

Does SMES Funding Influence Exports? (Evidence from the Footwear Industry in Indonesia)

Herlita^a, Muhammad Fawaiq^b, ^aUniversitas Negeri Jakarta, ^bMinistry of Trade Republic of Indonesia, Email; ^aherlita@unj.ac.id, ^bmuhammadfawaiq@yahoo.co.id

This study examines the effectiveness of SME funding to support exports (in the footwear sector in Indonesia). It aims to examine the direction of the long-term causality relationship of each variable in the study. The variables to be tested in this study are SME funding in the industrial sector (FUND), commercial bank interest rates for working capital (R), the rupiah exchange rate against the USD (KURS) and the export value of footwear products (XAK). Based on the type of data, this study uses monthly time series data for the period 2011 - 2017. The results show that FUND, KURS, and R have a significant impact on encouraging the long-term export of Indonesian footwear. In addition, in the short term, funding has significantly increased the export of footwear. This also occurs on the independent interest rate variable which is also significant and relates negatively to footwear exports.

Key words: *SMES, Export, VECM-Granger, Funding, Interest Rate*

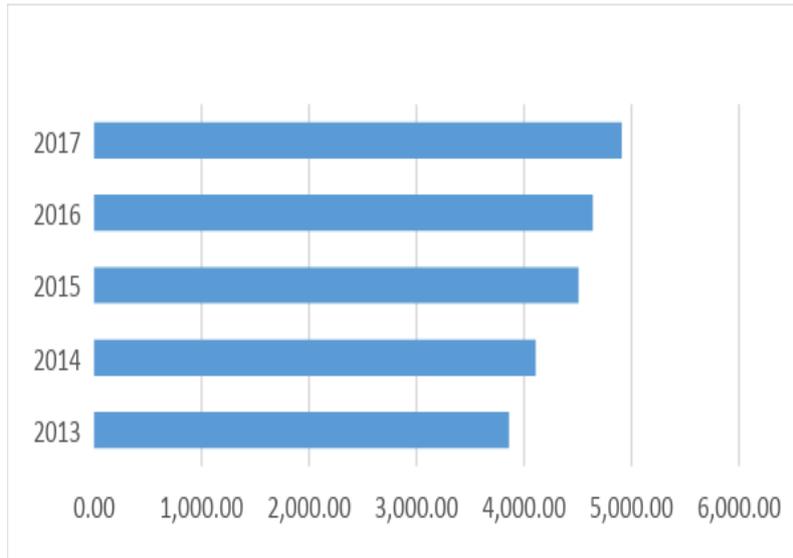
JEL Classification: *E43, F21, G21.*

Introduction

Small and medium-sized businesses in Indonesia have contributed predominantly to Indonesia's finances. They cover 90 percent of Indonesia's total national output. They collect 2% of economic growth. In addition, these SME products are Indonesia's flagship exports. Their footwear remains the belle of Indonesia. Only Vietnam has increased footwear exports more than Indonesia in the last round, among the 10 largest global footwear exporters. Indonesia is now the sixth largest footwear exporter in the world and accounts for 3.4 percent of global exports, up from 2.2 percent previously. Although Indonesia's total footwear

exports are still far below those of China, Vietnam and Italy, the country is in a good position in grouping with countries such as Germany, Belgium and the Netherlands (Deloitte 2016, 2018).

Graph 1. Indonesian Footwear Exports (in Million US \$)



Source: Ministry of Trade Data processed

Graph 1 shows that Indonesia has consistently increased in the last 5 years. However, increasing footwear exports does not guarantee that Indonesia's footwear exports will be able to compete in the global market.

Funding is an important problem for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, when increasing competitiveness at home and abroad. In developing countries generally, including Indonesia, banks still approve MSME financing (Bank Indonesia, 2015). Further, usually in developed countries, there is alternative financing. Such financing is in the form of *equity financing*, such as *angel investors*, *venture capital*, or *private equity*. It is granted without a guarantee. Alternative shopping has started to grow in developing countries (Bank Indonesia, 2015).

