

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Internationalization of a company is not uncommon nowadays as there is technological advancement that supports the needs of organizations to engage in international involvement in the market. The international market can involve all parties, whether it involves a big corporate, small medium enterprises and even individuals. This study will only focus on the SMEs of Indonesia and Japan, how they engaged into the international market and how the countries' regulations about the SMEs. Previous studies have progressively reported that numerous small and medium-sized enterprises (SMEs) have made the liabilities of foreignness and smallness a less issue, as the SMEs are now able to strive for complex internationalization strategies almost close to the larger enterprise. Apart from exporting, the modern SMEs currently able to engage in the market entry modes such as international joint ventures, foreign subsidiaries and international strategic alliances.

According to Organization for Economic Co-operation and Development (OECD), Small Medium Enterprises (SMEs) are independent firms that are non-subsidiary and employ less people than a number of employees that are given, in which the number will vary according to their countries. In regards to the ever developing business climate, the development of SMEs have led these organizations to have an increasing competitiveness.

The competition has further evolved towards the international market, thus, making the business owner having to meet the needs of both the domestic and foreign. In general, SMEs are important particularly in developing countries as it can play a major role economically. According to the world bank, SMEs represent about more than 50% of employment worldwide and 90% of businesses. Furthermore, 40% of the national income (GDP) in emerging economies are contributed by the formal SMEs, this number does not include the informal SMEs which means that the numbers can be significantly higher if included (world bank group, 2020). In Asia, the SMEs can be regarded as the backbone of the economies, with SMEs making up 98% of Asian business and 66% of the national labor force on average during 2007–2012. In 2007-2012, SMEs have contributed 38% of the gross domestic product or manufacturing value-added in Asia on average, this suggested that SMEs' contribution to the region's economies can be expanded further. However there are challenges that suspend the growth of SMEs, this includes the lack of resources (can include technology, skilled labor, finance, market access and information), lack the benefit from economies of scale and lack the information and network or even being unable to compete with big corporations. There are however, usually some kind of incentives from the government or regulation to be more supportive for the growth of SMEs (Yoshino and Taghizadeh-Hesary, 2016).

According to a survey conducted by SME Magazine, SMEs in Indonesia could help in sustaining the country's economic growth if appropriate boost is given to encourage engagement. Regardless of the global economic uncertainties and a more challenging

marketplace, SMEs in Indonesia continue to grow. The surveyed SMEs showed revenue growth of 9.3 percent in 2018 to an average of 55.1 billion rupiah, as well as profit growth of 23.5% to an average of 7.1 billion rupiah. This is remarkable as it contributed the whole country in 2018, a 5.17 percent GDP growth (IBCS Editor,2020).

The current covid-19 are affecting Indonesian economy greatly, especially to the business owners. In response, the government provides industry support of Rp 70.1 trillion and the business world Rp 150 trillion. The Ministry of Finance noted that the business world that was significantly affected was Micro, Small and Medium Enterprises (MSMEs). This is because MSMEs have a contribution of 60.3% of Indonesia's total gross domestic product (GDP). In addition, MSMEs absorb 97% of the total workforce and 99% of total employment. In 2018, there were 64.2 million units of SMEs. As a result of this stimulus, there is actually an increase in the number of SMEs throughout the year (Jayani, 2020). The following chart shows the number of SMEs in Indonesia from 2010-2018:

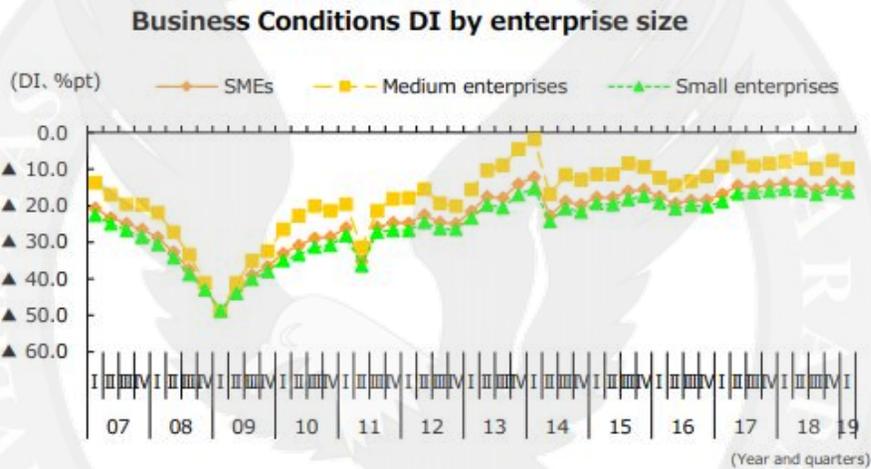
Figure 1.1 Number of SMEs units in Indonesia 2010-2018



