

## The Impact of Utilization Free Trade Agreements (FTA) and Fiscal Facilities KITE-IKM on the Export Performance of Small and Medium Enterprises (SMEs)

Riza Agustian Achmad<sup>1\*</sup>, Christina Ruth Elisabeth<sup>2</sup>

<sup>1,2</sup> Universitas Indonesia, Indonesia

Email: riza.elearning@gmail.com<sup>1\*</sup>

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### ABSTRACT:

This study employs the random-effect panel data method at the firm level to determine the impact of Free Trade Agreements (FTAs) and fiscal allowance KITE-IKM (Ease of Importing for IKM Export Purposes) on the export performance of Small Medium Enterprises (SMEs) in Indonesia. The data used is panel data from 2019 to 2023. The units of analysis of this study are SME exporters in Indonesia. The dependent variable is the export value of SMEs, and the independent variables are FTAs and KITE-IKM fiscal policy, considering factors such as the real effective exchange rate (REER), firm characteristics, and firm management. The results indicate that both FTAs and KITE-IKM policies have a positive and significant impact on the export performance of SMEs. However, the effects of fiscal policy (KITE-IKM) are higher than FTAs since this policy simultaneously reduces the cost of production and the cost of trade. Control variables (Real Effective Exchange Rate, Firm Scale, Furniture Sector, and COVID) also show a positive and significant relationship with SME export performance. This study suggests policy harmonization on fiscal and trade policy to improve SMEs' productivity and export competitiveness.

**Keywords:** Utilization Free Trade Agreements, Fiscal Facilities KITE-IKM, Export Performance, Small and Medium Enterprises.

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### INTRODUCTION

The globalization of trade that is currently occurring has brought significant changes in the dynamics of international trade. One of the main tools used in penetrating foreign markets through exports is through FTAs. Free Trade Agreements (FTAs) play an important role in increasing a country's economic growth. This is done by encouraging opportunities for the creation of a country's exports and expanding market access. Market access is considered important to help Small and Medium Enterprises (SMEs) to enter foreign markets. The share of exports of SMEs in developing countries still needs to grow. The average export rate of SMEs in ASEAN countries is only around 23% (Wignaraja, 2012).

FTAs are expected to provide legal certainty and a clear framework for certainty for the business world, especially in the export sector. FTAs can provide opportunities for each country to eliminate or reduce trade barriers such as tariffs and quotas so that it is expected

to encourage the flow of trade in goods and services between FTA member countries. FTAs can affect the level of export efficiency, especially related to trade costs (Kaushal, 2022). FTAs can increase the ability of domestic industries to be able to compete in the international market, in addition to FTAs can encourage investment through Foreign Direct Investment (FDI) in the country.

The main obstacles that the SME sector often faces in export activities include high export costs, competitiveness, raw materials, opening market access and marketing. Several obstacles such as barriers to information and human resources, distribution, logistics, promotion, finance, procedural and price are still found and affect the contribution of Indonesian SMEs in the global value chain (Revindo et al., 2019). The use of FTAs should be able to encourage the SME sector to export in order to increase national exports. The existence of a free trade agreement is expected to encourage increased market access, market liberalization and bring in FDI (Budi & Putri, 2023).

Access to imported raw and intermediate goods is still one of the main obstacles to the productivity of firms in Indonesia. A study by (Elisabeth et al., 2020) found that the Non-Tariff Measures (NTMs) imposed on imported intermediate products significantly reduced the productivity and profitability of Indonesian manufacturing firms. SMEs also faced similar obstacles. The availability of raw materials needed by SMEs is often unstable and insufficient to meet the needs of SMEs in producing the goods produced. This can be caused by local production limitations or disruptions in the supply chain. The high price of raw materials locally is also one of the problems in the production of SMEs which has the potential to reduce the quality of the products produced. Based on information from the Ministry of Trade, the SME sector that is experiencing considerable difficulties related to raw materials is the textile sector (fabric and silk) and processed food (refined sugar). The high price of raw materials and the volatility of the price of raw materials for SMEs are one of the main obstacles to the production process of the goods produced by SMEs (Cahyono et al., 2023). This is also the main problem for SMEs where the price of goods to be exported does not compete with other countries. In order to encourage SME exports, the government issued a policy to provide fiscal facilities in the form of import facilitation facilities for export purposes (KITE-IKM). Through this policy, SMEs are able to obtain cheaper raw material prices, which can improve their price competitiveness in the export market.

