EFFECTS OF URBANIZATION AND THE GROWTH OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) AS SUPPORTS FOR THE ECONOMY OF INDONESIA IN AN URBAN CONTEXT

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Abstract: Urbanization's impacts on megacities like Jakarta are highlighted, including positive and negative economic and societal effects. The positive influence of urbanization on economic growth is contrasted with negative consequences such as slum areas, pollution, and congestion. The significance of understanding Micro, Small, and Medium Enterprises (MSMEs) and large corporations' roles in economic growth is stressed. MSMEs' importance in microeconomic growth and the significant role of large corporations in macroeconomic expansion are outlined. The study's objective is stated in the Aim, which aims to analyze urban economic data and theories using a descriptive analysis method to provide deeper insights into factors influencing urban economic growth and highlight collaboration between MSMEs and large corporations for sustainable development. In the Conclusion, the study's findings emphasize the complex interaction between urbanization, economic actors, and growth patterns, underscoring the need for a balanced approach to achieve holistic urban development in the face of urbanization and economic dynamics.

Keywords: Urbanization, Urban, Urban Economy, MSMEs

INTRODUCTION

In the year 2050, it is predicted that nearly 70% of the world's population will reside in urban areas, reflecting the phenomenon of urbanization that has transformed the global society. This projection emerges as a consequence of the accelerating pace of urbanization that is inevitable. Especially in developing countries, urbanization has become a primary driving force for social and economic change. One distinctive feature of this urbanization is the emergence of what is known as megacities or mega-cities, indicating the extraordinary growth of urban settlements (United Nations, 2019).

In the book titled "The New Urban Crisis" authored by Richard Florida, the author asserts that "urbanization has become one of the biggest and most transformative trends in human history." Furthermore, Florida highlights how rapid urbanization has shaped human lifestyles, driven economic growth, but also brought forth significant new challenges (Vergara Perucich, 2019).

In Indonesia, as a country undergoing rapid urbanization, the impact of this global trend is strongly felt. In 2018, a striking figure of almost 55.0% of Indonesia's population, or about 147 million people, had migrated to cities. Particularly, dominant urban areas on the islands of Java and Bali have received the majority of this migration. However, this uneven urbanization has yielded a series of complex issues affecting various aspects of community life within these cities (Roberts et al., 2019).

Another issue arising from rapid urbanization is environmental concerns. According to reports from the global environmental organization World Watch Institute, "unplanned urbanization can lead to increased greenhouse gas emissions, environmental degradation, and a freshwater crisis"(Fox & Goodfellow, 2022; Jardine, 2022; Kuddus et al., 2020). Environmental sustainability has been jeopardized by the rise in the number of motor vehicles, worsening air pollution, and inadequate waste management (Pandey et al., 2022; Streule et al., 2020).

Another challenge faced by urban communities is the increase in crime rates. The concentration of population in urban areas can create an environment conducive to the growth of criminal activities (Ward et al., 2018; Xiong, 2016) Income inequality and limited access to opportunities can also trigger crime growth, putting additional pressure on law enforcement and the judicial system (Onyeneke & Karam, 2022; Xiong, 2015).

Nevertheless, the economic impact of urbanization cannot be ignored. Many developing countries, including Indonesia, rely on economic growth primarily driven by major cities. Over half of Indonesia's Gross Domestic Product (GDP) comes from the urban sector. Jakarta, as Indonesia's capital, plays a special role in its contribution to the national GDP (Helda, N. P., Jamal, A., & Dawood, 2018; Nur Phazillah Helda, Abd Jamal, 2018; Wijayanti & Priyanto, 2022).

It is important to note that these economic benefits are not always evenly distributed across society. Economic growth concentrated in large cities can deepen the divide between urban and rural areas. The higher economic growth in urban areas often isn't matched by similar growth in rural regions, leaving these areas in less favorable economic conditions.

To illustrate further the impact of rapid urbanization on economic growth, a study conducted by the World Bank provides insightful findings. The study indicates that each percentage increase in urbanization in Indonesia only results in a 4.0% increase in per capita GDP. This figure is significantly lower compared to countries like India, which records a 13% increase in per capita GDP with a rise in urbanization percentage, or even

China with a 10% increase. This research underscores that uneven and city-centric economic growth can hinder overall economic growth potential (The World Bank, 2016; Vasylieva & James, 2021).