Policy steps are outlined below, based on the results of an ADB survey (ADB, 2015), to improve the financial accessibility of developed and developing countries. They are: (i) increasing government-supported credit, (ii) increasing credit interest for bank credit for SMEs, (iii) mandatory loans for SMEs by commercial banks, and (iv) support for developing venture capital industries that serve SMEs.

Table 1: External SMEs Funding

Use of forms of finance							H1
Over time – all SMEs							
By date of interview	2012	2013	2014	2015	2016	2017	2018
Core products (any)*	36%	32%	29%	30%	30%	31%	30%
-Bank overdraft	22%	18%	16%	16%	16%	18%	17%
-Bank loan/Commercial mortgage	10%	8%	7%	7%	7%	6%	8%
-Credit cards	18%	18%	15%	16%	17%	16%	13%
-Any other overdraft*	-	-	-	-	-	-	*
-Any other loan*	-	-	-	-	-	-	1%
Other forms of finance (any)*	18%	18%	17%	17%	16%	18%	11%
-Leasing, hire purchase or vehicle finance	6%	8%	7%	7%	7%	9%	7%
-Loans/Equity from directors/family/friends	6%	9%	8%	8%	6%	5%	3%
-Invoice finance	3%	2%	3%	2%	3%	3%	1%
-Grants	1%	1%	2%	2%	2%	2%	1%
-Crowd funding/ peer to peer*	-	-	-	-	-	-	*
-Asset based lending*	-	-	-	-	-	-	*
-Selective/single invoice finance*	-	-	-	-	-	-	*
Any Finance	44%	41%	37%	37%	37%	38%	34%

Source: SMEs Financial Monitoring (BDRC, 2018)

The table above summarizes the external SMEs throughout the world in the last five years. More than 30% of the Manulife obtained by SMEs originate from banking, namely bank overdrafts, bank loans, and credit cards. Other sources come from companies. This shows how it is very important that banks support SMEs throughout the world, not just in Indonesia.

Funding is a big challenge for SMEs (Fan, Polynomial & Method, 2015). Difficulties arise in accessing loans, the provision of loans to SMEs by financial institutions, and in the effect of loans on SMEs' profitability.

Formulation of Problems and Policies Issues

To support the competitiveness of its exporters including the footwear industry, Indonesia has cooperated on trade with several countries in multilateral, regional and bilateral forums. This will help the Indonesian footwear industry access markets abroad. Free trade can also be a challenge for domestic entrepreneurs. Therefore government support is needed to encourage the production by SMEs. One form of support is agreement. Funding or financing is a main obstacle for SMEs in Indonesia increasing their competitiveness. The Indonesian government



has carried out several assistance programs for SMEs, but the question is whether the program has significantly boosted the export of footwear products.

Objectives of the study

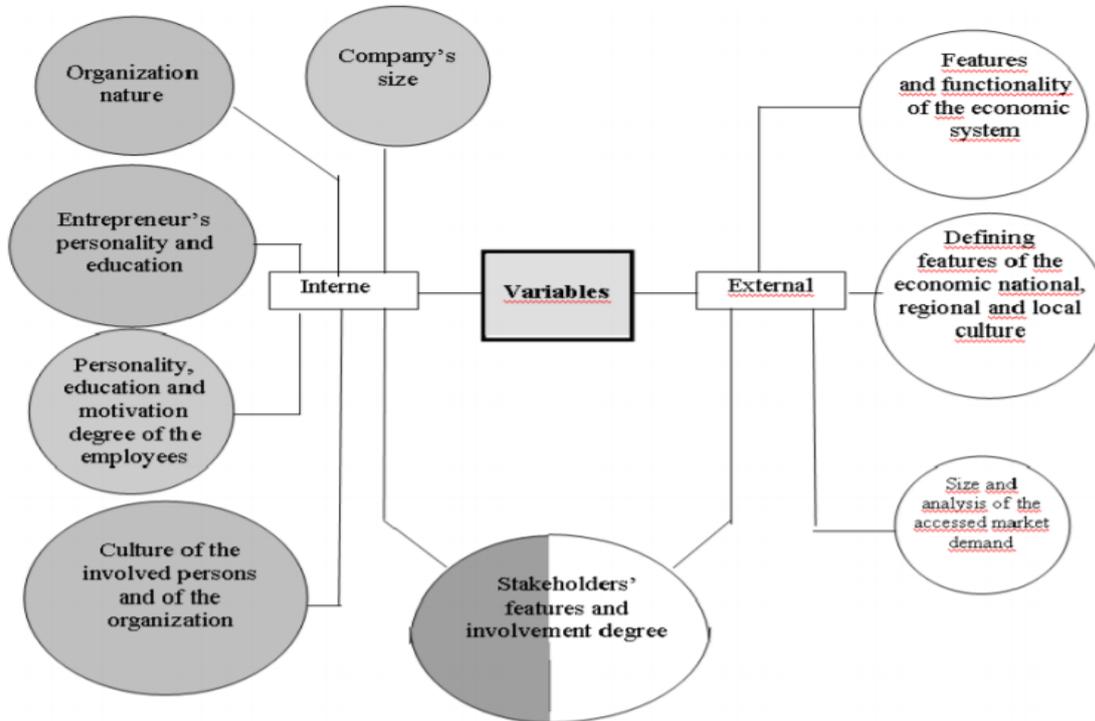
This study was to research SMEs in the industrial sector (FUND), commercial bank interest rates for working capital (R), the rupiah exchange rate against the USD (KURS) and the export value of footwear products (XAK).

