

# The Effectiveness of Customs Policy on the Internationalization Process of Furniture MSMEs in Pasuruan: A Case Study Based on Regulatory Compliance

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## Abstract

This study aims to analyze the effectiveness of customs policy on the internationalization process of furniture MSMEs in Pasuruan by emphasizing the aspect of regulatory compliance. This study uses a qualitative approach with a case study method on one of the furniture MSMEs that has carried out export activities. Data collection was carried out through in-depth interviews, observations, and documentation related to export procedures and compliance with customs requirements. The results of the study show that customs policy has a significant role in determining the smooth export process, especially in the aspects of administration, classification of goods, and the fulfillment of export documents. The level of understanding of MSME actors with applicable regulations is a key factor in increasing compliance and minimizing export barriers. However, procedural complexity, limited regulatory literacy, and dynamic policy changes are still the main obstacles in the internationalization process. On the other hand, government support through socialization, digitization of customs services, and export facilitation has been proven to be able to increase the readiness of MSMEs to penetrate the global market. This study concludes that the effectiveness of customs policies is not only determined by the regulations themselves, but also by the level of adaptation and compliance of MSMEs with applicable regulations. The implications of this study emphasize the importance of increasing legal literacy and strengthening the assistance system for MSMEs to increase export competitiveness sustainably.

**Keywords:** Customs, Regulatory Compliance, Furniture MSMEs, Internationalization, Export.

## 1. Introduction

The development of globalization and liberalization of international trade has opened up wider opportunities for Micro, Small, and Medium Enterprises (MSMEs) to penetrate the global market. In Indonesia, MSMEs have a significant contribution to the national economy, both in terms of labor absorption and contribution to the Gross Domestic Product (GDP). However, the involvement of MSMEs in export activities is still relatively low compared to their potential. One of the main factors that affects the low level of internationalization of MSMEs is the complexity of regulations, especially those related to customs policies and legal compliance in the export process (Tambunan, 2020; OECD, 2021). In this context, customs policies not only function as an instrument to supervise cross-border trade, but also as a trade facilitation mechanism that can encourage or hinder the export performance of MSMEs.

In recent years, the Indonesian government has made various reform efforts in the customs sector to improve the efficiency and transparency of export services. Digitizing the



customs system, such as the implementation of the Indonesia National Single Window (INSW), is one of the strategic steps to simplify the export administration process and reduce bureaucratic obstacles (Suryadi et al., 2022). In addition, policies to simplify export procedures and provide incentives for exporters are also expected to increase the participation of MSMEs in international trade. However, the implementation of these policies at the business level still faces various obstacles, especially related to low regulatory literacy and limited human resource capacity in understanding customs procedures (Prasetyo & Kurniawan, 2021).

Compliance with regulations is a crucial aspect in determining the success of MSMEs in carrying out export activities. Compliance not only includes the fulfillment of administrative documents, but also an understanding of the classification of goods (Harmonized System / HS Code), rules of origin, and international standards that apply in export destination countries (Wulandari et al., 2023). Non-compliance with regulations can cause various consequences, such as shipping delays, administrative fines, and rejection of goods in the destination country. Therefore, the level of regulatory compliance is an important indicator in assessing the effectiveness of customs policies on the internationalization process of MSMEs (Rahman et al., 2020).

The furniture industry sector is one of the creative industry subsectors that has great potential to be developed in the export market. Indonesian furniture products are known to have advantages in terms of design, quality of raw materials, and high aesthetic value. East Java, especially the Pasuruan region, is one of the furniture production centers that is quite developed and has the potential to penetrate the international market. However, furniture MSME actors in this area still face various challenges in the export process, especially related to compliance with customs regulations and international standards (Hidayat & Santoso, 2022). Limited access to information, lack of assistance, and lack of understanding of export procedures are the main obstacles to increasing the competitiveness of furniture products in the global market.

