

Indonesia's Compliance with ACIA and its Implications for MSME Development

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ABSTRACT

Background: Indonesia's engagement with the ASEAN Comprehensive Investment Agreement (ACIA) is intended to promote regional investment flows and support domestic economic development, especially for Micro, Small, and Medium Enterprises (MSMEs). Despite formal compliance, structural and institutional barriers remain, limiting the benefits MSMEs receive.

Aims: This study aims to evaluate the extent of Indonesia's compliance with ACIA through three stages (output, outcome, and impact) and to analyse its influence on MSME development in Indonesia.

Methods: A descriptive qualitative approach was adopted, grounded in Ronald B. Mitchell's compliance theory. Data were obtained from policy documents, academic literature, and official reports. Thematic content analysis was used to assess how formal commitments translate into domestic policy adjustments and real economic impacts for MSMEs.

Result: Indonesia has shown formal compliance by ratifying ACIA via Presidential Regulation No. 49/2011. Policy adjustments include initiatives promoting partnerships between foreign investors and local MSMEs. However, the impact remains limited due to poor digital literacy, weak institutional support, and a lack of targeted incentives. Although access to capital and markets has marginally improved, substantial transformation has yet to occur.

Conclusion: While Indonesia has formally complied with ACIA and introduced policies to empower MSMEs, the effectiveness of these measures is hindered by systemic weaknesses. The compliance process reflects symbolic and procedural alignment but lacks substantive integration at the grassroots economic level. Future efforts must focus on building institutional capacity, improving MSME readiness, and designing inclusive financing schemes. This study contributes to international regime theory by bridging global policy frameworks with domestic development agendas, positioning MSMEs as critical agents in the global political economy.

Keywords: International Compliance, ACIA, MSMEs, ASEAN, Investment Regime, Mitchell

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia are a key pillar in national economic development. Its crucial role in creating jobs, reducing poverty, and contributing to Gross Domestic Product (GDP), makes this sector strategic in sustaining national economic resilience (Kusumaningtyas et al., 2022; Nasution et al., 2025; Nursini, 2020). Based on BPS 2018-2019 data, more than 98% of business units in Indonesia are MSMEs, with the majority being micro businesses. This shows that the potential of MSMEs is very large in driving the economy, especially at the local level (Lin et al., 2022; Singh & Paliwal, 2017; Varga, 2021). In the context of globalisation and regional economic integration through the ASEAN Economic Community (AEC), Indonesia has become part of the ASEAN Comprehensive Investment Agreement (ACIA) which is designed to encourage foreign direct investment (FDI) into the ASEAN region, including into sectors relevant to the people's economy such as MSMEs (Anggadini et al., 2023; Mustafa & Komalasari, 2024).

However, there is a gap between the idealised expectations and the real conditions on the ground. In the ideal scheme, ACIA is expected to open wider access for MSMEs to resources, technology, and global markets through partnerships with foreign investors. However, in reality, MSME actors in Indonesia still face various structural barriers, such as limited capital, low human resource capacity, limited technology utilisation, and narrow access to foreign markets (Aggarwal & Joshi, 2024; Saifurrahman & Kassim, 2023).

Furthermore, the dominance of large businesses in the investment realm tends to marginalise the role of MSMEs in regional supply chains. This situation shows that although Indonesia has formally complied with ACIA, its implementation has not been fully orientated towards strengthening MSMEs as strategic economic actors (Sulaeman et al., 2024; Suryawati et al., 2025). This provides an important opportunity for research that critically examines Indonesia's compliance with the ACIA regime and its impact on the development of MSMEs. Since the ratification of ACIA through Presidential Regulation No. 49 Year 2011, the Government of Indonesia has initiated a number of collaborative policies, such as encouraging foreign investors to partner with MSME actors.