Literature Review

Current research on SMEs has been conducted both domestically and abroad. This is because SMEs not only support income, through their assessments (Tulus & Sidabutar, 2014). SMEs are also able to add value, increase export value, and form industries that can support domestic competitiveness.

In addition, MSMEs are required to compete domestically and globally. In the current global era, many things that must be improved to compete and survive against other MSMEs. The ability of MSMEs to compete in the global era depends on several variables. Nicolescu (2009) divides it into two variables (Fig. 1), namely internal and external variables. Internal variables are favoured by the company, *stakeholder personality*, and the educational background of both the owner and worker, as well as corporate culture. External factors can also affect the country's culture. They include the applicable economic system, regional economic integration, and people's purchasing power. The combination of external and internal variables can support the sustainability of MSMEs. Medium or medium businesses need to look further ahead than small businesses.

Figure 1. Factors Affecting SMEs



Source: Nicolescu, 2009

Data needed in this study relate to marketing factors, access to capital, entrepreneurial skills, HR, financial knowledge, business plans, social networks, legality, government support, coaching, technology, and access to information. The results showed two influences on the performance of SMEs in Bangli District, namely: (1) internal factors, and (2) external factors. The former dominate, and include: marketing, access to capital, entrepreneurial skills, human resources, financial knowledge and business plans (Sudiarta, Kirya, & Cipta, 2014).

Other research, supported by Wardhani & Agustina (2018), explained two main factors in SME's competitiveness. They are financial factors, which relate to variable capital and business development. Second, marketing factors have packaging and network variables. However Nurzamzami & Siregar (2018) see SMEs not from competitiveness, but from threat analysis that require MSMEs. The main threat is more complete and innovative product design, supported by advanced technology. That will challenge products lacking technological support. An alternative strategy of developing and promoting markets, by improving product quality and innovation, is necessary.

Product innovation is paramount in Berry's research (Berry, Rodriguez, & Sandee, 2002). Berry et al. discussed aspects of the role of clusters and subcontracting, as factors in the



Indonesian transition of SMEs. Grouped companies will have better product adaptability, compared to distributed companies.

The most decisive factors in increasing the competitiveness of footwear SMEs in Ciomas District are human resources, natural and environmental resources, technology, customer preferences, and the level of competition (Nurzamzami & Siregar, 2018). In addition, a number of external and internal problems relate to the development of SMEs. The internal factors consist of capital, human resources, weak business networks and market penetration capabilities. The external factors are non-conducive business difficulties, limited facilities and infrastructure, the implications of regional autonomy, and free trade with global finance (Widyastutik, Mulyati, & Putri, 2010). Limited working capital, low human resources, and poor mastery of science and technology (Ragimun, Sudaryanto, & Wijayanti, 2015) are also relevant.

