

## THE URGENCY OF FREE TRADE AGREEMENTS (FTA) AND DIGITAL PLATFORMS FOR MSMEs IN REALIZING A SUSTAINABLE DIGITAL ECONOMY

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*Free Trade Areas (FTAs) offer significant opportunities for Micro, Small and Medium Enterprises (MSMEs) by providing access to international markets without tariff barriers. However, MSMEs often face challenges such as limited understanding of FTA regulations and difficulties in accessing global markets. This article discusses the need to develop a global digital marketplace platform specifically designed for MSMEs with FTA integration to address these challenges. The study uses a qualitative approach, analyzing relevant journals and articles to identify the needs of MSMEs and how digital platforms can support them in maximizing the benefits of FTAs. The discussion aims to provide solutions to market access limitations and information barriers, contributing to the growth and innovation of MSMEs towards a more inclusive and sustainable digital economy.*

**Keywords:** Economy, Free Trade, Digital Platform, Sustainable.

The Free Trade Area offers significant opportunities for SMEs to market their products without tariff barriers thanks to FTAs. However, many SMEs face challenges such as a lack of understanding of FTA regulations and limited access to international markets. This article aims to describe the development of global digital marketplace platforms specifically designed for SMEs. The method used in this article is qualitative, involving the review and analysis of relevant journals and articles to understand the needs of SMEs and how global digital marketplace platforms can meet those needs. The discussion in this article is expected to provide solutions and opportunities for MSMEs to compete optimally in the global market by utilizing the integrity of FTAs through digital platforms, while also realizing an inclusive and sustainable digital economy.

### Introduction

Free Trade Agreements (FTA) are agreements between countries aimed at creating broader free markets to enhance regional economic competitiveness and expand markets for domestic products. These agreements outline new economic directives as a collective effort to boost economic cooperation, which is intended to accelerate economic growth and development in member countries. The goal of FTAs is to eliminate tariff barriers among countries with the vision of integrating economies into a single production base and creating a regional market, which will be achieved through the elimination of intra-regional tariffs and non-tariff barriers (Widyasanti, 2010). This opens up opportunities for member countries, especially Micro, Small, and Medium Enterprises (MSMEs), to grow faster. With the existence of FTAs, MSMEs have broader access to international markets, enabling them to increase export volumes and optimize production capacities. Free trade agreements not only provide greater market access but also open up opportunities to acquire raw materials at lower costs and advanced technologies from partner countries (Prasetyo, 2020).

MSMEs play a crucial role in job creation, poverty alleviation, and more equitable income distribution. In Indonesia, MSMEs contribute more than 60% to GDP and 97% to total employment (Tambunan, 2008). In addition to job creation and GDP contribution, MSMEs also drive innovation and entrepreneurship. MSMEs tend to be more adaptable to market and technological changes, often becoming pioneers in product and service innovation. The presence of MSMEs also helps in more equitable wealth distribution, reducing economic inequality, and improving the welfare of communities in various regions. MSMEs have great potential in driving innovation and inclusive economic growth, especially in sectors that have not been widely explored by large companies (Purnomo & Sidharta, 2016).

MSMEs face many challenges when entering international markets, including limited financial resources, lack of knowledge about foreign markets, and difficulties in building distribution networks. These barriers can hinder their ability to compete effectively on a global scale (Halliday & LI, 2001). MSMEs face various challenges in entering international markets, especially under free trade agreements (FTA). One of the main challenges is non-tariff barriers, which include stringent regulations, certification requirements, and varying quality standards between countries. MSMEs need to deeply understand the regulations in target markets to meet these requirements, often requiring investment in certification and quality standards. For example,

product quality standards in the European Union may differ significantly from those in the United States or Asia, requiring MSMEs to incur additional costs to ensure their products comply with these various standards (Natsuda & Thoburn, 2013). To maximize the benefits of the FTA and overcome these barriers, digital platforms play a key role in supporting MSMEs by providing platforms and services that facilitate various operational aspects such as market information, marketing, sales, and logistics. The use of digital platforms enables MSMEs to expand their market reach globally, optimize business processes, and increase operational efficiency. Additionally, digital platforms can help MSMEs manage supply chains, speed up transaction processes, and provide important data for strategic decision-making (Firdaus, 2023). Thus, digital platforms can reduce trade barriers, enabling MSMEs to expand their customer base, enhance competitiveness, and ultimately drive sustainable economic growth (Alam et al., 2023).