However, there is significant potential to improve this situation. Economic diversification is one possible solution to address the negative effects of uneven urbanization. By fostering the growth of economic sectors beyond the service and industrial sectors that are typically concentrated in major cities, governments can create more equitable economic opportunities across regions. These measures can also help alleviate pressure on major cities suffering from the adverse impacts of rapid growth.

Ultimately, the rapid pace of urbanization in Indonesia, particularly in major cities like Jakarta, has yielded significant impacts on various aspects of life. While concentrated economic growth in major cities contributes significantly to the GDP, it must be acknowledged that this imbalance can impede equitable economic growth across the nation. Therefore, prudent actions and well-thought-out strategies are needed to address these urbanization challenges and ensure that economic growth positively affects all layers of society. By taking wise steps in managing the pace of urbanization, Indonesia can achieve sustainable and inclusive economic growth in the future.

LITERATURE REVIEW

In the context of scientific terminology, a brief opening description of Jakarta's 2019 Gross Regional Domestic Product (GRDP), Gross Domestic Household Expenditure (GDHE), and Gross Regional Domestic Income (GRDI) can be outlined as follows:

The economic landscape of Jakarta, Indonesia, in the year 2019 is characterized by the interplay of three key indicators: Gross Regional Domestic Product (GRDP), Gross Domestic Household Expenditure (GDHE), and Gross Regional Domestic Income (GRDI). The GRDP represents the total economic output generated within the region, encompassing various sectors and activities. Concurrently, the GDHE provides insights into the consumption patterns and expenditure behaviors of households within the same region, reflecting their economic activities and preferences. Complementing these measures is the GRDI, which signifies the cumulative income earned by all economic entities operating within Jakarta, contributing to the overall economic vitality. Together, these indicators form a comprehensive framework to assess and analyze Jakarta's economic performance, expenditure dynamics, and income distribution throughout the reference year

Figure 1: pdrb-adhb-dan-adhk-dki-jakarta-2019

Source:
https://statistik.jakarta.go.id/pdrb-adhb-dan-adhk-dki-jakarta-2019/
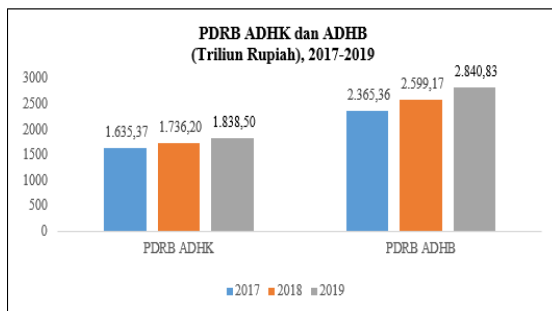
From the graph/image 1, it can be observed that the growth of Jakarta's Gross Domestic Product (GDP) in the above data indicates that Jakarta's Gross Regional Domestic Product (GRDP) is approximately Rp. 2.840.83 trillion. This data signifies that Jakarta's GDP alone is already able to cover or constitute the largest income among cities in Indonesia, even if the National Indonesian State Budget (APBN) is at around Rp. 2.200 trillion

Figure 2: 2020 State Budget Structure

Source : Kementerian Keuangan RI 2020.

Referring to Figure 2 above, it is evident that the 2020 Indonesian State Budget (RAPBN) was set at Rp. 2.221.5 trillion, with the largest portion derived from the services sector. However, the actual State Budget (APBN) was Rp. 2.233.2 trillion, resulting in a deficit of Rp. 307.2 trillion. From the aforementioned data, it is also noted that nearly 60% of the revenue is contributed by the Micro, Small, and Medium Enterprises (UMKM) sector. The UMKM sector encompasses various criteria, as outlined below:

Table 1 : Micro, Small, and Medium Enterprises (MSMEs)

Ukuran Usaha	Kriteria	
	Aset (tidak termasuk tanah & bangunan tempat usaha)	**Omzet** (dalam 1 tahun)
Usaha Mikro	Maksimal Rp 50 juta	Maksimal Rp 300 juta
Usaha Kecil	Lebih dari Rp 50 juta - Rp 500 juta	Lebih dari Rp 300 juta - Rp 2,5 miliar
Usaha Menengah	Lebih dari Rp 500 juta - Rp 10 miliar	Lebih dari Rp 2,5 miliar - Rp 50 miliar
Usaha Besar	Lebih dari Rp 10 miliar	Lebih dari Rp 50 miliar

Source: UU No.20/2008 about Micro, Small, and Medium Enterprises (MSMEs)

According to Table 1 above, the largest contributor to Indonesia's economy is found within the Small Business category with a turnover range of Rp. 50 million to Rp. 500 million. The Indonesian State Budget (RAPBN) for the year 2020 was set at Rp. 2.221.5 trillion. RAPBN is a budget plan prepared by the government to regulate the income and expenditures of the country for one fiscal year. This figure reflects the government's estimated income and expenditures for the year (Krisnawati et al., 2020; Nisak, 2022; Syamsurijal, 2019).