For this reason, a number of strategies are needed to improve the competitiveness of Indonesian SMEs. They are the provision of information and market networks, convenience of access to supplies, and assistance in improving information technology capacity. Therefore collaboration between important government and microfinance institutions is important (Ragimun et al., 2015). Collaboration from all parties can be expressed in more neutral policies, such as increasing access to collateral, or increasing the cost of business registration and licensing (Janter & Edgard, 2006).

In addition to policies that must be supported, marketing strategy is crucial. The Indonesian region in particular can take advantage of the S-T strategy of supporting or installing regional characteristics. The W-T strategy, making innovative packaging with distinctive brands, introduces business areas with product clusters (Nurzamzami & Siregar, 2018). More specifically see Fan (Polynomial & Method, 2015). Providing loans to SMEs supports their profitability.

Methodology and Data

This research uses a quantitative method with an analysis tool, the *Vector Error Correction Model* (VECM). This method aims to discuss the direction of the long-term relationship of each variable in the study. The variables that will divert in this study are SMEs in the industrial sector (FUND), commercial bank interest rates for working capital (R), the rupiah exchange rate against the USD (KURS), and the export value of footwear products (XAK). These variables will pass several assessment processes such as testing, cointegration testing, and then testing the Granger causality through the VECM estimation model.

Based on the type of data, this study uses time series data (research amounting to a series *a time* monthly) in the period 2011 - 2017. The data source in this study is secondary data obtained from Bank Indonesia and the Trade Map.

Method of Analysis

This study couples time series analysis with VECM, as per Robert F. Engle and CWJ Granger (1987). Engle and Granger create and develop cointegration concepts and error correction. In 1990 Johansen and Juselius redeveloped the VECM concept. VECM offers an easy work procedure to facilitate long-term and short-term components of the data formation process (Søren Johansen, 1990). VECM is sent from VAR (p) by reducing the lag of VAR equal to one, where the relevant variable affects endogen (Safitriani, 2014). The VECM (p - 1) model in general is:

$$\Delta X_t = \Gamma_0 + \Gamma_1 \Delta X_{t-1} + \mu_0 + \mu_1 t + \alpha \beta X_{t-1} + \epsilon_t \dots\dots\dots (1)$$

Where:

X_t = vector variable capture

$$\Delta X_t = X_t - X_{t-1} \text{ (p - 1) = lag VECM and VAR}$$

Γ_i = regression coefficient

matrix μ_0 = interception vector

μ_1 = coefficient vector regression

α = load

β matrix = cointegration vector

A theoretical study of VECM analysis follows (Sinay, 2014):

1. Root Test Model Unit

VECM, with the time series of data, can be used by experimental units, to support stationary data with the test data used as in Augmented Dickey-Fuller (ADF), as follows:

$$\Delta Y_t = \gamma + \delta t + \rho Y_{t-1} + \sum_{j=1}^k \phi_j \Delta Y_{t-j} + \epsilon_t$$

$$\text{With } \Delta Y_t = Y_t - Y_{t-1} \text{ and } \rho = a - 1.$$

Hypothesis H_0 : $\rho = 0$ (There is a unit root).

At the level of significance $(1-\alpha)$ 100%, H_0 is rejected if the ADF statistic is smaller than the critical value at α , or *p value* is smaller than the significance value α . If H_0 is rejected, the data is stationary.

2. The Johansen Cointegration Test

In the cointegration test used the Johansen cointegration test as follows: Given the model (p) is

$$y_t = A_t Y_{t-1} + \dots + A_p Y_{t-p} + B x_t + \epsilon_t$$

With y_t is a vector with k stationary non variable $I(1)$, x_t is a vector with d deterministic variables, ϵ_t is a vector error. At the level of significance $(1-\alpha) 100\%$, H_0 is rejected if the ADF statistic is smaller than the critical value at α , or p value is smaller than the significance value α . If H_0 is rejected, the data is stationary.

