www.bkpm.go.id/id/publikasi/detail/berita/upaya-pemerintah-untuk-memajukan-UMKM-indonesia>> [accessed 25 December 2022].

³³ 'LPDB-KUMKM – Mitra Untuk Bangsa' <<https://www.lpdb.id/>> [accessed 27 December 2022].

³⁴ Riawan, R., & Kusnawan, W. (2018). Influence Capital Own and Credit People's Business (KUR) Towards Income Business (Studies In MSMEs in Village Platihan Kidul Kec. Siman). *Journal Accountancy and Tax*, 19(1), 31-37. two:<http://dx.doi.org/10.29040/jap.v19i1.158>

³⁵ Op.Cit. Strengthening Strategy Marketing and power Competitiveness UMKM Based Partnership Village Tour.

the local economic cycle through the utilization of domestically produced goods.³⁶

Judging from the role of ACFTA with the policy of reducing and removing tariff barriers has been able to create a competitive climate for the economies of ASEAN countries and China, especially in Indonesia. With the EHP (*Early Harvest Program*) program, domestic products have experienced a very significant increase in offerings such as palm oil exports with a minimum amount of 500,000 tons to China, from the previous volume of only 2 million tons of palm oil.³⁷

3. Related and supporting industries

Refers to the availability of a set of services and the presence of connections between supporting industries and businesses. These relationships and support benefit and increase the competitiveness of the company. Porter creates factor models of conditions for situations such as these involving clusters or agglomerations of industries that can benefit from an abundance of technical or technological knowledge and how to build proximity to customers so as to increase market power.

In line with this, the Indonesian government has facilitated several programs built by SOEs to create links between MSMEs and related and supporting industries. With that, the establishment of a BUMN house which became a bridge between MSMEs and related industries in establishing cooperation. This is against the backdrop of a paradigm shift in domestic business as a result of the expansion of the global market, and MSMEs now play an important role in national economic prosperity by encouraging employment growth, promoting higher social welfare, and new product innovation.

The Ministry of SOEs developed Rumah BUMN as a common house to gather, learn, and nurture SMEs into quality Indonesian SMEs in an effort to strengthen the people's economy, especially micro, small and medium enterprises. As well as having a Mission & Vision to help and inspire MSMEs in overcoming the main problems faced by growing MSME companies, such as increasing competence, expanding marketing access, and simplifying financial access.³⁸

Therefore, several programs were created that were bridged by BUMN houses in connecting MSMEs and related industries with partners and supporting industries such as,

³⁶ 'Presidential Decree No. 15 of 2021 concerning the National Movement Team to Be Proud of Made in Indonesia [JDIH BPK RI]' <<https://peraturan.bpk.go.id/Home/Details/177404/keppres-no-15-tahun-2021>> [accessed 28 December 2022].

³⁷ Marta Cristina, Ni Putu Rai Yuliantini God Large Sudika Bowl, MANA THE GREATER THE GAIN OR LOSS OF INDONESIA COOPERATING WITH CHINA, Journal Education Citizenship Undiksha Vol. 10 No. 3 (September, 2022)

³⁸ [About House SOEs | House SOEs \(rumah-bumn.id\)](https://www.rumah-bumn.id)

the Mandiri Young Entrepreneur program from Bank Mandiri, the BNI Nusantara Kampong program from Bank BNI, the BRI Terrace program from Bank BRI, and the Digital UKM Village program from Telkom Indonesia which has 2 million registered SMEs. All of these programs focus on developing initiatives to improve the quality of MSMEs throughout Indonesia.

In this case, BNI Village is a people's economic development initiative that utilizes a cluster system to disburse loans. Since February 11, 2010, BNI Village has been officially established in Muara Penimbang Ulu Village. The establishment of BNI village aims to increase the economic potential of rural communities through loan or environmental partnership programs that provide development assistance in order to encourage local economic activities.

The program sponsored by BNI Village is considered effective because it is proven that weavers are still alive today. Daily necessities used to be difficult to supply, but now they are easy to meet, and many people who previously did not have TVs now have them. Before the establishment of Kampung BNI, the Muara Penimbang Ulu songket cloth company was still unable to increase productivity or general welfare of residents. As many as 200 weavers who have joined BNI village have benefited from its membership, namely the ease of obtaining capital loans from BNI to expand their business. In addition, BNI also facilitates weavers who are members of BNI village with songket trainers who teach about what songkets are in demand by the market today so that weavers have no more difficulty in marketing their woven products.

The program also conducts "capacity building" or capacity building training, such as weaving pattern training in accordance with international market demand, basic bookkeeping training, effective marketing training, and other training in accordance with the needs of the cultivation business. friend. In addition, BNI provides infrastructure support in Kampong BNI, such as showrooms, packing houses, meeting rooms, or public social facilities. In addition, BNI provides financial assistance to partner families for their children's education in the form of scholarships and other educational resources.³⁹

In addition, within the framework of ACFTA, the Government of Indonesia has agreed to cooperate between PT Amarta Karya or AMKA which is an Indonesian SOE and PT China Communication Construction Indonesia (PT CCCI) in improving product efficiency

³⁹ To the Ihsan.2020.Pengaruh Empowerment Community Towards Economic Level of Society Weavers Songket Of Village Estuary Penimbang Supreme Through Village Program Bni.Skripsi. Faculty Science Social and Science Politics University Srivijaya.

and quality in the manufacturing sector. Which is contained in the Memorandum of Understanding on joint production expansion and cooperation in the production of elastomeric bearing bearings. The collaboration is an implementation of a strategic relationship in increasing the productivity of manufacturing workshops so that it can support the development of AMKA's new business.⁴⁰

4. Firm strategy, structure, and rivalry

Refers to the business tactics and work structures shared by the majority of companies and intense competition in a particular industry. At least two components can form a strategy factor: human career decisions and capital markets. Corporate strategies are influenced by domestic capital markets, whereas individuals choose their careers based on opportunity and status. If an industry has key personnel that are considered prestigious, it will affect the competitiveness of a country. Structure is built to carry out plans or strategies. And the existence of high competition encourages to create innovation.