The export contribution of SMEs in Indonesia is one of the lowest in ASEAN (Yoshino and Wignaraja, 2015). Indonesian SMEs' export contribution currently only reached 15.7% of total national exports, significantly lower than Singapore's, which was 41%. Meanwhile, in Thailand and Singapore, the contribution of SME exports was 29% and 24%, respectively. Previous research has identified that FTAs and fiscal facilities significantly impact a country's total exports. FTAs have a positive impact on firm performance but tend to have a greater effect on larger companies, as larger companies are more likely to utilize FTAs (Hayakawa, 2015). The utilization of FTAs positively and significantly impacts a country's economic growth (Kusuma, 2017; Anggrainy, 2023; Tangavelhu et al., 2021; Cestepea et al., 2014). Export promotion

programs, including tax and financial incentives, trade fairs, and the presence of representative offices, positively and significantly affect the export performance of small and medium-sized enterprises (Quaye, 2017). Tax incentives also have a positive and significant impact on firm performance (Meyende, 2013).

Most studies estimate the impact on the aggregate or country level. To the best of our knowledge, our study is the first to estimate the effect of FTAs and fiscal facilities on SMEs' export performance. The findings of this study will improve understanding of how FTAs and fiscal facilities can improve market access for small and medium-scale firms, which face relatively higher costs than big-scale firms. This study will focus on SMEs because the current export performance and the FTA utilization of SMEs is still low.

In this context, this study will examine the impact of FTAs and KITE-IKM fiscal facilities on the export performance of SMEs which is expected to provide valuable insights for the government, especially to formulate more strategic policies in the future in encouraging the success of SME exports through the use of FTAs and KITE-IKM fiscal facilities.

FTA utilization in Indonesia is still low for several schemes. The long management process of FTAs, which results in high costs for firms, is the main cause of the low rate of FTA utilization. To improve this condition, the government needs to formulate a strategic and harmonized policy on FTAs, fiscal, and logistics to encourage the success of SME exports. This study aims to analyze the effect of the utilization of FTAs and fiscal facilities of KITE-IKM in encouraging the export performance of SMEs.

## RESEARCH METHODS

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This study used the annual data of SME exporting firms from 2019 to 2023. The observation unit is at the firm level. The criteria for SMEs are based on PMK Number 177 of 2016. We employed 135 SME exporting firms as a sample. The total observation was 675 firms. Firms that used FTA are all the firms that submitted and used a Certificate of Origin (SKA) document as a requirement to get the FTA tariff scheme.

### Research Variables

The variables used in this study are divided into two main variables: export value as a dependent variable and FTA utilization variables, as well as KITE-IKM as interest variables. We also employ several control variables related to macroeconomic factors, firm and managerial characteristics.

### Main Variables

The main variable used in this study is the firm's export value. The value of a firm's exports refers to a certain amount of foreign exchange value obtained from the proceeds of export sales. In this case, the value of exports has been widely used in several studies on the impact of FTAs on export performance, such as (Kusuma, 2017; Tangavelhu, 2021; Ardiyanti, 2015), which use the value of firms' exports as an independent variable in their research model. The variables used in this study are divided into two categories: the main variables, which include the export value as the dependent variable and the utilization of FTAs and KITE-

IKM facilities as the variables of interest, as well as several control variables related to macroeconomics, firm conditions, and firm management. The FTA variable is expected to analyze the extent to which the utilization of FTAs can enhance the export performance of SMEs, particularly in terms of expanding market access. The fiscal facility variable for SMEs is used to analyze the fiscal policies aimed at addressing the raw material issues faced by SMEs in enhancing exports.

### **Control Variables**

1) The macro variable in the form of the Real Effective Exchange Rate (REER) in the index is calculated as a weighted average of the bilateral real effective exchange rate in each trading partner and as a measure of the competitiveness of export products against trading partners. REER data was obtained from IFS, IMF. The price competitiveness theory states that when the REER weakens (depreciates), the export price of a country becomes cheaper for foreign buyers, thereby increasing the volume of exports. Kang and Dagli (2018) also found that the real effective exchange rate can have a direct impact on increasing a country's exports. The impact of exchange rate depreciation will have a direct effect on the export performance of developing countries (Arize et al., 2017).