3. Model Test matches

Suitability test models for a review test statistics are as follows:

$$Q_h = j \sum_{j=1}^h (C' C 0 -1 j C C 0 -1) h j = 1$$

OR

$$Q_h^* = T^2 j = 1 \text{hourtr} (C j' C 0 -1 C J C 0 -1) 1$$

With the number * expressing the number of coefficients other than the constants in the model estimated VAR (.). Hypothesis H_0 : NO ADA series Correlation. At the level of significance $(1-\alpha) 100\%$, H_0 is accepted if p value statistics Q for each lag greater than the significance value α . As such, there is no serial update.

4. Information Criteria

P Lag order selection can use the following information criteria:

- Akaike Information Information (AIC)
 $(p) = \log \det (\Sigma (p)) + 2pk^2 T$
- Schwarz Information Criterion (SC)
 $(p) = \log \det (\Sigma(p)) + \log Tpk^2 T$

Search for Google Articles $\Sigma(p) = T^{-1} \sum_{t=1}^T u_t u_t'$, T is the sample size and k is the number of endogenous variables. The lag value p is chosen as the value of p which minimizes the information criteria in the interval $1, \dots$, which is received. Optimal lag on value AIC and SC smallest.

Causality Analysis

In VECM modelling, causality analysis is used to review the terms of relationships, *long-term (long-term causality)* and short-term relationships (*short-term causality*). Analysis of

long-term causality relationships between independent variables independent VECM can be seen in the coefficient or *correcting of correction error* (ECT), which connects the sign and results of the significance test, coefficient, use, test index, on the method *Ordinary Least Square* (OLS). Meanwhile, analysis of short-term causality for each variable can use the Granger causality test. The Granger causality test can be seen from the Wald test statistic which has chi square distribution or test *F* as an alternative. The hypothesis used is H_0 : There is no Granger causality relationship.

Findings and Discussion

VECM Estimation

Stationary Test

Importantly, this test will determine the accuracy of the estimation results. In addition, this evaluation also tries to avoid the results of taper estimation. The results of stationary testing at the order level are presented in Table 2 as follows.

Table 2: Results of Testing Stationarity in Rate

No	Variable	t-statistics	Probability
1.	Xak	-0.753487	0.8258
2.	DANA	-0.224165	0.9302
3.	EXCHANGE	-1.077861	0.7212
4.	R	-0, 341336	0.9130

The results of AT level stationarity testing show that the probability of t-statistics for the four variables is smaller than 5 percent. Thus, all variables are not stationary. For this reason, successful testing on the order *first difference*. The results of stationary testing in the first difference are as follows.

Table 3: Stationary Test Results in the First Difference

There are	Variables	t-Statistics	Probability
1.	ΔXAK	-9.301803	0.0000
2.	UNDFUND	-11.08729	0,0001
3.	$\Delta KURS$	0.9130	0.0000
4.	ΔR	-2, 849668	0.0560

Stationary Testing Results on Three variables: XAK, FUND, and EXCHANGE, the probability has been smaller than 5 percent. This means that this variable is more stationary in the first difference. As for the R variable, the t-statistic probability value is slightly greater than 5 percent but smaller than 10 percent. Thus the variable R is still stationary at a 90 percent accuracy rate.

- **Test Cointegration**

Cointegration testing determines long-term relationships. In addition, in the analysis of time series data, this test also determines steps for further evaluation. If the variables have a cointegration relationship, the estimations made using the Vector Error Correction model and the agreement have no cointegration relationship. The estimation will use the model *Vector Error Correction*.

Table 4: Co-Integration Test Results

Bound Rank Test (Trace)				
Hypothesis		Track	0.05	
Amount CE (s)	Eigenvalue	Statistics	Critical Value	Prob. **
No *	0.594425	94,09942	47,85613	0.0000
For most 1	0.175204	21,00098	29.79707	0.3576
For most 2	0.049001	5.398800	15.49471	0.7651
For most 3	0.016276	1.329168	3.841466	0.2490
Bound to the cointegration of the Rank Test (Maximum Eigenvalue) of the				
Hypothesis		Max-Eigen	0.05	
No. CE (s)	Eigenvalue	Statistics	Critical Value	Prob. **
No *	0.594425	73.09844	27.58434	0.0000
For most 1	0.175204	15.60218	21.13162	0.2489
At most 2	0.049001	4.069631	14.26460	0.8519
At most 3 at	0.016276	1,329168 3,841466	0,2490	Analysis

Based on the results of the cointegration analysis in Table 4, it can be associated with each cointegration relationship on each test (Track and maximum Eigenvalue). Thus, each variable has a long-term relationship and estimates using the VECM model.