The statement highlights that the services sector is the largest contributor within the RAPBN. The services sector encompasses various economic activities such as financial services, transportation, trade, and others. This underscores the significance of the services sector in the national economy as a significant source of government revenue.

However, the statement also mentions that the actual State Budget (APBN) is Rp. 2.233.2 trillion, which is higher than the RAPBN. The difference between RAPBN and APBN, which is a deficit of Rp. 307.2 trillion, indicates a shortfall in the budget plan. Budget deficit occurs when government expenditures exceed expected revenues.

Furthermore, the statement reveals that around 60% of the country's revenue is contributed by the Micro, Small, and Medium Enterprises (MSMEs) sector. MSMEs are business entities on a smaller scale, including micro, small, and medium-sized enterprises. A contribution of 60% from this sector underscores the significance of MSMEs in the national economy as a significant source of income.

It's important to remember that the MSME sector has various criteria, defined by Law No. 20/2008 concerning Micro, Small, and Medium Enterprises. These criteria encompass factors such as turnover, assets, and the number of employees. Based on the statement, the largest contribution to Indonesia's economy comes from the Small Business category with a turnover in the range of Rp. 50 million to Rp. 500 million. This illustrates that the MSME sector in various sizes makes a significant contribution to the country's economy.

Overall, the statement depicts the complexity and dynamics of Indonesia's government budget, emphasizing the services sector and the crucial role of the MSME sector in contributing to the country's revenue. In this context, it's important for the government

to ensure sustainable balanced income and expenditures, as well as provide appropriate support for the growth of the MSME sector that underpins the national economy.

METHOD

The method to be employed in this research is the descriptive analysis method. The descriptive analysis method is a research approach used to vividly and comprehensively depict or explain a phenomenon or situation. The primary objective of this method is to provide an accurate and detailed overview of the topic under discussion, without manipulating variables or making predictions.

In this context, the author will analyze and explain urban economics, with a specific focus on the city of Jakarta. The study will employ data and theory to support the conducted analysis. The descriptive analysis method will aid the author in presenting a comprehensive picture of the impact of urbanization, the roles of Micro, Small, and Medium Enterprises (UMKM) and large-scale entrepreneurs in economic growth, as well as the challenges faced by cities like Jakarta.

During the process of descriptive analysis, the author will likely gather data related to economic growth, urbanization, the roles of UMKM and large-scale entrepreneurs, as well as the positive and negative impacts of urbanization in Jakarta. This data will then be meticulously analyzed to identify patterns, trends, and relationships among these variables. The analysis results will be elaborated upon in detail within this paper, providing an in-depth understanding of the analyzed aspects.

The advantage of the descriptive analysis method is its focus on presenting information objectively and in detail. However, this method does not aim to establish cause-and-effect relationships or test hypotheses. Instead, its goal is to offer a rich and profound overview of the studied topic, enabling readers to comprehend its context and complexity.

By employing the descriptive analysis method, this paper will provide a better insight into urban economics by elucidating relevant data, theory, and information. As a result, readers can gain a more comprehensive understanding of the discussed topic

RESULT AND DISCUSSION

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in the economic landscape of Indonesia, as reflected in their contribution to the Gross Domestic Product (GDP) from 2015 to 2019. During this period, MSMEs emerged as a significant driving force behind economic growth, solidifying their status as a fundamental component of the national economy.

The years between 2015 and 2019 witnessed the dynamic expansion of the MSME sector, underscoring its capacity to foster economic development. The contributions of MSMEs

to the GDP during this period showcased a notable trend that warrants closer examination. This analysis aims to explore the extent of MSMEs' involvement in shaping Indonesia's economic trajectory and highlights the implications of their contribution on the overall economic landscape.

By delving into the nuanced interactions between MSMEs and the GDP within this timeframe, a comprehensive understanding of the multifaceted role played by these enterprises in bolstering Indonesia's economic vitality can be attained. This brief overview sets the stage for a deeper investigation into the specific mechanisms through which MSMEs have positively influenced Indonesia's GDP during the period from 2015 to 2019.