2) Firm Characteristics:

The Firm Life Cycle Theory explains that a firm goes through various stages in the firm's life cycle, ranging from establishment, growth, maturity, to decline. Each of these stages has different characteristics and challenges. The enterprise life cycle theory states that older and larger firms tend to have more resources and experience, which can improve their ability to export. The determination of a firm's high export performance can be influenced by the characteristics of the firm (Baldauf, 2000). The explanation of the characteristics of the firms used in this study can be described as follows:

- a) Firm Age (AGE) is the length of the firm's establishment as an industry which is measured from the period of the firm's deed of establishment (in years). The firm's age data was obtained from INSW and DJBC.
- b) Business Scale (SCALE) is a grouping of SMEs into small/medium industries by paying attention to the amount of annual sales through the average annual export with the amount according to the criteria of PMK-177/2016. The criteria for small industry scale are the average annual exports of 300 million-2.5 billion Rupiah (Small Industry) while the medium industrial scale is the average annual export with an amount of 2.5-50 billion Rupiah. The scale of the business is in the form of a dummy variable with a value of 1 if it is medium-scale and 0 if it is small-scale. The export value was obtained from DJBC, Ministry of Finance.
- c) Business Sectors (SECTOR) are the business fields of each firm which are divided into 6 categories, namely the furniture, handicrafts, textiles, wigs, processed food and beverages, and other sectors. SEC1 is a dummy that is worth 1 if the processed food and beverage sector and 0 others. SEC2 is worth 1 if the sector wigs and 0 others. SEC3 is worth 1 if the textile sector and 0 others. SEC4 is worth 1 if the craft sector and 0 others.

SEC5 is worth 1 if the furniture sector and 0 others. With the baseline of other sectors. Data was obtained from BPS, INSW, and DJBC.

### 3) Managerial Characteristics

According to the Resource-Based View (RBV) Theory, a framework in strategic management that focuses on the firm's internal resources is the main key to achieving sustainable competitive advantage. This theory was first introduced by Jay Barney in 1991. The quality of a firm's management affects the firm's strategy and operations, which in turn can affect export performance. The firm's managerial status is explained through Gender (GENDER) and nationality (NATION) of the commissioner/owner of the firm is the nationality and gender (gender) of the commissioner/owner of the firm. Data was obtained from INSW, and DJBC. Managerial characteristics have a great influence on the firm's export development (Leonidou et al., 1998).

### Research Hypothesis

The hypothesis of this research is as follows:

**Table 1. Research Hypothesis**

No	Variable	Influence	Hipotesis
1.	FTA	Positive	FTA has a Positive Effect on SME Export Performance
2.	KITE-IKM Facilities	Positive	KITE-IKM Facility has a positive effect on the export performance of SMEs

### Model Specification and Estimation Method

This research will examine the impact of FTAs and policies of the KITE-IKM Facility on the export performance of SMEs. The empirical model used in this study uses are, as follows:

$$\ln \text{Export}_{it} = \alpha_0 + \beta_1 \text{FTA}_{it} + \beta_2 \text{KIKM}_{it} + \beta_3 \text{REER}_{it} + \beta_4 \text{SCALE}_{it} + \beta_5 \text{LABOUR}_{it} + \beta_6 \text{CAPITAL}_{it} + \beta_7 \text{SEC}_{it} + \beta_8 \text{LOC}_{it} + \beta_9 \text{NATION}_{it} + \beta_{10} \text{COVID}_{it} + \beta_{11} \text{AGE}_{it} + \beta_{12} \text{GENDER}_{it} + e_{it}$$

The empirical model is based on firm theory, which focuses on how firms make decisions about whether to export or serve the domestic market, considering their marginal costs and trade costs. By utilizing FTA, firms can pay lower tariffs, which can reduce marginal costs and increase profitability and productivity (Melitz, 2003). Similarly, by using the KITE-IKM scheme, SMEs can get lower imported tariffs for their raw materials and lower export tariffs in export destination countries, which can also decrease marginal and trade costs. The dependent variable is  $\ln \text{Export}_{it}$ , which refers to the firm's export value.  $\text{FTA}_{it}$  is the dummy variable for FTA utilization,  $\text{KIKM}_{it}$  is the dummy for the KITE-IKM Facility,  $\text{REER}_{it}$  is the real exchange rate of the rupiah currency,  $\text{SCALE}_{it}$  is the scale of the firm,  $\text{LABOUR}_{it}$  is the number of workers,  $\text{CAPITAL}_{it}$  is the firm's initial capital,  $\text{SEC}_{it}$  is the business sector,  $\text{LOC}_{it}$  is the location of the firm,  $\text{NATION}_{it}$  is the nationality of the firm's director or leader,  $\text{COVID}_{it}$  is the condition of the Covid 19 pandemic,  $\text{AGE}_{it}$  is the age of the firm, and  $\text{GENDER}_{it}$  is the gender of the firm's directors or leaders. The estimation method used in the study is an econometric analysis approach through the Random Effect Model (REM). FTAs have both positive and negative impacts on the export performance of small and medium-sized industrial enterprises (Hayakawa, 2015; Sinaga et al., 2015). Tax incentives have a positive and significant impact on

firm performance (Meyende, 2013). Exchange rate depreciation has a positive direct effect on the export performance of developing countries (Arize et al., 2017). The determination of a firm's high export performance can be influenced by characteristics of the firm, including age, capital, and labor (Baldauf, 2000). Managerial characteristics have a significant influence on the firm's export development (Leonidou et al., 1998).

