

The Impact of Globalization and The Free Market on The Economic Growth of UMKM in Pekalongan

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ABSTRACT

Globalization and free markets have a big influence on the Indonesian economy, including MSMEs as the spearhead of the Indonesian economy today. Globalization is spreading rapidly through communication technology, changing many people's habits such as food, lifestyle, and even politics. The free market also presents new challenges because goods, services and labor will more easily enter other countries.

People's markets and modern shops also support Pekalongan City's economic activities, which are largely driven by trade in superior goods such as batik and fisheries. The trade and cooperative sectors together make a significant contribution to the expansion of the economy in Pekalongan City. The commercial development of Pekalongan City's superior goods, such as batik, fish, weaving, convection, and several other crafts that develop with a wealth of invention and ingenuity, is proof of this. Free markets have advantages and disadvantages. The ability to easily obtain desired foreign goods and keep up with global market trends is a beneficial impact

Globalization and free markets have had negative and positive impacts on MSMEs in Pekalongan, but on the other hand this also brings great opportunities for MSMEs in Pekalongan to further expand their market reach.

INTRODUCTION

Globalization is a process of international integration that occurs due to the exchange of world views, products, thoughts and other cultural aspects. Advances in transportation and telecommunications infrastructure, including the emergence of the telegraph and the Internet, are major factors in globalization that increasingly encourage the interdependence of economic and cultural activities.

Globalization occurs in many aspects. Starting from economics, education, social culture, politics, technology, science and many more. The globalization that is occurring demands new norms in life both nationally and internationally. In the field of economic development, the main driver is the speed of obtaining information, products and money through multinational companies.

Economic globalization is not a new phenomenon in the history of world civilization. Long before nation states, trade and migration across continents has been going on for a long time. Since approximately five centuries ago, companies in economically developed countries have expanded their reach through production and trade activities to various parts of the world (Suprijanto, 2011) . Along with these developments, the phenomenon of globalization is seen as a wave of the future, especially since modern history, especially before entering the 20th century.

Import and export activities are regulated by the government or country concerned. The essence of the free market itself is an agreement between two or more countries. Free markets are economic exchanges or economic activities where taxes, quality, quantity, tariffs are centered on central government intervention, minimized or even eliminated. This can be concluded that trade between countries is not regulated by competent authorities. Usually taxes will also be eliminated in this free market (Amalia, 2020).

The free market itself is trade that focuses on sales based on a supply and demand mechanism without involving government interference. So, entrepreneurs have absolute authority over the management of production and prices and are free to choose who will be their sales targets. The function of the free market itself is to make it easier for people to carry out their economic activities in the fields of imports and exports and to provide transparency in the quantity of demand for goods, prices and customers. In this way, economic activities will be disrupted. This free market has been going on for a long time, especially in the ASEAN region itself.

MSMEs are businesses run by individuals, households or small business entities. MSMEs are classified based on income, assets and government size, this category is regulated by the government in Law no. 20 of 2008 concerning micro, small and medium enterprises. MSMEs have made a big contribution to economic recovery in Indonesia, apart from the post-Covid era that we

have just passed through, MSMEs also saved the Indonesian economy during the 1998 crisis (Sudartono et al., 2022).

MSMEs in Indonesia are also being intensified by the Indonesian government to improve the Indonesian economy after the pandemic. It cannot be denied that the Covid-19 pandemic hit the economy not only in Indonesia but also in the world. The government is trying as hard as possible to grow business and investment in Indonesia. This can be seen from the government's efforts in the job creation law, the clear aim of which is to facilitate business growth in Indonesia, including MSMEs.

Responding to all the national and multinational developments that are taking place, plus we are now slowly starting to recover from Covid-19, we as a sovereign nation cannot remain silent about the changes that are taking place. These developments in technology, information and economics have made countries closer together, even as if they were borderless. Globalization and the free market are indeed big challenges for us, but this can also be considered an opportunity for us to show that Indonesia can do it too. We cannot avoid this, whether we want it or not, we must face this global challenge.

LITERATURE REVIEW

Globalization

According to Nurhaidah (2015) globalization is the interconnectedness and dependency between nations and between people throughout the world through trade, investment, travel, popular culture and other forms of interaction so that the boundaries of a country become increasingly narrow (Sutria, 2019). Globalization is taken from the word global which means universal. In this modern era the term globalization is very common for society, this influences many human behaviors from food, clothing and lifestyle. Globalization is the movement of civilization in society globally.

The growth of technology is increasingly accelerating the globalization process in the world, especially with the presence of the internet, everyone in the world can easily get information quickly from all over the world. Technological progress has had a big impact on globalization, initially in the fields of technology and information, but as globalization advances it also has an impact on the fields of education, social culture, politics and many more.