Figure 3: Contribution of MSMEs to Indonesia's GDP (2015-2019)

Source: BPS:
https://www.bps.go.id/pressrelease.html?katsubjek=11&Brs%5Btgl_rilis_ind%5D=&Brs%5Btahun%5D=&yt0=Cari

Data from the Indonesian Ministry of Cooperatives and Small and Medium Enterprises (MSMEs) in 2018 indicates that the number of MSME participants was 64.2 million, accounting for 99.99% of the total number of business participants in Indonesia. MSMEs contribute to workforce absorption with 117 million workers, or 97% of workforce absorption in the business world (Kemenkeu, 2022; Kemenkopukm.go.id, 2019; Putri, 2023). nother significant aspect is the contribution of MSMEs to Indonesia's economy (Gross Domestic Product), amounting to 61.1%, while the remaining 38.9% is attributed to large-scale business participants numbering 5,550, or 0.01% of the total number of business participants (Kemenperin, 2016; Sarfiah et al., 2019; Thaha, 2020).

Number of MSME Participants

The data reveals that the number of MSME participants is 64.2 million, constituting 99.99% of the total number of business participants in Indonesia. This underscores the dominance of MSMEs in terms of quantity and distribution. The implication is that the MSME sector is highly even and widely dispersed throughout the country. However, it

should be noted that a large number can also reflect the complexity and challenges in effectively managing and overseeing this sector.

Workforce Absorption

The data indicates that MSMEs provide employment opportunities for 117 million workers, accounting for approximately 97% of the total workforce absorption in the business world. This demonstrates that MSMEs are not only a major contributor to economic growth but also a crucial driver of employment, playing a pivotal role in job creation. The implication is that the MSME sector has a direct impact on societal well-being through job creation.

Contribution to GDP

The data reveals that the contribution of Micro, Small, and Medium Enterprises (MSMEs) to Indonesia's economy (Gross Domestic Product or GDP) is 61.1%. This underscores that the MSME sector has a significant impact in generating economic value. The implication is that although individual or unitary MSME businesses may be of smaller scale, their aggregate numbers and contributions are substantial.

Contribution of Large-Scale Enterprises

Despite constituting only 0.01% of the total, large-scale business participants contribute 38.9% to the GDP. This illustrates that although their numbers are limited, large-scale enterprises possess a significant impact in terms of economic value. The implication is that even though their quantity is limited, the large-scale sector has the potential to contribute substantially to the GDP.

The analysis of this data demonstrates the crucial role of the MSME sector in Indonesia's economy. They not only provide substantial employment opportunities but also significantly contribute to economic value in terms of GDP. In contrast, although large-scale business participants are fewer in number, they wield a considerable impact on the GDP.

This data also underscores the importance of greater attention and support towards the MSME sector. Policies strengthening MSMEs can enhance inclusive and sustainable economic growth. Furthermore, the data illustrates the balance that needs to be maintained between MSMEs and large-scale enterprises in achieving balanced economic growth.

The high contribution of MSMEs is attributed to the fact that the majority of business participants in Indonesia come from the MSME sector. A total of 64.2 million, or 99.99%,

of business participants in Indonesia are MSMEs. This breakdown consists of 63.4 million Micro Businesses (UMi), 783.1 thousand Small Businesses (UK), and 60.7 thousand Medium Businesses (UM).

Composition of MSMEs by Type

a. **Micro Businesses (UMi):** Data indicates that 63.4 million business participants fall under the category of Micro Businesses. UMi represents the smallest form of business involving a few individuals or even single individuals operating on a very limited scale. Due to their substantial numbers, UMi has a significant impact on employment and overall economic activity. However, challenges faced by UMi include limited capital, access to broader markets, and operational efficiency.
b. **Small Businesses (UK):** The number of Small Businesses is approximately 783.1 thousand. UK typically operates on a larger scale compared to UMi, yet still falls under certain thresholds in terms of turnover, assets, and the number of employees. UK has the potential for further growth with better access to resources and markets.
c. **Medium Businesses (UM):** The number of Medium Businesses reaches 60.7 thousand. UM operates on a larger scale compared to UMi and UK. They have the potential to contribute more significantly to innovation, exports, and macroeconomic growth. However, UM may still face some challenges in terms of management and financing.