**Table 2. Relationship Between Variable**

Variable Name	Variable Definition	Unit/Level	Source
<i>Export</i>	Export Value	IDR	Directorat General Customs and Excise
<i>FTA</i>	FTA	Dummy	Ministry Of Trade
<i>KIKM</i>	Facility KITE-IKM	Dummy	Directorat General Customs and Excise
<i>REER</i>	Real Effective Exchange Rate	Rp/LCU	IFS, IMF , World Bank
<i>AGE</i>	Firm Age	Year	Directorat General Customs and Excise
<i>SCALE</i>	Scale	Dummy (1=Medium, 0=Small)	Directorat General Customs and Excise
<i>SEC</i>	Sector	Dummy Sector Baseline: Others Sector	Directorat General Customs and Excise
<i>GENDER</i>	Gender	Dummy (1=Male, 0=Female)	Directorat General Customs and Excise
<i>NATION</i>	Nationality	Dummy (1=Foreigner, 0=Indonesian People)	Directorat General Customs and Excise
<i>LABOUR</i>	Total Labour	People	Directorat General Customs and Excise
<i>CAPITAL</i>	Capital	IDR	Directorat General Customs and Excise
<i>LOC</i>	Location	Dummy (1=Industrial Area, 0=Non Industrial Area)	Directorat General Customs and Excise
<i>COVID</i>	Pandemic Covid 19	Dummy	Kepres RI Nomor 11 Tahun 2020 Kepres RI Nomor 12 Tahun 2020 Kepres RI Nomor 24 Tahun 2021

## RESULTS AND DISCUSSION

### Estimated Results

#### ***The Relationship between FTA and IKM KITE on SME Export Performance***

Table 3. shows the results of OLS and RE estimation. The average export value of SME that used FTA facilities was higher than SME exporting which not used it during the 2019-2023 observation period. The study with the OLS model without using control variables showed a larger estimation result where the average export value of SME exporting firms that used FTA facilities was 215% higher than that of firms without FTA facilities.

The table above also shows the results of the study using a random effect model.

Statistically, the results of the estimates shown showed similar results to the OLS study, but there was a slight difference from the results. The random effect model shows that the average export value of SME exporters using FTA facilities is 85% higher than the average export value of SME exporters not using FTA facilities. SME exporters using KITE-IKM facilities show that the average export value of SME exporters using FTA facilities is 320% higher than the average export value of SME exporters not using KITE-IKM facilities.

The furniture sector continues to show the highest export performance results compared to other sectors. Conversely, the processed food sector consistently shows the lowest export performance results. The estimation results of the random effect model for the REER variable indicate a positive and significant impact on the export value of companies. This suggests that when the real effective exchange rate of the rupiah increases by 1 unit, meaning a depreciation of the rupiah, the export value of SMEs will increase by 23%. The COVID-19 pandemic led to an increase in overseas demand for exports, and during COVID-19, the depreciation of the rupiah exchange rate also contributed to the rise in export value, as shown in the table below. Statistically, the average export value of medium-sized SME exporting companies is 288% higher compared to small-scale SME exporting companies.

The results of a positive and significant estimate of the effect of FTA utilization on the export performance of SME exporting firms show the direct impact of FTA utilization. This is in line with previous research related to the use of FTAs and KITE-IKM which can improve the export performance of firms such as (Anggraini, 2023; Hayakawa, 2015; Cestepea et al., 2014; Kusuma, 2017; Quaye, 2017). According to Melitz (2003) which has been explained earlier, FTAs and KITE-IKM Facilities cause a reduction in trade costs so that they can reduce marginal costs that can help firms increase export value in the global market. FTAs and SMEs based on research conducted can have a positive impact on the export performance of SME exporting firms which is also in line with the expected hypothesis.