(source:databoks.katadata.co.id, 2020)

In Japan the SMEs are also essential in sustaining Japan’s economy as there are 3.5 million SMEs that are currently active which account for 99.7% of the total number of companies in Japan. However, with Japan having constant decline in birth rate and the increase in aging population, it is predestined that the overall domestic market demand will decrease and SMEs will need to discover international business opportunities and get new demand overseas. The following chart shows the business condition of Japan’s Enterprises:

Figure 1.2 Japan Business Conditions DI by enterprise size



(source: Small and Medium Enterprise Agency of Japan, 2019)

The Figure above shows the business conditions in Japan. All enterprises regardless of their size show slow growth, moreover, the current condition of Japan’s declining population can have an impact as the business owners have no successors or there will be less new SMEs that will enter the market. In terms of development, Japan and Indonesia are on different spectrums of the global economy. With the 60 years of diplomatic ties, Indonesia and Japan have an ongoing bilateral relation (Rustandi, 2019). The following data showed trade dynamic between Indonesia and Japan:

Figure 1.3 Bilateral Trade Between Indonesia and Japan (in million USD)

NO.	DESCRIPTIONS	VALUE: MILLION USD					GROWTH (%) 18/17	TREND (%) 14-18
		2014	2015	2016	2017	2018		
I	Export	23,117.5	18,020.9	16,098.6	17,798.8	19,479.9	9.44	-3.49
	- Oil and Gas	8,551.7	4,924.8	2,889.1	3,108.2	3,171.3	2.03	-21.68
	- Non Oil and Gas	14,565.7	13,096.1	13,209.5	14,690.6	16,308.6	11.01	3.47
II	Import	17,007.6	13,263.5	12,984.8	15,240.0	17,976.7	17.96	2.53
	- Oil and Gas	69.4	30.8	58.0	30.8	33.2	7.77	-13.74
	- Non Oil and Gas	16,938.2	13,232.7	12,926.8	15,209.3	17,943.6	17.98	2.58
III	Trade Balance	6,109.9	4,757.4	3,113.8	2,558.8	1,503.2	-41.25	-29.00
	- Oil and Gas	8,482.3	4,894.0	2,831.1	3,077.4	3,138.1	1.97	-21.75
	- Non Oil and Gas	-2,372.4	-136.6	282.7	-518.6	-1,634.9	215.24	-
IV	Total Trade	40,125.1	31,284.4	29,083.4	33,038.8	37,456.6	13.37	-0.83
	- Oil and Gas	8,621.1	4,955.6	2,947.1	3,138.9	3,204.4	2.09	-21.62
	- Non Oil and Gas	31,503.9	26,328.8	26,136.2	29,899.9	34,252.2	14.56	2.99

Source : Statistics Indonesia (BPS) (Processed by PDSI, MoT & ITPC Osaka), 2018

(Source: Indonesia Trade Promotion Center Osaka,2018)

Based on data from 2014-2018, total trade between Indonesia and Japan fluctuates until it continues to increase, as in 2014 the total trade is at US\$ 40 million which decreases to US\$ 37 million in 2018. However Indonesia has constantly recorded a trade balance surplus (exports>imports) during the following years.

Development of SMEs will make the market get more competitive, and seek out new markets, this will not make the SMEs not limited to fulfill domestic needs but also the demand in international markets. For the past years, Indonesia and Japan have shared bilateral relations despite the fact that they belong to different economic spectrum (Rustandi, 2019). Indonesia being a developing country, while Japan is a developed country, however the development of SMEs are equally important in both countries as a driving force to boost the economy.

1.2 PURPOSE OF STUDY

The purpose of the research, includes the following:

1. To study the development of SMEs in both country
2. To find out the support systems in each country that benefited the SMEs.
3. The extent of opportunities that are given to the SMEs to internationalize the company.

1.3 RESEARCH PROBLEM

This study investigates a main research question which is:

RQ: How is the development of the SMEs in both countries nowadays?

Q1. Do either of the countries have a system that benefitted the SMEs?

Q2. Which country have a relatively better SMEs opportunities

Q3. In case the other does better, is the system can be applied to the other

1.4 RESEARCH PURPOSE

In doing this research, these are some of the potential benefits that are expected:

1. Knowing the detailed explanation about SMEs' globalization, which are competing in the global market and comparing the differences between the two countries.
2. As a study for organizations especially the future SMEs that might use the research for references that gives additional knowledge, in which can be used to improve or support the development of the company.