Implications of MSME Composition

This data highlights that the majority of business participants in Indonesia are MSMEs, especially within the Micro Business category. The implication is that MSMEs play a crucial role in generating employment, driving local economic growth, and maintaining a more equitable economic distribution.

Diversification and Economic Growth

The diverse composition of MSMEs, ranging from Micro to Medium Businesses, provides insight into the variety of businesses in Indonesia. This diversification is essential for promoting more inclusive and sustainable economic growth. However, it is equally important to provide appropriate support for each category of MSMEs based on their specific needs and challenges.

Challenges and Opportunities

Despite the significant contribution of MSMEs, challenges such as limited access to capital, markets, and knowledge still need to be addressed. This creates opportunities for the government, financial institutions, and other organizations to provide support in the form of education, training, financing, and market development. The data on MSME composition underscores the importance of supporting holistic growth and development of the MSME sector, taking into account the differences in scale and characteristics of each type of business. This is a crucial step in creating a sustainable and inclusive economy in Indonesia.

Another aspect is Large Enterprises (LE), totaling 5.5 thousand or 0.01% of the overall business participants in Indonesia. The workforce absorbed by these business units is 3.6 million, or 3.0% of the total workforce in Indonesia. This can be connected to the broader theme that urbanization brings changes to urban areas, which then become hubs of economic growth, with the most significant contributor being MSMEs.

Large Enterprises (UB) and Workforce

Data indicates that the number of Large Enterprises (UB) is 5.5 thousand, constituting only 0.01% of the total business participants in Indonesia. However, despite their small numbers compared to MSMEs, UBs have a significant impact in terms of workforce. Large Enterprises provide employment for 3.6 million workers, accounting for approximately 3.0% of the total workforce in Indonesia. This demonstrates that although the number of LEs is limited, their capacity to create employment per business unit is substantial.

MSME Contribution in Urbanization

Urbanization leads to significant shifts in economic structure, with cities becoming centers of economic growth. The data illustrates that the most significant contribution in terms of business participants comes from the MSME sector, which is also closely tied to urbanization. Urbanization fuels business growth in urban areas, and MSMEs are a sector more adaptable to the diverse conditions of cities.

Comparison of MSME and UB Contributions

Despite the significantly larger number of MSMEs compared to LEs, the contrast in their contributions to workforce and GDP is notable. MSMEs provide employment for over 100 million workers and contribute 61.1% to the GDP. On the other hand, although LEs are fewer in number, they still hold a crucial role in generating employment and economic value. This comparison reflects the diversity and complexity of the economic structure in Indonesia. The implication of this data is that economic diversity is essential for balanced

and inclusive growth. MSMEs play a vital role in providing employment and local economic growth. While LEs are limited in number, they remain important in creating significant employment opportunities. This highlights the need for a balance between the MSME and LE sectors to create a sustainable and inclusive economy amidst urbanization and economic development.:

Sustaining Indonesia's Economic Growth and Urban Development

In the future, UMKM entrepreneurs should also be equipped with complementary skills that support their technical expertise. This ensures that they possess not only the skills to create goods or services but also soft skills that enable them to compete effectively in local and global contexts. Developing broader skills and capabilities for UMKM, including soft skills, is crucial to address challenges in both local and global contexts.

Role of MSMEs in Economic Growth

MSMEs are the backbone of Indonesia's economy, contributing significantly to employment, income, and economic growth. In major cities or Mega Cities, MSMEs play a crucial role in creating a dynamic and diverse economic environment. Hence, providing support to MSMEs will have a positive impact on overall economic growth.

Soft Skills in Local and Global Contexts:

Soft skills, including communication, collaboration, leadership, and adaptability, are crucial in today's complex and ever-changing business environment. In the local context, soft skills help MSMEs interact with customers, business partners, and the community. In the global context, soft skills enable MSMEs to compete in a more open global market.

CONCLUSION

Supporting MSMEs as a pillar of Indonesia's economy should encompass favorable economic policies that promote their advancement, both in urban and non-urban areas. Moreover, enhancing the support for MSMEs seeking to scale up their businesses is essential. For instance, transitioning from micro to small enterprises, and from small to medium enterprises, should be facilitated.

Additionally, MSMEs need support in terms of digital infrastructure, access to financing or working capital, Halal/SNI certifications, entrepreneurship mindset, export facilitation to discover new markets and avoid market saturation. Finally, creating an urban

landscape conducive to business (Smart City) is important. Technological ease and access to information provide opportunities for MSMEs to thrive amid global economic fluctuations.

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