**Table 3. Estimation Results**

Variable	1 LnEXPORT OLS	2 LnEXPORT OLS	3 LnEXPORT RE	4 LnEXPORT RE
<i>dummyFTA</i>	2.157*** (0.235)	0.764** (0.264)	2.157*** (0.416)	0.858** (0.443)
<i>dummyKIKM</i>	3.314 *** (0.191)	3.199 *** (0.199)	3.314*** (0.337)	3.204*** (0.34)
<i>RES</i>		0.158 (0.133)		0.235** (0.105)
<i>SCALE</i>		3.022*** (0.291)		2.881*** (0.479)
<i>LABOUR</i>		- 0.002 (0.098)		-0.002 (0.016)
<i>CAPITAL</i>		-9.05 (1.24)		-7.93 (2.11)
<i>SEC1 FOOD</i>		-0.06 (0.432)		0.008 (0.729)
<i>SEC2 WIG</i>		0.27 (0.338)		0.293 (0.564)

Variable	1 LnEXPORT OLS	2 LnEXPORT OLS	3 LnEXPORT RE	4 LnEXPORT RE
SEC3 TEXTILE		0.67** (0.346)		0.692 (0.578)
SEC4 HANDCRAFT		0.201 (0.329)		0.288 (0.538)
SEC5 FURNITURE PLACE		0.888** (0.305)		0.918* (0.507)
NATION		-0.843* (0.464)		-0.815 (0.791)
COVID		-0.403** (0.203)		-0.231 (0.244)
AGE		0.467* (0.349)		0.666** (0.28)
GENDER		-0.019* (0.014)		-0.018 (0.024)
Constant	19.546 (0.18)	-0.204 (0.196)	19.546 (0.317)	-0.178 (0.33)
Observations	675	2.111 (13.573)	675	-5.837 (10.749)
RSquared	0.525	0.597	675	0.01

The dependent variable is the FTA dummy. All error values show robust results and are presented in parentheses. The symbols \*\*\*, \*\*, and \* indicate 1%, 5% and 10% statistical significance.

Source : author's calculation

**Table 4. Estimated Results of FTA and KITE-IKM Relations on SME Export Performance Based on Sector Distribution**

Dependent Variabel	Export Value (Ln)				
	SEC FOOD	SEC WIG	SEC TEXTILE	SEC HANDCRAFT	SEC FURNITURE
dummyFTA	2.70 (4.91)	-9.57 (9.33)	-1.13 (4.50)	8.82* (673)	-1.42 (2.79)
dummyKIKM	3.87 (4.12)	8.12 (8.76)	2.07*** (5.50)	4.13 (5.93)	5.01*** (2.28)
REER	2.67 (2.88)	2.53*** (1.14)	-1.52 (1.39)	2.61* (1.95)	8.36 (7.04)
LABOUR	-1.87*** (5.81)	-1.54 (889)	-2.02 (2.37)	-4.98* (2.65)	-4.66 (1.47)
LnCAPITAL	7.71*** (3.55)	-1.54 (8.89)	3.73*** (1.82)	-2.03 (-1.04)	-2.58 (1.32)
NATION	1.11 (1.01)	-1.86 (2.70)	-1.87 (3.49)	5.04 (4.61)	-1.67 (1.45)
COVID	2.24 (8.24)	7.21*** (3.16)	-1.83 (3.66)	6.68 (5.18)	1.15 (1.88)
AGE	2.22* (1.34)	8.37*** (3.74)	-3.27 (2.44)	-3.18 (4.20)	-8.07 (1.46)
GENDER	-6.13 (2.07)	1.14 (7.68)	-2.92 (5.09)	-1.15*** (5.67)	-7.86 (2.03)
Constant	-1.91***	-2.54	8.89	-2.23	-7.67



Dependent Variabel	Export Value (Ln)				
	(8.39)	(2.10)	(1.45)	(2.04)	(7.65)
Observations	35	115	150	110	200
Rsquared	0.11	0.15	0.05	0.01	0.02

The dependent variable is the FTA dummy. All error values show robust results and are presented in parentheses. The symbols \*\*\*, \*\*, and \* indicate 1%, 5% and 10% statistical significance.