However, the extent to which the policy is effective in improving the quality and competitiveness of MSMEs has not been widely evaluated in an academic context. Therefore, this research becomes relevant to provide a more complete picture of the implementation of ACIA in supporting the strengthening of the MSME sector in Indonesia. Although various studies have discussed ASEAN economic integration and its implications for the investment sector, studies that specifically highlight the link between Indonesia's compliance with the ACIA regime and its influence on MSMEs are still minimal (Marchese, 2021; Nuryanah et al., 2023; Waspiah et al., 2020). Most of the literature focuses on macro policy aspects or foreign policy dynamics, without exploring how ACIA instruments are actually applied in the domestic microeconomic context.

The novelty of this research lies in its focus on analysing the stages of Indonesia's compliance, including output, outcome, and impact. As well as how this process contributes to policy transformation and MSME empowerment. By using the theoretical approach of Ronald B. Mitchell on compliance in international regimes (Gallo-Cajiao et al., 2023; Maf'ullilahi Zakinah et al., 2024). this study attempts to assess the effectiveness of ACIA as an instrument of people's economic development in Indonesia.

The selection of Indonesia's compliance variable with ACIA is based on the importance of ensuring that the country's involvement in international agreements is not only symbolic, but also

results in domestic policies that favour national interests (Karim, 2023; Wicaksana & and Karim, 2023). In this context, Indonesia is required to show that its compliance with ACIA is not only normative, but also substantive, namely through real policies that are able to increase the capacity of MSMEs as a pillar of the national economy. The focus on this variable also reflects the importance of state transparency and accountability in managing the impact of economic liberalisation on strategic sectors in the country. Based on this background, this research aims to evaluate the extent to which Indonesia's compliance with the ACIA regime has an impact on the development of Indonesian MSMEs. This research is expected to make an academic contribution to the enrichment of international relations studies, particularly in the study of international regimes and global political economy. In addition, practically, the results of this research are expected to be a reference in formulating more inclusive investment policies, as well as supporting the creation of a resilient, independent, and competitive MSME ecosystem in regional and global markets.

METHOD

Research Design

This research uses a descriptive qualitative approach, which aims to describe and analyse Indonesia's compliance with the ACIA regime and its implications for the development of MSMEs. This approach was chosen because it is in line with the research objectives that focus on an in-depth understanding of socio-political phenomena and international policies in the context of international relations. This research is non-empirical and document-based, without involving primary data collection through interviews or surveys.

Participant

The participants in this study consisted of relevant actors involved in the formulation, implementation, and monitoring of investment and MSME policies in Indonesia. They include government officials (such as the Ministry of SMEs and BKPM), MSME actors, as well as experts or academics familiar with ACIA and the ASEAN investment regime. Data was obtained through documentation and literature review, rather than direct interviews due to the non-empirical nature of this research.

Population and the Methods of Sampling, Instrumentation

Data sources in this research consist of policy documents, laws and regulations, scientific journals, articles, and official reports relevant to the focus of the study. The sampling technique was purposive, which is the deliberate selection of data based on the relevance and relevance to the research objectives, which were developed based on the indicators of Ronald B. Mitchell's compliance theory (output, outcome, impact). Mitchell's compliance theory indicators (output, outcome, impact). Assessment was conducted using qualitative techniques in the form of content analysis, rather than quantitative scoring. Data validity was tested through source and method triangulation techniques.

Instrument

The main instrument in this study was a document analysis guideline developed based on Mitchell's theoretical framework. This instrument includes indicators: (1) output - the existence of formal regulations related to ACIA; (2) outcome - domestic policy adjustments; and (3) impact - real implications for MSMEs. This guideline is used to review the content of documents, policies, and secondary data.

Procedures and Time Frame

The research was conducted in several stages: (1) secondary data collection through literature study; (2) data screening and selection using relevance criteria; (3) document content analysis using a descriptive-qualitative approach; and (4) interpretation of results using international regime compliance theory. The research process was conducted for approximately 4 months, from January to April 2022.