On the other hand, the effectiveness of customs policies is also influenced by the extent to which the policy is able to provide convenience as well as legal certainty for business actors. Policies that are too complex and not adaptive to the needs of MSMEs can be a disincentive for business actors to export (World Bank, 2020). On the other hand, transparent, simple, and digital-based policies can increase efficiency and reduce logistics costs, thereby encouraging an increase in the export performance of MSMEs (Nguyen & Tran, 2021). Therefore, a comprehensive evaluation of the implementation of customs policies, especially in the context of MSMEs, is needed to ensure that the policy is truly effective in supporting the internationalization process.

Previous research shows that there is a significant relationship between regulatory compliance and MSME export performance. MSMEs that have a high level of compliance tend to be more able to access international markets in a sustainable manner compared to MSMEs that have a low level of compliance (Sari & Nugroho, 2023). In addition, institutional support, such as export training, mentoring, and access to regulatory information, also plays an important role in increasing the readiness of MSMEs to face global challenges (Fitriani et al., 2024). Thus, the effectiveness of customs policies cannot be separated from internal factors of MSMEs as well as external support from the government and related institutions.

Based on this description, it can be concluded that although the customs policy has undergone various reforms, there is still a gap between the policies designed and their implementation at the level of MSME actors. Therefore, this research is important to conduct an in-depth analysis of the effectiveness of customs policies on the internationalization

process of furniture MSMEs in Pasuruan, with a focus on regulatory compliance aspects. This research is expected to make a theoretical contribution to the development of studies related to international trade and MSMEs, as well as a practical contribution for the government in formulating policies that are more responsive and adaptive to the needs of business actors in the era of globalization.

### **1.1. Problem Formulation**

Based on the background that has been described, the formulation of the problem in this study is as follows:

- a) How is the implementation of customs policy in the export process for furniture MSMEs in Pasuruan?
- b) What is the level of understanding and compliance of furniture MSME actors with customs procedures in export activities?
- c) What are the obstacles faced by furniture MSMEs in Pasuruan in complying with customs regulations in the internationalization process?
- d) How effective is the customs policy in supporting the smooth and successful export process of furniture MSMEs in Pasuruan?
- e) What is the adaptation strategy carried out by furniture MSMEs to increase regulatory compliance and overcome obstacles in exports?
- f) What is the role of the government and related institutions in increasing the effectiveness of customs policies for furniture MSMEs in Pasuruan?

## **2. Methods**

This study uses a qualitative approach with a case study design to analyze in depth the effectiveness of customs policies on the internationalization process of furniture MSMEs in Pasuruan, especially from the perspective of regulatory compliance. This approach was chosen because it is able to explore the phenomenon contextually based on the real conditions experienced by MSME actors in export activities. The research was conducted on one of the furniture MSMEs in Pasuruan Regency that has carried out export activities, with the research subjects including business owners, operational managers, and staff involved in export administration. In addition, supporting informants also came from external parties such as export consultants and related agencies. The data used consisted of primary data obtained through in-depth interviews and direct observations, and secondary data derived from export documents such as invoices, packing lists, and Goods Export Notifications (PEB), as well as relevant customs regulations. Data collection techniques were carried out through interviews, observations, and documentation to ensure the completeness of the information. The data analysis used the interactive model of Miles, Huberman, and Saldaña, which included the stages of data reduction, data presentation, as well as conclusion drawing and verification. To ensure the validity of the data, this study used the triangulation technique of sources, techniques, and time. The focus of the research includes the implementation of customs policies, the level of regulatory compliance, obstacles in the export process, policy effectiveness, and MSME adaptation strategies in facing export regulations.

### **3. Results and Discussion**

#### **3.1. Implementation of Customs Policy in the Export Process for Furniture MSMEs in Pasuruan**

The implementation of customs policies in the export process for furniture MSMEs in Pasuruan has basically referred to the national regulatory framework that regulates customs procedures, such as the obligation to fulfill export documents, the classification of goods using the Harmonized System (HS Code), and reporting through digital systems. In practice, MSME actors have begun to utilize electronic systems such as the Indonesian National Single Window (INSW) to speed up the export administration process and increase transparency. This shows that the digitalization of customs services makes a positive contribution to the operational efficiency of MSME exports (Suryadi et al., 2022). However, the level of implementation of the policy still varies, depending on the capacity of human resources and the level of regulatory literacy possessed by business actors.