This globalization also provides many challenges and opportunities for everyone, except for MSMEs in Pekalongan which inevitably have to keep up with technological advances and developments of the times by continuing to innovate so as not to be eroded and further left behind.

Free Market

With the implementation of the AEC in ASEAN in 2015, ASEAN experienced a steady flow of products, services, investment and even energy from and to other countries (Sudaryanto & Wijayanti, 2014). However, Indonesia must continue to improve and develop to be able to continue to face the competition that will definitely occur with the implementation of this free market. Goods, services and skilled workers will be free to enter countries that participate in this free market, consumers will definitely look for the best, so all countries and business actors compete to provide good products or services, workers also develop themselves so they can continue to get jobs.

In 2008, the contribution of Micro, Small and Medium Enterprises (MSMEs) to national foreign exchange earnings through non-oil and gas exports increased by IDR 40.75 trillion or 28.94 percent, reaching a figure of IDR 183.76 trillion or 20.17 percent of the total national non-oil and gas export value. Furthermore, in 2008, national gross domestic product (GDP) at constant 2000 prices was IDR 1,997.73 trillion, the contribution of MSMEs was IDR. 1,165.26 trillion or 58.33 percent of total GDP. The national constant price in 2000 experienced an increase of IDR 115.41 trillion or 6.13 percent from 2007. Then in 2008, MSMEs were able to absorb workforce of 90,896,270 people or 97.04 percent or 2,156,526 people compared (Darfaz et al., 2023).

MSMEs

Business operators who are included in micro, small and medium enterprises are regulated in law number 20 of 2008 concerning micro, small and medium enterprises (MSMEs) (Ratiyah et al., 2021). There are several meanings in MSMEs, including:

- a. Micro Business, namely a productive business owned by an individual or an individual business entity.

- b. Small Business, namely a stand-alone productive economic business carried out by an individual or business entity that is not a subsidiary or branch of a company that is owned, controlled or is part, either directly or indirectly, of a medium or large business.
- c. Medium businesses, namely productive economic businesses carried out individually or by stand-alone business entities which are not subsidiaries owned, controlled or part of either directly or indirectly with small businesses or large businesses.

METHODS

This research uses a qualitative research method approach. Data is collected in the form of words and images to strengthen arguments. This research was conducted by observing economic phenomena and globalization that occur and seeing what influence they have on the MSME economy in Indonesia. The data sources in this research use data available on the internet, official government websites and from various other secondary sources. If necessary, researchers will also take primary data from MSMEs around Pekalongan. The focus of this research is to observe the influence of globalization and free markets on MSMEs in Pekalongan and how we can answer these global challenges to improve our economy in Indonesia.

RESULTS

In the era of globalization, free markets are a necessity that cannot be avoided. Trade with other countries is necessary for countries that cannot meet all their own demands (Faizah, 2019) . It is anticipated that the existence of a free market will improve a country's economy and the welfare of its citizens, but over time, the free market has both positive and negative effects on its participants, making economists disagree about the benefits and disadvantages of the free market. As a result, a country must look for ways to create inventions, creativity, productivity, and everything that is good and of high quality so that its products can compete in the free market. Islamic economics allows for a free market while still respecting Islamic trading principles such as honesty and refraining from actions that conflict with religious teachings such as monopoly.

The income target for trade and MSMEs in Pekalongan City is influenced by several factors, including the increasing level of awareness of business actors and improving the performance of levy collection officers. Details of targets and income realization at the Pekalongan City Cooperative and SME Trade Service can be seen in the following table.

Table 1. Target and Realized Revenue for 2016 - 2021, Pekalongan City Cooperative and MSME Trade Service.

YEA R	TARGET		REALIZATION	
	VALUE (Rp)	Increase (%)	VALUE (Rp)	%
2016	2,400,000,000	9.09%	2,487,597,865	103.65%
2017	2,810,000,000	17.08%	2,826,629,320	100.59%
2018	2,550,000,000	-9.25%	2,576,715,836	101.05%
2019	3,060,000,000	20.00%	2,979,849,100	97.38%
2020	2,066,000,000	-32.48%	2,506,594,703	121.32%
2021	3,160,000,000	52.95%	1,990,376,250	63.59%