- **VECM**

The first model in the VECM estimation is to look at participation, exchange rates and interest rates on Indonesian footwear exports. The estimation results are presented in model 1 and the translation of the coefficient values, t statistics and their probabilities are presented in Table 5.

$$D(XAK) = C(1) * (XAK(-1) - 1.84 * FUND(-1) - 1612.62 * R(-1) - 18.97 * CURS(-1) - 34334.42) + C(2) * D(XAK(-1)) + C(3) * D(XAK(-2)) + C(4) * D(FUNDS(-1)) + C(5) * D(FUNDS(-2)) + C(6) * D(R(-1)) + C(7) * D(R(-2)) + C(8) * D(KURS(-1)) + C(9) * D(KURS(-2)) + C(10) \dots \dots \dots \text{Model 1}$$

Table 5: Estimation of the VECM Model with XAK as a Bound variable

	Coefficient of	t-Statistic	Prob.
C (1) *	-1.57122	-9.70106	0.0000
C (2) *	0.619208	5,149156	0.0000
C (3) *	0.448723	4,280345	0,0001
C (4) **	3,855041	1 , 867795	0.0659
C (5)	2.635971	1,294111	0.1998
C (6)	-21639.3	-0.5018	0.6174
C (7) **	-84160.3	-1.9401	0.0563
C (8)	0.789136	0.03546	0.9718
C (9)	- 20.5512	-0.93087	0.3551
C (10)	-6558.42	-1.37614	0.1731 :)

Remarks *: Significant at 5%;) * and Significant at 10%;

Based on Table 5, the ECT coefficient for the variable approved XAK has a significant probability. This means that these variables are significant in driving the export of Indonesian footwear in a long extension. Furthermore, in the short term, for each independent variable, the variable of delivery significantly encourages the export of footwear. This also occurs in an independent variable the interest rate, which is also significant and has a negative relationship with footwear exports. For the approved variables discussed in Model 2 and described in Table 6:

$$D(FUND) = C(11) * (XAK(-1) - 1.84 * FUND(-1) - 1612.61 * R(-1) - 18.97 * KURS(-1) - 34334.42) + C(12) * D(XAK(-1)) + C(13) * D(XAK(-2)) + C(14) * D(FUND(-1)) + C(15) * D(FUND(-2)) + C(16) * D(R(-1)) + C(17) * D(R(-2)) + C(18) * D(KURS(-1)) + C(19) * D(KURS(-2)) + C(20) \dots \dots \dots \text{Model 2.}$$

Table 6: Estimation of VECM Models WITH FUNDS as Bound Variables

	coefficient	t-statistic	Prob
C -0.00907 -0.99276 0.3242			(11)
C * 0.019875 2.93087		(12)	0.0045
C 0.00513 0.867861 0.3884			(13)
C * -0.29084 -2 , 49894 0.0148			(14)
C * -0.30928 -2.669267 0.0088			(15)
C (16)	1990.995	0.81876	0.4157
C (17)	-1359.13	-0.55562	0.5802
C (18)	-1.12335	-0.89516	0.3737
C (19) **	-2.41038	-1.93613	0.0568
C (20) *	1106,921	4.11885 :)	0.0001

Description *: Significant at 5%;) * and Significant at 10%;

Based on Table 6, the coefficient of ECT (C11) has a negative value, but the variable is still not significant which means that prepaid free variables do NOT significantly affect the Manulife Soul in the Long Term. For short-term causality relationships, the variables that are significant in the agreement are the export of footwear and the exchange rate. As a result of the VECM estimation for interest rate variables presented in Model 3 as follows:

$$D(R) = C(21) * (XAK(-1) - 1.84 * FUNDS(-1) - 1612.62 * R(-1) - 18.97 * KURS(-1) - 34334.42) + C(22) * D(XAK(-1)) + C(23) * D(XAK(-2)) + C(24) * D(FUND(-1)) + C(25) * D(FUND(-2)) + C(26) * D(R(-1)) + C(27) * D(R(-2)) + C(28) * D(KURS(-1)) + C(29) * D(KURS(-2)) + C(30) \dots \dots \dots \text{Model 3}$$