From a compliance perspective, some furniture MSMEs in Pasuruan have been able to meet basic export requirements, such as the preparation of invoice documents, packing lists, and goods export notifications (PEB). However, there are still obstacles in understanding technical aspects, such as determining the right HS Code and fulfilling the rules of origin, which often have an impact on delays in the export process or potential administrative errors (Wulandari et al., 2023). This condition is in line with the findings of Prasetyo and Kurniawan (2021), who stated that limited understanding of regulations is the main obstacle for MSMEs in accessing international markets.

In addition, the complexity of customs procedures and the dynamics of policy changes are also challenges in the implementation of customs policies. Although the government has made efforts to simplify regulations and provide export facilitation, MSME actors still face difficulties in adjusting to these changes quickly (OECD, 2021). Therefore, the effectiveness of customs policy implementation is greatly influenced by the synergy between adaptive regulations, institutional support, and the internal readiness of MSMEs to improve compliance. Thus, strengthening customs literacy and continuous assistance are key factors in optimizing the implementation of customs policies for furniture MSMEs in Pasuruan.

#### **3.2. Level of Understanding and Compliance of Furniture MSME Actors with Customs Procedures**

The level of understanding and regulatory compliance of furniture MSME actors in Pasuruan with customs procedures in export activities shows that conditions are quite developed but not optimal. Some MSME actors who already have export experience generally understand the basic aspects of customs procedures, such as the preparation of export documents (invoices, packing lists, and Export Notifications of Goods/PEB), as well as administrative flows through digital systems. This understanding is usually obtained through direct experience, government assistance, or cooperation with third parties such as freight forwarders or export consultants. This is in line with the findings of Sari and Nugroho (2023), who stated that export experience contributes significantly to improving regulatory understanding and compliance of MSMEs.

However, in more complex technical aspects, such as the classification of goods using the Harmonized System (HS Code), compliance with the rules of origin, and compliance with destination country standards, the level of understanding of MSME actors is still relatively limited. These limitations have an impact on the potential for administrative errors, delivery delays, and even the risk of rejection of goods in the international market (Wulandari et al., 2023). This condition shows that regulatory compliance is not fully proactive, but still tends to be reactive or dependent on external party assistance. Prasetyo and Kurniawan (2021) also

emphasized that low customs literacy is one of the main factors that hinder the optimization of MSME exports.

On the other hand, the level of compliance of MSMEs is also influenced by the perception of regulatory complexity and compliance costs. Procedures that are considered complicated and often subject to change make some MSME actors less consistent in following applicable regulations (OECD, 2021). However, the digitization of customs services and socialization programs from the government has begun to encourage gradual improvement in compliance (Suryadi et al., 2022). Therefore, it can be concluded that the level of understanding and compliance of furniture MSME regulations in Pasuruan is in the middle category, with the main needs in the form of increasing regulatory literacy, technical training, and ongoing assistance to achieve more optimal and sustainable compliance.

### **3.3. Obstacles to Furniture MSMEs in Complying with Customs Regulations in the Internationalization Process**

The obstacles faced by furniture MSMEs in Pasuruan in complying with customs regulations in the internationalization process are multidimensional, covering internal and external aspects. One of the main obstacles is the low literacy of customs regulations, especially in understanding technical procedures such as the classification of goods using the Harmonized System (HS Code), filling out the Goods Export Notification (PEB) document, and fulfilling the rules of origin of goods. This limited understanding often leads to administrative errors that lead to delays in the export process or even rejection of documents (Prasetyo & Kurniawan, 2021; Wulandari et al., 2023). In addition, the complexity and dynamics of customs regulations are significant obstacles. Relatively rapid policy changes and a lack of equitable socialization make it difficult for MSME actors to always keep up with the latest developments in applicable regulations. This condition is in line with the findings of the OECD (2021), which states that regulatory complexity is one of the main inhibiting factors for MSMEs in accessing international markets.