**Source : Author's Calculation**

Table 4. shows the results of the random effect model estimation to show the impact of FTA and KITE policies on each SME sector. Based on the results of the FTA policy impact and fiscal facilities, KITE-IKM has differences between each SME sector. The impact of the FTA Policy has a positive and significant impact on the handicraft sector by 882% at a significance level of 10%, where based on the sampling of existing data for SME exporters in the handicraft sector, the average export value of SME exporting firms that utilize FTA facilities is higher when compared to SME exporting firms that do not utilize FTA facilities during the 2019-2023 observation period. Ceteris paribus. The impact of the KITE-IKM fiscal facility policy is highest in the furniture sector which shows positive and significant results of 501%. This is in line with statistical data on the use of KITE-IKM, where the sector that utilizes KITE-IKM facilities the most is the furniture sector. The impact of the FTA utilization policy has positive and significant results on the handicraft sector, while the impact of the KITE-IKM fiscal policy has positive and significant results on the furniture and textile sectors. The impact of FTA utilization becomes insignificant in the food sector due to the very low level of FTA utilization in this sector. There are two important reasons why exporters do not utilize FTAs: the low preference margin for the food sector, where the average MFN tariff is only around 5%, and the high cost of managing FTAs, which is not proportional to the benefits generated for the food sector.

If you compare the statistical results of the impact given between the FTA utilization policy and the use of fiscal facilities in the form of KITE IKM, it can be seen that the policy of providing fiscal facilities in the form of KITE IKM facilities has a greater impact on the export performance of SMEs. This shows that in addition to the use of FTAs, other policies such as fiscal facilities also provide great benefits for increasing SME exports in Indonesia. By looking at the current conditions where each of these policies is still held by several different agencies where the FTA is currently managed by the ministry of trade and the KITE-IKM facility is managed by DJBC, the ministry of finance. The integration of all existing policies in supporting the increase in SME exports such as FTA utilization policies, fiscal policies, financing policies and logistics policies is an important key to the success of increasing SME exports. SME exporters are expected to be able to easily access all existing policies by eliminating all existing obstacles such as lack of information, ease of management requirements and length of management time. Therefore, the government needs to form an integrated ecosystem that can integrate all existing policies to make it easier for SME exporters to access every government policy given in supporting SME exports.

This study analyzes the role of FTA utilization and fiscal facilities of IKM KITE in improving the export performance of SME exporting firms using observation analysis variables of 135 SME exporters in the 2019-2023 period. FTA utilization is measured through the use of a Certificate of Origin (SKA) used by exporters to obtain exemption or reduction of import duty rates in the destination country. Through the utilization of FTAs, exporters are expected to get expanded market access, low raw material prices, competitive export prices and improved quality of competitiveness of export goods. Some of the obstacles that are often faced by SME exporters such as market access, marketing, prices and high export costs can be overcome through the utilization of this FTA.

### The Impact of FTAs in Boosting SME Export Performance

FTAs have an important role in encouraging the export performance of SMEs. The provision of lower pre-currency tariffs should be able to entice importers in destination countries to buy goods from Indonesia. The discriminatory nature of an FTA consists of the provision of preferential tariffs to FTA members. The preferential tariff is lower than the Most Favour Nation (MFN) tariff on tariffs imposed on imports from non-members. The difference between MFN rates and preferential rates is known as the preferential margin.

**Table 5. Total Export Value of SMEs Using FTA**

FORM	FOB (USD)					Total
	2019	2020	2021	2022	2023	
FORM A	24,892,924,164	27,733,614,637	14,314,909,204	13,192,753,252	8,924,166,927	89,058,368,184
FORM AANZ	2,344,146,178	1,972,901,237	3,515,726,198	4,667,545,981	3,198,367,368	15,698,686,961
FORM AHKFTA	-	5,341,012	9,077,895	30,939,602	22,074,714	67,433,223
FORM AI	12,618,238,062	10,351,653,484	11,497,518,242	20,299,944,706	171,969,390,779	226,736,745,274
FORM AJCEP	868,550,469	783,061,415	897,659,380	1,149,682,728	864,588,138	4,563,542,130
FORM AK	5,910,828,456	5,106,658,298	31,400,024,652	9,578,082,309	8,341,756,714	60,337,350,430
FORM ANEXO III	31,590,554	13,551,007	23,599,369	32,226,591	31,705,804	132,673,324
FORM B	16,525,590,889	14,831,202,281	22,732,255,924	35,037,000,282	126,535,961,357	215,662,010,733
FORM COA	15,273,075	10,262,906	7,666,081	6,153,708	5,296,911	44,652,681
FORM D	31,191,981,429	26,191,301,339	54,487,782,351	126,594,169,854	60,878,008,893	299,343,243,866
FORM E	26,509,836,070	28,512,780,338	52,917,709,960	53,443,541,098	86,132,078,646	247,515,946,112
FORM GSTP	21,436,875	24,689,203	23,952,406	27,779,938	14,603,979	112,462,401

The Impact of Utilization Free Trade Agreements (FTA) and Fiscal Facilities KITE-IKM on the Export Performance of Small and Medium Enterprises (SMEs)