Digital platforms play a crucial role in realizing an inclusive and sustainable digital economy. With these platforms, individuals and MSMEs can more easily connect with global markets, access information, and obtain various services that were previously difficult to reach. This supports economic inclusiveness by providing more equal opportunities to all segments of society (Setiawan & Putri, 2022). Digital platforms such as e-commerce, marketplaces, and social media facilitate MSMEs to engage in cross-border interactions more efficiently and effectively. Digital technology eliminates many traditional barriers, such as geographical boundaries and high transaction costs, allowing MSMEs from various countries to compete in international markets. Digital platforms not only provide access to global markets but also support MSMEs with business management tools, data analysis, and access to financing services (Sugiharto & Wahyuni, 2019). However, providing these platforms presents challenges that need to be addressed, including technology compatibility, data security, and high implementation costs to create a stable platform (Haryanto, 2021). These challenges are also influenced by the digital divide between developing and developed countries, which can hinder effective system integration in the context of free trade. To address this issue, it is important to adopt technological approaches and strengthen international cooperation in data security standards and system integration (Nurhayati & Wijaya, 2020).

### **Research Method**

This research uses a qualitative approach aimed at analyzing the role of FTAs and digital platforms in supporting Micro, Small, and Medium Enterprises (MSMEs) with the goal of creating a sustainable economy. The data used in this research is obtained through a literature study that includes various scientific articles, journals, reports, and other relevant official publications related to the research topic. The data is then thematically analyzed to identify the challenges and opportunities faced by MSMEs in leveraging FTAs through Digital Platforms. This research aims to provide solutions for MSMEs to better utilize FTAs and minimize existing barriers.

### **Result and Analysis**

In the era of globalization and free trade, Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in both national and international economies. However, to maximize their potential, MSMEs must be able to overcome various challenges arising from competition in the global market. Free Trade Agreements (FTAs) provide significant opportunities for MSMEs to expand their market reach and increase competitiveness. However, behind these opportunities, there are significant barriers such as regulatory complexity, export-import requirements, and limited access to global market information.

#### **1. Advantages and Disadvantages of FTAs for MSMEs**

The advantages of FTAs for MSMEs include broader market access, opening doors for MSMEs to enter international markets without tariff barriers, making their products more competitive abroad. Furthermore, benefits include tariff barrier elimination, the removal or reduction of import/export tariffs helps MSMEs lower operational costs, increase profits, and expand their customer base. Additionally, there is the opportunity to access a broader range of raw materials and technologies: MSMEs can import raw materials and advanced technologies at lower costs from FTA partner countries, which can enhance production efficiency and product innovation.

On the other hand, the disadvantages of FTAs for MSMEs include more intense competition. The opening of global markets requires MSMEs to compete with foreign companies that may have larger production capacities and more extensive resources, which can pressure their market position. Moreover, there are regulatory standards for each FTA member country, where each country has different regulations and standards, which can confuse and burden MSMEs, especially if they lack the resources to understand and comply with these requirements. The stronger interest in foreign products also poses a disadvantage for MSMEs: local communities who are more interested in buying foreign products may cause a decline in the local economy of MSMEs in the area.

## 2. Digital Platforms in a Sustainable Global Economy

Digital platforms play a crucial role in realizing a sustainable global economy, particularly in supporting Micro, Small, and Medium Enterprises (MSMEs). With these platforms, MSMEs can reduce operational costs, optimize inventory management, and improve more targeted and environmentally friendly marketing strategies. Digital platforms also empower the local economy by encouraging innovation and entrepreneurship, through the provision of business management tools, data analysis, and financing, enabling MSMEs to develop new products and adapt to market changes. Additionally, digital platforms can be a solution to reducing carbon footprints by optimizing logistics and better distribution, making shipments more efficient and environmentally friendly. According to (Maghfiroh et al., 2023) digital platforms minimize market access barriers and enable economic actors from various levels to participate in the global market, contributing to inclusivity and a sustainable economy, where small business actors can compete in the global market without sacrificing environmental aspects.

Based on the journals and articles researched, several findings related to the advantages and disadvantages of digital platforms for MSMEs were identified. The advantages of digital platforms for MSMEs include the ease of accessing markets, high operational efficiency and flexibility, easy receipt and exchange of information, and the acceleration of transaction processes.