The next obstacle is limited human resources (HR) and managerial capacity. Many MSMEs do not have specialized personnel who understand export procedures professionally, so the customs process often depends on third parties such as freight forwarders. This dependency, although practical help, can reduce internal learning and increase operational costs (Sari & Nugroho, 2023). From a financial perspective, the high compliance cost is also an obstacle, including the cost of document processing, certification, and export logistics. For MSMEs with limited business scale, this cost is considered quite burdensome and risks reducing profit margins (World Bank, 2020). In addition, limited access to information and digital technology also slows down the adaptation of MSMEs to electronic-based customs systems such as the Indonesian National Single Window (INSW) (Suryadi et al., 2022). Thus, the main obstacles faced by furniture MSMEs in Pasuruan include low regulatory literacy, policy complexity, limited human resources, high compliance costs, and limited access to information and technology. This combination of factors shows the need for more integrated interventions in the form of education, mentoring, and regulatory simplification to support the success of the internationalization of MSMEs.

### **3.4. The Effectiveness of Customs Policy in Supporting the Smooth and Successful Export of Furniture MSMEs**

The effectiveness of customs policies in supporting the smooth and successful export process of furniture MSMEs in Pasuruan can be said to be relatively effective, but not optimal overall. In terms of facilitation, digitized customs policies such as the use of the Indonesia National Single Window (INSW) system have been proven to be able to improve the efficiency

of the export administration process, speed up service times, and reduce convoluted bureaucratic practices. This has a positive impact on the smooth flow of goods and reduces non-tariff barriers for MSMEs (Suryadi et al., 2022). In addition, the simplification of export procedures and certain priority services also helps business actors who have met compliance standards. However, the effectiveness of these policies is highly dependent on the level of readiness and compliance of the MSMEs themselves. MSMEs that have a good understanding of regulations tend to be able to make optimal use of customs policies, so that the export process runs more smoothly and has fewer obstacles. On the other hand, for MSMEs that have limited customs literacy, existing policies are still considered complex and difficult to implement (Prasetyo & Kurniawan, 2021). This shows that the effectiveness of policies is not only determined by the design of regulations, but also by the capacity of policy users.

On the other hand, obstacles such as dynamic regulatory changes, lack of intensive socialization, and limited technical assistance are still factors that reduce the effectiveness of policies in practice. The OECD (2021) emphasizes that regulations that are not accompanied by adequate implementing support will tend to be less effective for MSMEs. In addition, relatively high compliance costs can also reduce the incentive for MSMEs to export sustainably (World Bank, 2020). Thus, it can be concluded that customs policies have made a positive contribution to supporting the export process of furniture MSMEs in Pasuruan, especially in terms of efficiency and transparency. However, to achieve higher effectiveness, it is necessary to strengthen regulatory literacy, improve the quality of assistance, and simplify policies that are more adaptive to the characteristics and limitations of MSMEs.

### **3.5. Furniture MSME Adaptation Strategy in Increasing Regulatory Compliance and Overcoming Export Constraints**

The adaptation strategy carried out by furniture MSMEs in Pasuruan to increase regulatory compliance and overcome obstacles in exports is generally pragmatic and gradual, adjusting to the limitations of their resources. One of the main strategies is to increase customs regulatory literacy through participation in export training, workshops, and mentoring programs organized by the government and related institutions. This effort helps MSME actors understand technical procedures such as filling out export documents, determining the HS Code, and the requirements of the destination country. Research shows that increasing knowledge capacity directly has an impact on increasing the level of compliance with MSME regulations (Fitriani et al., 2024). In addition, many MSMEs adopt a collaboration strategy with third parties, such as freight forwarders, aggregator exporters, or customs consultants. This collaboration allows MSMEs to continue to carry out export activities even though they have not fully mastered the technical aspects of customs. However, this strategy is medium-term, as high dependency can increase operational costs and hinder the independence of MSMEs (Sari & Nugroho, 2023).