In line with the above understanding, every MSME or domestic industry should have a neat structure in order to research what needs are needed in the market. Analyze with SWOT Analysis on each plan so as to find out the shortcomings and advantages of each plan so that it can create an innovation that is in accordance with market needs and can achieve *goals* against what has been planned.

In the realm of ACFTA, there are provisions regarding the Rules of Origin evidenced by using SKA (Certificate of Origin) Form E. This is done to guarantee that products entitled to lower tariffs are only products originating from FTA partner countries. The provision is a strategy to reduce trade deflections that hurt the country.⁴¹

In line with the above government efforts according to Islam, the state has the right to supervise or set some rules of economic activity that cannot be carried out by individuals. Islam argues that the scope of government obligations not only includes the security and defense of the country but also realizes the ideals of a prosperous and just society. As explained in Surah An-Nisa verse 59 which reads:

⁴⁰ [3 SOEs that Work Same with China, Number 3 Get USD 15 Billion | Page 2 \(sindonews.com\)](#)

⁴¹ [ACFTA \(kemendag.go.id\)](#)

يَا أَيُّهَا الَّذِينَ آمَنُوا أَطِيعُوا اللَّهَ وَأَطِيعُوا الرَّسُولَ وَأُولِي الْأَمْرِ مِنْكُمْ ۚ فَإِن تَنَازَعْتُمْ فِي شَيْءٍ فَرُدُّوهُ إِلَى اللَّهِ وَالرَّسُولِ إِن كُنتُمْ تُؤْمِنُونَ بِاللَّهِ وَالْيَوْمِ الْآخِرِ ۚ
ذَلِكَ خَيْرٌ وَأَحْسَنُ تَأْوِيلًا

According to some scholars, the above Nash authorizes the government to interfere in economic activities carried out by individuals. This is in order to maintain social harmony and protect the Islamic community. All Muslims must submit to their government according to the verse. The researchers concluded that no matter how large a person's capital is, public interests such as those related to water, air, and oil still limit his ability to influence topics related to people's welfare. And the best way to create that balance is to comply with all policies and regulations set by the government.⁴²

Conclusion

The agreement on the removal of tariff barriers makes incoming Chinese imported goods have cheaper prices and the flood of imported goods entering the Indonesian domestic market to affect domestic prices. The situation is getting worse because the majority of Indonesian people prefer cheap goods so that there is an imbalance in market competition between local products and imported Chinese products. In this case, Indonesia feels threatened by the existence of ACFTA because it sees the massive number of imported Chinese products that enter into the potential to shift the domestic industry. This has happened in several MSMEs and domestic industries such as textiles, manufacturing and horticulture.

There are several problems faced by the textile industry so that it is less competitive with imported Chinese products, namely Indonesia does not have specialization in terms of price or quality. Because there are several things that hinder the application of these specialties such as still difficulties in obtaining raw materials for the production of textile products, some machines need renewal, and the application of SNI is difficult to do, besides that developing countries such as Indonesia are less adaptive to the era of free trade so that there are many domestic farmers who do not have broad insight and facilities for the export of horticultural products and their market impact Indonesia's domestic population is

⁴² Nawawi Ismail, Islamic Economy "Persepektif Concept, Model, Paradigm, Theory and Aspects Law", (Surabaya: Vira Jaya Multi Pres, 2008).

dominated by horticultural products from other countries. And the last is because the average Indonesian population is a downward search society, they prefer Chinese manufacturing at a cheaper price even though it has less good quality.

Some of the problems above then become a reference for the government in formulating its economic strategy, especially for MSMEs and domestic industries to continue to exist and improve their quality and capacity. Namely by designing strategies in increasing innovation and productivity, ease of business behavior, access to finance, access to markets, infrastructure support, and business cycles

And from some of the strategies above analyzed with *Porter's competitive advantage diamond model* theory, there are several programs that have been realized by the government as an effort to increase the competitiveness of MSMEs and domestic industries such as the holding of BLK to improve the skills and quality of individual work, the establishment of KUR and LPDB-KUKM to facilitate access to capital for prospective MSME actors and to provide additional capital for MSME actors, the existence of Gernas BBI and AOSD in expanding markets for MSMEs both domestically and internationally, and the last is the establishment of a BUMN house that bridges between MSMEs and their partners to increase competence, expand marketing access, and simplify financial access.

Judging from the scope of ACFTA as an organization that plays an important role in bilateral relations between Indonesia and China, it has set several policies that are beneficial for the Indonesian economy such as skills training Chinese language for native staff so that they can carry out their duties well in the company they occupy which this right can support their careers. There is cooperation between PT Amarta Karya or AMKA which is an Indonesian SOE and PT China Communication Construction Indonesia (PT CCCI) in improving efficiency and product quality in the manufacturing sector. The reduction and removal of tariff barriers with the EHP program affects the level of demand for goods from Indonesia to China, for example palm oil. And established rules of origin to protect against trade deflections.

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