Source: Sub Division of Market Income and PK5 Dindagkop & UKM Pekalongan City

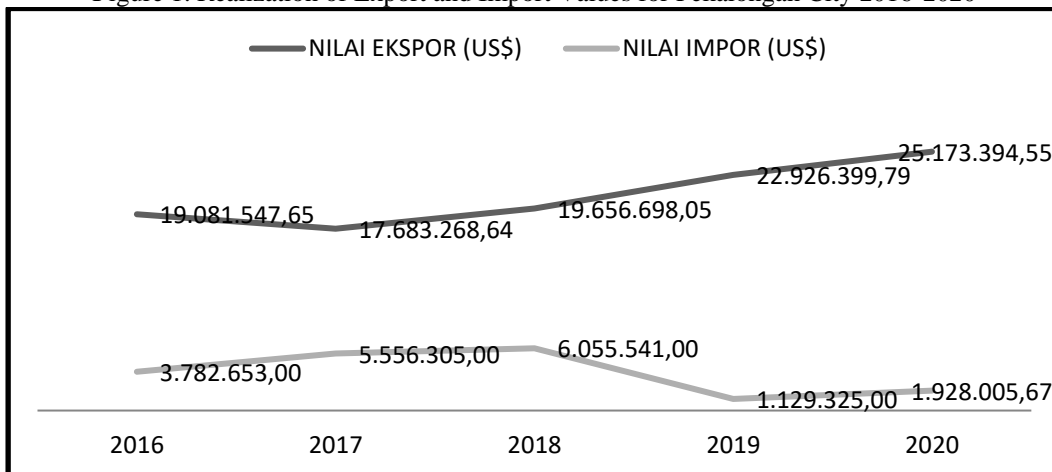
The revenue target for 2016 to 2017 is an increase in revenue of IDR 610,000,000,- or an increase of 17.08% . However, in 2018 the income target decreased by IDR 260,000,000 or 9.25% due to the Banjarsari Market fire on February 24 2018. Then in 2020 the income target decreased by IDR 994,000,000 or 32.48% due to global disaster, namely the Covid-19 Pandemic (Cooperative & SME Trade Service, 2021).

People's markets and modern shops help maintain Pekalongan City's economic activity, which is largely driven by trade in superior goods such as batik and fisheries. The trade and cooperative sectors collectively make a significant contribution to economic expansion in Pekalongan City. The growing commercial operations of Pekalongan City's premium goods, such as batik, fish, weaving,

convection, and several other crafts developing with a wealth of invention and ingenuity, are proof of this. So that MSME business operations in Pekalongan City can be sustainable and able to meet local, regional, national and world markets, the government's efforts to facilitate and strengthen MSME business activities are beneficial to their desires and certainty. Superior goods, such as batik and fisheries, are supported by the presence of people's markets and contemporary shops in addition to being controlled by trading operations.

The increase in contribution from the trade sector is not in line with the trend in export value which tends to increase from 2016 to 2020 even if it fell in 2017. In 2016, the initial export value was 91,081 million US\$, while in 2017 it was 17,683 million US\$. However, it then continued to increase, reaching 25,173 million US\$ in 2020. Imports are still restricted, but only in terms of how they changed from 2016 to 2020 (Cooperative & SME Trade Service, 2021) . Complete data can be seen in the following image.

Figure 1. Realization of Export and Import Values for Pekalongan City 2016-2020



Source: Pekalongan City Dindagkop & UKM Strategic Plan for 2021-2026

Economic Actors Involved in the Free Market

Every economic activity requires participation from parties who act as economic actors; In the case of this free market, these parties include internal and external parties, namely: government, foreign exporters, Indonesian importers, local producers, traders of imported goods, traders of exported goods, and consumers. These actors will each play a role in Indonesia's relationship with the free market and the impacts it has (Halim, 2020) .

The Impact of Globalization and Free Markets on Economic Growth

Free markets have advantages and disadvantages. The ability to obtain desired foreign goods easily and keep up with global market trends is a beneficial effect. However, there are also detrimental impacts on society, including the following: Because the free market facilitates importers' access to more imported products from other countries entering Indonesia, local goods producers, especially small businesses and home industries, are in a disadvantaged position. weaker (Bawon, 2020) . Changing public tastes put pressure on local producers, which in turn leads to a decline in production and, ultimately, an impact on income. Manufacturers' need for fast cash has secondary consequences that can jeopardize a company's ability to remain operational.

CONCLUSION

Globalization and free markets have a big influence on the Indonesian economy, including MSMEs as the spearhead of the Indonesian economy today. Globalization is spreading rapidly through communication technology, greatly changing people's habits such as food, lifestyle and even politics. The free market also provides new challenges because it will be easier for goods, services and labor to enter other countries. People's markets and modern shops help maintain Pekalongan City's economic activity, which is largely driven by trade in superior goods such as batik and fisheries. The trade and cooperative sectors collectively make a significant contribution to

economic expansion in Pekalongan City. The growing commercial operations of Pekalongan City's premium goods, such as batik, fish, weaving, convection, and several other crafts developing with a wealth of invention and ingenuity, are proof of this . Free markets have advantages and disadvantages. The ability to obtain desired foreign goods easily and keep up with global market trends is a beneficial effect . Globalization and free markets have had negative and positive impacts on MSMEs in Pekalongan, but on the other hand, this also brings great opportunities for MSMEs in Pekalongan to further expand their market reach.

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