FORM	FOB (USD)					Total
	2019	2020	2021	2022	2023	
FORM HANDICRA FT PRODUCT	1,195,608	854,964	378,633	499,114	379,891	3,308,209
FORM IA-CEPA	-	14,586,109	85,979,333	64,403,561	53,954,333	218,923,336
FORM IC-CEPA	19,877,838	115,767,800	199,437,210	426,080,031	425,668,896	1,186,831,775
FORM ICO	1,429,188,921	1,326,582,518	1,174,189,138	3,003,884,223	1,473,035,623	8,406,880,423
FORM IJEPA	5,947,650,097	4,956,096,141	7,494,885,587	7,843,551,960	6,905,576,109	33,147,759,895
FORM IK-CEPA	-	-	-	-	477,668,941	477,668,941
FORM IM	-	-	-	6,981	35,951	42,931
FORM IP	1,467,592,651	1,981,334,010	3,161,988,516	3,464,168,013	2,626,450,904	12,701,534,094
FORM RCEP	-	-	-	-	439,023,360	439,023,360
FORM TP	441,531,175	191,232,771	250,848,098	220,243,354	115,922,517	1,219,777,915
FORM UAE-CEPA	-	-	-	-	354,505,986	354,505,986
TOTAL FOB FTA (USD)	130,237,432,511	124,123,471,469	204,195,588,178	279,082,657,285	479,790,222,739	1,217,429,372,183
TOTAL FOB EXPORT (USD)	1,676,920,000,000	1,631,919,000,000	2,316,095,000,000	2,919,043,000,000	2,588,189,000,000	11,132,166,000,000
PERCENTAGE UTILIZATION ON FTA (%)	7.77	7.61	8.82	9.56	18.54	10.94

Source: Ministry of Trade, BPS, data processed

If you look at the graphs and tables above, you will see that the utilization rate of FTAs in Indonesia is still very low. The average FTA utilization rate for each type of FTA remains below 20% for the period from 2019 to 2023, with an average of only around 10.94%. The highest amount of FTA utilization is still dominated by FORM D, specifically the ASEAN FTA, with a total export value of USD 299,343,243,866. This table also shows that the intensity of FTA utilization still differs. According to the Uppsala theory, SMEs can begin their internationalization by targeting markets that are geographically and culturally close to their home country, such as ASEAN countries. This approach helps to reduce the risks and uncertainties associated with operating in foreign markets. Consequently, data on FTA utilization indicate that the highest level of FTA utilization is observed in exports to ASEAN countries. The lowest level of FTA utilization is seen in exports to Mozambique using FORM IM, where the export volume to this country is relatively small due to factors such as distance and cultural dissimilarity. Some of the obstacles complained about by exporters are the high

cost of processing and the length of time for processing SKA which is used as a requirement for managing predestination tariffs in the destination country. The utilization of FTAs is still dominated by relatively large firms. Small firms are still constrained in the cost and length of time it takes to get FTA facilities. Keck and Lendle (2012) said that the use of FTAs will incur its own fixed costs. However, it should be SMEs that get positive effects from the FTA. Through the use of FTAs, SMEs can increase product competitiveness, obtain cheap raw material prices in order to compete in the export market and expand market access.

### **Policy Analysis to Increase SME Exports**

By looking at the export potential of SMEs owned by Indonesia, of course, the government must seriously support this with various policies. The policies taken are expected to have a positive impact on increasing SME exports in Indonesia. The current policy regarding the increase in SME exports involves several related parties, including the central government, local governments, related financing institutions and market place firms including opening market access, providing financing services, cooperation with E-Commerce, and exemption from import duties and taxes on imported raw materials (fiscal incentives).

#### **a) Policy to open Market Access**

The government needs to implement several policies to open SMEs' market access, which involve the central and local governments, such as the trade attaché of the Ministry of Trade. As in Elisabeth and Verico (2022), some trade regulations related to Technical Barriers to Trade (TBT) reduced Indonesia's exports. This study suggests the need for policy evaluation and improvements to restrictive TBT in export destination countries.

#### **b) Financing Services Policy**

One of the main problems faced by many SMEs is related to financing. President Joko Widodo on several occasions stated that the government must fully support the SME sector to be able to carry out export activities. The ratio of financing loans to total loans is still very small, around 19.7 percent. Currently, the financing service policy for SME exports that can be used by SME actors consists of people's business loans (KUR), savings and loan cooperatives and financing from the Indonesian Export Financing Institution (LPEI).