The next strategy is the use of digital technology, especially in the use of electronic-based customs service systems such as the Indonesian National Single Window (INSW). Digitalization helps speed up administrative processes, improve data accuracy, and minimize errors in submitting export documents (Suryadi et al., 2022). MSMEs that can adapt to this technology tend to have a higher level of compliance and a more efficient export process. Internally, MSMEs have also begun to strengthen operational management, such as the appointment of special staff who handle export administration and regulations, as well as the preparation of customs-related standard operating procedures (SOPs). This step is important to ensure consistency of compliance and reduce the risk of administrative errors (Wulandari et al., 2023). Overall, the furniture MSME adaptation strategy in the face of export regulations reflects a combination of internal capacity building and the use of external support. For long-

term sustainability, a shift from external dependence to strengthening internal competencies is needed so that MSMEs are able to achieve independent regulatory compliance and are highly competitive in the global market.

### **3.6. The Role of the Government and Related Institutions in Increasing the Effectiveness of Customs Policy for MSMEs**

The role of the government and related institutions is crucial in increasing the effectiveness of customs policies for furniture MSMEs in Pasuruan, especially in the functions of facilitators, regulators, and business capacity accelerators. As facilitators, the government, through agencies such as the Directorate General of Customs and Excise and the regional trade office play a role in providing socialization and education on customs regulations in a sustainable manner. Export training programs, technical guidance, and export clinics have been proven to be able to increase MSME actors' understanding of customs procedures, including filling out documents, classifying goods, and fulfilling export standards. This is in line with the findings of Fitriani et al. (2024), who emphasized that training and mentoring interventions contribute significantly to increasing compliance with MSME regulations. As a regulator, the government has a role in creating policies that are adaptive, simple, and transparent. Customs reform through the digitization of services, such as the implementation of the Indonesia National Single Window (INSW) system, is a strategic step to increase efficiency and reduce bureaucratic barriers in the export process (Suryadi et al., 2022). However, the effectiveness of this policy is highly dependent on regulatory consistency and procedural clarity that is easy for MSME actors to understand. The OECD (2021) emphasizes that overly complex regulations without adequate implementation support will reduce the level of compliance and participation of MSMEs in international trade.

In addition, the government and related institutions also play an accelerator role through export facilitation programs, such as providing incentives, easy access to financing, and support in product certification and standardization. Supporting institutions such as exporters, aggregators, business incubators, and industry associations also assist MSMEs in bridging the gap between internal capacity and global market demands (Sari & Nugroho, 2023). This cross-sectoral collaboration is important to create an inclusive and sustainable export ecosystem. However, there are still challenges in terms of inter-agency coordination, equitable access to information, and suboptimal assistance intensity, especially for MSMEs in the regions. Therefore, stronger synergy is needed between the central government, regions, and relevant stakeholders to ensure that customs policies are not only normatively effective but also implementable. Thus, the role of the government is not only limited to policymakers, but also as a strategic partner in increasing the capacity and competitiveness of furniture MSMEs in the international market.

## **4. Conclusion**

Based on the results of the discussion, it can be concluded that the effectiveness of customs policies in supporting the internationalization process of furniture MSMEs in Pasuruan is in the category of being quite effective but not optimal. Policies that have been digitized and simplified are able to increase administrative efficiency and transparency in the export process. However, this effectiveness is greatly influenced by the level of understanding and regulatory compliance of MSME actors who are still at the middle level. The main obstacles faced include low customs literacy, regulatory complexity, limited human resources, and high compliance costs. On the other hand, adaptation strategies such as capacity building through training, collaboration with third parties, the use of digital technology, and

strengthening internal management have helped MSMEs in facing these challenges. The role of the government and related institutions has also proven to be significant in providing facilitation, education, and policy support, although improvements are still needed in terms of coordination and equitable access to services.

The suggestions that can be given are the need to strengthen regulatory literacy and technical assistance on an ongoing basis for MSME actors to be able to increase compliance independently. The government is expected to continue to simplify regulations and improve the quality of policy socialization so that it is easier for MSMEs to understand. In addition, there is a need to develop training programs that are more applicable and based on field needs, as well as increased access to customs digital technology. MSMEs are also advised to start reducing dependence on third parties by building internal capacity, such as the appointment of special personnel in the export sector and the preparation of standard operating procedures (SOPs). With strong synergy between the government, supporting institutions, and business actors, it is hoped that furniture MSMEs in Pasuruan will be able to increase the competitiveness and sustainability of exports in the global market.

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