Analysis Plan

Data were analysed using thematic content analysis method, through a process of condensation, presentation and inference. Findings were categorised based on the three main indicators of Mitchell's theory and compared with previous studies to identify consistency or differences in findings.

RESULTS AND DISCUSSION

Result

This research found that Indonesia's compliance with the ASEAN Comprehensive Investment Agreement (ACIA) can be analysed through three main stages as proposed by Ronald B. Mitchell, namely output, outcome, and impact. Mitchell, namely *output*, *outcome*, and *impact*. These three stages represent the form of a country's compliance with international regimes, from normative commitments to policy impacts at the implementative level. In the Indonesian context, these three stages appear to be present gradually and provide a complete picture of how international agreements are responded to by domestic policies within the framework of ASEAN regional economic integration. At the output stage, Indonesia has demonstrated formal compliance through the ratification of the ACIA as outlined in Presidential Regulation No. 49 Year 2011. This action is an indicator that institutionally, Indonesia has agreed to the basic principles of investment liberalisation at the core of ASEAN economic cooperation.

Furthermore, at the outcome stage, this research shows that Indonesia has started to adjust national policies to support the implementation of ACIA principles. One of the strategic steps is the collaboration between the Investment Coordinating Board (BKPM) and the Ministry of Cooperatives and SMEs, which encourages foreign investors to establish partnerships with local MSME players. This policy is a concrete form of internalising international norms into the national policy system. This stage is important because it shows that compliance is not only symbolic, but has begun to be translated into policy interventions that favour the people's economy. At the impact stage, it was found that the potential of MSME-investor partnerships can provide access to capital, technology, and global markets. However, the realisation of this potential has not been optimal due to limited digital literacy, conventional MSME management, and limited partnership-based financing regulations. In addition, there are no regulatory or fiscal incentives that specifically encourage investors to choose to partner with MSMEs over large companies that are better prepared in terms of business structure.

One of the main challenges faced is the lack of digital literacy and managerial readiness of MSME players, which hinders their ability to establish and maintain strategic partnerships with foreign investors. In addition, limited access to partnership-based financing is still a crucial issue, mainly because the financing schemes prepared have not fully favoured the needs of micro and small enterprises. Evaluation of the policy impact is still minimal, making it difficult to measure the extent to which ACIA integration has actually provided structural changes for MSME growth.

Thus, it can be concluded that while Indonesia has demonstrated formal compliance and started to move towards domestic policy transformation, the effectiveness of such compliance in delivering real impact to the MSME sector still faces complex challenges. The compliance process is progressive, but still needs strengthening in terms of institutional engagement, supervision, and capacity building of businesses. Compliance with international regimes such as ACIA needs to be accompanied by domestic readiness so that the potential benefits can be realised to the fullest and sustainable in supporting national economic growth through MSMEs.

Table 1. Indonesia's Compliance with the ASEAN Comprehensive Investment Agreement (ACIA) Regime on the Development of Indonesian MSMES

Compliance Stage	Key findings	Evidence of policy/programme	Challenges/inequalities
output	Indonesia's formal commitment to ACIA	Ratification of ACIA through Presidential Regulation No. 49 Year 2011	Normative implementation does not automatically encourage the readiness of derivative regulations at the technical level.
outcome	Adjustment of national policies that promote inclusive investment.	BKPM-Kemenkop UKM collaboration: requiring partnerships between foreign investors and local MSMEs.	Weak partnership monitoring mechanisms; lack of quantitative evaluation and tangible incentives for investors
impact	Opportunities to improve the competitiveness of MSMEs, but implementation is still limited.	Access to capital, technology, and global markets is starting to open up for MSMEs.	Low digital literacy and managerial capacity of MSME players; limited access to financing.