#### **c) Cooperation with E-Commerce**

The opening of market access is one of the supporting factors for increasing SME exports. In addition to the utilization of the implementation of the FTA, one of the market access that can be used by SMEs to be able to export using the marketplace. One of the factors that can support the competitiveness of micro, medium and small enterprises through technology (Sambamurthy et al, 2003). Several related parties have created several applications that can support SMEs to be able to export, such as the GoExport application. The application contains guidelines for SMEs to be able to export, licensing in export destination countries and trade facilitation between countries through FTAs.

#### **d) Fiscal Incentive Policy**

In an effort to increase the competitiveness of the domestic industry, the Government in October 2015, issued a Policy Package Economics Volume I which aims to increase

economic activities due to the decline in world economic conditions. The policy contains deregulation, debureaucratization and fiscal incentives through the efficiency of raw material procurement, reducing the burden on the national industry and making export activities smoother. In supporting efforts to increase SME exports, the Government has issued a policy in the form of facilitating Import Facilitation for Export Destinations for SMEs or KITE-IKM Facilities.

e) **The Level of Effectiveness of the Policy to Increase SME Exports**

Policies taken by the government at both the central and regional levels to increase SME exports have been carried out a lot. However, according to the author, the results shown, especially in the foreign exchange earnings from the export of SME products, are still very small. By looking at the large number of SMEs in Indonesia, the number of SME exports should be further increased in order to encourage economic growth nationally with a target of achieving 30 percent of total non-oil and gas exports by 2024. There are two main things that cause existing policies to run ineffectively, namely the lack of collaboration or coordination between related parties both between the central and regional governments or existing financing institutions and the lack of data on SMEs in Indonesia in real time. Good data collection of SMEs by the government is expected to be able to find SMEs with potential for export so that they can obtain facilities that facilitate both opening market access and financing.

**1) Weak Coordination Between Related Parties**

In an effort to encourage an increase in SME exports, good coordination is needed between interested parties. It is hoped that existing policies can run optimally. All programs in each relevant Ministry and Financing Institution should be integrated into a system so that the utilization by SMEs can be carried out optimally in encouraging exports for SMEs in Indonesia. It is necessary to form a Special Team (Task Force) to handle the increase in SME exports in order to coordinate all related parties, including:

- a) The Ministry of Finance is responsible for the ease of fiscal facilities and ease of export procedures.
- b) The Ministry of Industry is responsible for product development and standardization and coordinates with each relevant agency in the region to develop KM products so that they can be exported.
- c) The Ministry of Trade is responsible for the use of trade attachés in opening market access for SMEs and trade cooperation agreements between countries (FTAs)
- d) The Ministry of Cooperatives and Small and Medium Enterprises is responsible for determining SMEs that have the potential to export and guidance related to the sustainability of export activities as well as evaluating policies and facilities received by SMEs that have export potential.
- e) The Indonesian Export Financing Institution (LPEI) is responsible for the ease of financing for SMEs that will export.

If all the relevant parties above can coordinate and eliminate sectoral egos with one goal

of increasing SME exports in Indonesia, the target of achieving SME exports of 30 percent in 2024 should be achieved.

## 2) Lack of Real-Time IKM Data Collection Level

The collection of IKM data in real time is expected to provide information for each related party to be able to provide facilities and facilities to support SME exports to be more optimal. The government is expected to form a national dashboard which contains all SME data in Indonesia. Through the national dashboard, it is hoped that all the information needed by SMEs to be able to export can be accepted, especially related to market access, financing and licensing in the destination country. This of course also helps SMEs in unlocking export potential. IKM data collection through an integrated system can also help the government evaluate every policy given to SMEs on the level of success achieved.

## CONCLUSION

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This study is intended to determine the direct impact of the utilization of FTAs and fiscal facilities of KITE-IKM on the export performance of SMEs in Indonesia. The results of the study show that SME exporters who use FTA facilities have an average export value of 85% higher than exporters who do not use FTA facilities which is also in line with the research hypothesis mentioned earlier. This research is also intended to see the impact of other policies in the form of providing fiscal facilities for KITE-IKM in encouraging the export performance of SMEs. Through this facility, exporters get cheap raw material prices so that they can provide competitive prices in the world export market. The results of the study show that the provision of IKM KITE facilities can improve the export performance of SMEs in Indonesia. This is indicated by the results of the study where exporters who obtained KITE IKM facilities had a higher average export value of 320% when compared to exporters who did not receive KITE IKM facilities. The impact of the FTA utilization policy has positive and significant results on the handicraft sector while the impact of the KITE-IKM fiscal policy has positive and significant results on the furniture and textile sector.

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