Table 7: Estimation of the VECM Model with R as the Bound Variable

	coefficient	t-statistic	Prob
C (21)	-2.61E-07	-0.6607	0.5109
C (22)	-1.33E-07	-0.45467	0.6507
C (23)	8.88E-08	0.346825	0.7297
C (24)	3.73E-06	0.740832	0.4612
C (25)	6.56E -06	1,319115	0.1914
C (26) **	0.182098	1,729818	0.088
C * 0.260029 2.455536 0.0165			(27)
C (28)	5.26E-05	0.968458	0.3361
C (29)	4.27E-05	0.793052	0.4304
C -0.02037 -1.7505 0.0844			(30)

Remarks :) *: Significant at 5%;) * and Significant at 10%;

The probability of the ECT coefficient on the interest rate variable is higher than 5 percent, which means that the independent variable does not significantly affect the interest rate. This means exchange rates, footwear exports, and the important role of long-term interest rates plays a role. This also happens in each short period coefficient where each independent variable does not significantly affect changes in interest rates. Furthermore, the VECM model with independent exchange rates is presented in Model 4 as follows:

$$D(\text{EXCHANGE}) = C(31) * (\text{XAK}(-1) - 1.84504797567 * \text{FUND}(-1) - 1612.61786711 * R(-1) - 18,9754037817 * \text{EXCHANGE}(-1) - 34334.4208072) + C(32) * D(\text{XAK}(-1)) + C(33) * D(\text{XAK}(-2)) + C(34) * D(\text{FUND}(-1)) + C(35) * D(\text{FUND}(-2)) + C(36) * D(R(-1)) + C(37) * D(R(-2)) + C(38) * D(\text{KURS}(-1)) + C(39) * D(\text{KURS}(-2)) + C(40) \dots \dots \dots \text{Model 4.}$$

Table 8: Estimation of VECM Models with KURS as Bound Variables

	coefficient	t-statistic	Prob
C 0,000651 0.745623 0.4584			(31)
C -0,00097 -1,4947 0.1394			(32)
C -0,00052 -0,91094 0.3654			(33)
C -0,00271 -0, 24377 0.8081			(34)
C -0.00923 -0.8403 0.4036			(35)
C 305.3026 1,312677 0.1935			(36)
C (37)	-40,789	-0.17434	0.8621
C (38)	- 0.10135	-0.84439	0.4013
C (39)	0.045695	0.383755	0.7023
C (40) *	60.07028	2.337008	0.0223 :)

Remarks *: Significant at 5%;) * and Significant at 10%;

The VECM estimation results with KURS approved variables show that the independent variables do not significantly affect the exchange rate in the long run. This also happens in the short term.

Conclusion

This study indicates the factors that affect the export of footwear in Indonesia both internally and externally. From the several variables used, it appears that funding provides both short and long-term exports for footwear, as evidenced by the regression results. This shows that in Indonesia funding has been effective in increasing the export yield of footwear. However, so that footwear exports in Indonesia can compete in the global market, it is necessary to have policies and cooperation in various parties to create an increase in expenditure so that exports



will increase. From the regression results obtained: (1). Funding, exchange rates, and interest rates contribute to the export of footwear in the long run, while in the short term only those that contribute to the export of footwear are related. Interest rates provide a negative relationship with exports in the short term. In this case the government must support increased exports so that footwear can increase. It must also pay attention to interest rates so that MSMEs are not burdened with higher interest rates for capital obtained from banks. (2). Exchange rates, interest rates, and footwear exports do not affect long-term funding. This shows that funding is not in accordance with these variables. The Government must improve itself through various collaborations with various parties. However, in the short term, export. Footwear exports are increasing, so this could make an excuse to increase funding for the footwear sector. (3). Exchange rates, funding and exports of footwear do not affect interest rates both in the short and long term. This is because interest rates depend on other things. (4). Interest rates, funding, and export of footwear are not good in both the short and long term.



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