Discussion

The findings of this study confirm the relevance of the theory of international regime compliance proposed by Ronald B. Mitchell, which divides state compliance into three categories: output, outcome, and impact (Rahmi, 2023). Mitchell, who divides state compliance into three categories: output, outcome, and impact (Rahmi, 2023). At the *output* stage, Indonesia demonstrated formal compliance through the ratification of the ASEAN Comprehensive Investment Agreement (ACIA) in Presidential Regulation No. 49 of 2011 (Sutanto, 2021). This step reflects Indonesia's willingness to align itself with the principles of regional investment liberalisation. This stage is the initial foundation that normatively, Indonesia has fulfilled its international commitments as an active member in ASEAN economic integration. The ratification is a declarative form of adopting international policies into the national legal system, as Mitchell explains as evidence of state readiness to internalise international norms.

However, compliance does not stop at the formal level. At the *outcome* stage, Indonesia has begun to show adjustments in domestic policy behaviour, as seen in policies that encourage foreign investors to partner with local MSME players through coordination between BKPM and Kemenkop UKM. This adjustment is a manifestation of the internalisation of ACIA principles into a more inclusive national economic development strategy. However, when it comes to the *impact* stage, the effectiveness of such compliance has not been fully achieved. Despite positive opportunities-such as increased access to capital, technology, and global markets-Indonesian SMEs still face structural

challenges such as weak digital capacity, business literacy, and partnership infrastructure (Hidayat & Saripulloh, 2025; Pakpahan et al., 2025). These findings support Mitchell's theory, but also suggest that the domestic context may hinder the full realisation of international regime compliance in the form of substantial impacts.

The main contribution of this research is to provide a new perspective in the study of international relations, particularly in the study of international regimes and ASEAN political economy. This research expands the scope of application of Mitchell's theory by placing it contextually on a micro issue: strengthening MSMEs. Previously, most studies on ACIA and the ASEAN economic regime focussed more on the macro-scale aspects of trade or economic diplomacy. By linking state compliance with international regimes with its effects on domestic economic actors (MSMEs), this study makes a theoretical contribution in extending the reach of regime analysis to the grassroots level of the economy. It shows that foreign policies and international agreements do not stand alone, but must be assessed by their impact on people's socio-economic lives.

The *novelty* of this study lies in its integrative approach, which combines international policy analysis with local economic development issues. In the Indonesian context, such studies are still relatively limited. This research presents an analytical model that links international policy ratification with the dynamics of MSME engagement in investment liberalisation. This three-indicator compliance-based approach allows for a more systematic and measurable evaluation in assessing the effectiveness of international agreement implementation. Thus, this research not only fills a gap in the academic literature, but also provides a basis for policymakers to design more participatory MSME engagement strategies within the framework of regional economic integration.

CONCLUSIONS

Based on the results and discussion of the research, it can be concluded that Indonesia's compliance with the ASEAN Comprehensive Investment Agreement (ACIA) has been reflected through three main *stages-output, outcome, and impact-which* indicate the existence of formal commitments, domestic policy adjustments, and potential impacts on strengthening the MSME sector. The ratification of the ACIA through Presidential Regulation No. 49/2011 marks Indonesia's seriousness in following the ASEAN investment regime, while the implementation of policies that encourage partnerships between foreign investors and MSME actors shows efforts to internalise international norms into national development strategies. Despite the potential positive impact on MSMEs, the realisation still faces various structural barriers that require further policy intervention. This research confirms that compliance with international agreements must be accompanied by domestic readiness in order to generate inclusive and sustainable economic benefits, and opens up space for new contributions to the study of international relations by placing MSMEs as an important subject in global policy dynamics.

AUTHOR'S CONTRIBUTION

MR is responsible for formulating the background of the problem, developing the theoretical framework of international regime compliance, and analysing the output and outcome stages of the policy. DJ contributed to the review of domestic policies and the integration of investment policies with the MSME sector, as well as drafting conceptual discussions and policy recommendations. FR refined the methodological design, conducted document analysis and source triangulation, and

formulated conclusions and academic contributions. All authors were actively involved in the drafting and final review of the manuscript, and approved the overall content of the article.

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