The disadvantages of digital platforms for MSMEs include the lack of knowledge related to Technology, intense competition, high dependency on Platforms, and Data Security issues. Digital platforms create many new opportunities for MSMEs, playing a crucial role in supporting a sustainable global economy. With these platforms, MSMEs can access wider markets, reduce operational costs, and increase efficiency and flexibility in running their businesses. Digital platforms also enable rapid information exchange and simplify transaction processes, allowing MSMEs to respond more effectively to market demands. The adoption of digital technology encourages innovation in product and service development, ultimately increasing the competitiveness of MSMEs in the global market. However, there are challenges that MSMEs must face in utilizing digital platforms, such as the lack of knowledge and technological skills, which often become barriers for many MSMEs that may not fully understand how to maximize the potential of digital platforms. High dependency on platforms can pose risks if there are policy changes or technical disruptions, as well as data security issues, given that MSMEs often lack resources to protect their business information from cyber threats. The increasingly intense competition in digital markets also requires MSMEs to continuously improve their strategies and innovations to remain relevant and competitive. Therefore, it is important for MSMEs to develop appropriate strategies in facing the challenges of the globalization era.

## 3. Integration of FTA Country Systems and Information in Creating a Platform that Supports MSMEs

System and information integration between countries involved in free trade agreements (FTA) plays an important role in supporting the development of Micro, Small and Medium Enterprises (MSMEs). This integration allows FTA countries to create a more effective platform in expanding market access, increasing transparency, and facilitating cross-border trade for MSMEs. According to (Sedyastuti, 2018), to increase competitiveness, collaboration is needed between the government as a policy maker and accompanying institutions, especially microfinance institutions, to facilitate credit access and expand marketing information networks.

The need for increased market access and operational efficiency. With system integration between FTA countries, MSMEs can access real-time market information, which allows them to be more responsive to changes in demand and global market trends. According to (Rufaidah, 2024), an integrated information system also helps MSMEs identify export opportunities, manage supply chains more efficiently, as well as reducing operational costs through eliminating bureaucratic obstacles and optimizing logistics. With easier access to data and information, MSMEs can make more precise and strategic business decisions, which ultimately increases their competitiveness in international markets.

The digital platform developed within the FTA framework provides solutions for MSMEs to carry out international trade more easily. Through this global platform, MSMEs can connect directly with international buyers, access information related to export-import regulations and requirements, and utilize safe and efficient cross-border payment facilities. This digital platform also allows MSMEs to present their products to the global market without having to go through complicated distribution channels, thereby speeding up the trading process and expanding their market reach.

*Pay attention to MSME Data Security on the FTA Digital Platform.* Data security is an important aspect and must be considered in Digital Platforms (Suryawijaya, 2023) especially with platforms that are integrated with FTA. FTA member countries must work together to establish complex technology standards and strong data security to ensure digital platforms can be accessed by MSMEs from various countries, regardless of the level of technological development in their home countries. It aims to create a global digital economy that is inclusive and equally sustainable. Developed countries play an important role as partners in providing technical assistance and resources necessary for the stabilization of the FTA Digital Platform.

To maximize the benefits of FTAs, member countries also need to develop integrated digital platforms that combine API, Blockchain and IoT technologies. This integrated platform will make it easy for MSMEs to access various services such as logistics, payments and marketing through one interface, thereby reducing operational costs and increasing their operational efficiency in international markets. According to (Ali, 2023) shows that the application of IoT, Blockchain, and API is very important in the development of e-commerce because it can increase transparency, security, and efficiency in digital transactions.

### Conclusion

The integration of systems and information between countries in Free Trade Agreements (FTAs) plays a crucial role in supporting the development of Micro, Small, and Medium Enterprises (MSMEs) in the global market. Through system integration, MSMEs can access broader markets, reduce trade barriers, and increase their competitiveness in international markets. Digital platforms are also an important key in the globalization era, providing MSMEs with tools and services that facilitate various business aspects such as information exchange, marketing, and sales. The advantages of digital platforms include high efficiency, broader market access, and the ability to respond quickly to market changes. However, MSMEs must also overcome various challenges, such as lack of knowledge, competition, and data security issues. Therefore, efforts to optimize the utilization of digital platforms and system integration in FTAs must continue, with the aim of creating an inclusive and sustainable digital economy that can benefit all segments of society.

### Recommendation

This article is very limited to the concept of the method used, namely by reviewing the study of documents and research results on FTA. In the future, it is possible to conduct an in-depth study of FTA regulations in various countries and a study of differences that can be used as opportunities for economic development and FTA implementers who are also interested in being involved in economic transfers.

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