



The Competitiveness of Local Wisdom-Based MSME Products in Facing Global Markets

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Abstract: This study investigates the competitiveness of local wisdom-based Micro, Small, and Medium Enterprises (MSMEs) in Indonesia within the context of global markets. The research addresses a pressing question: why do culturally rich MSMEs struggle to achieve international competitiveness? Using a qualitative descriptive-analytic method, the study draws on interviews, field observations, and secondary data from MSMEs in Bali, Yogyakarta, and West Sumatra. Porter's Diamond Model and Cultural Branding Theory serve as analytical frameworks to assess internal capabilities, strategic gaps, and market alignment. The findings show that while 68% of MSMEs incorporate cultural elements in their products, only 33% are globally competitive, and just 22% have reached export markets. Key obstacles include limited branding strategy, lack of international certification, fragmented support infrastructure, and insufficient digital engagement. The study concludes that cultural capital alone is not sufficient; it must be converted into structured competitive strategies to position MSMEs on the global stage.

Keywords: Local Wisdom, MSMEs, Global Competitiveness, Cultural Branding, Porter's Diamond Model, Indonesia.



INTRODUCTION

The objective of this research is to explore and analyze the competitiveness potential of local wisdom-based MSME products in the face of global market dynamics. This includes evaluating their value chain, consumer perception, market entry strategies, and integration with modern business models while maintaining cultural integrity. (Irawan & Aziz, 2023) While numerous studies have explored MSME development strategies and export readiness, very few—if any—have specifically focused on local wisdom as a core competitive axis. Hence, this research offers a novel contribution by placing indigenous knowledge systems and traditional value frameworks at the center of MSME competitiveness discourse. This inquiry is especially timely in the context of the ASEAN Economic Community and ongoing global shifts toward sustainable, ethical, and culturally relevant consumption.

Table 1. Competitiveness of Local Wisdom-Based MSME Products in Global Markets (SLI Data, 2025)

Category	Percentage (%)	Description
Local Wisdom-Based MSME Products	68%	MSMEs that integrate local cultural wisdom in their products
Export Readiness	45%	MSMEs considered ready to enter or expand in international markets
Cultural Branding Development	40%	MSMEs that have implemented branding strategies based on local heritage
Product Innovation	52%	MSMEs that demonstrate innovative product development rooted in local value
Global Competitiveness	33%	MSMEs rated as globally competitive in both design and marketability

Based on the 2025 Industrial Environment Survey (SLI), local wisdom-based MSMEs in Indonesia have shown considerable progress in cultural integration but remain limited in global market competitiveness. The data reveals that 68% of MSMEs integrate local cultural wisdom into their products, signaling a strong cultural foundation across the small business sector. (Irawan, n.d.) only 45% are considered export-ready, indicating a substantial gap between cultural richness and international market penetration (SLI, 2025). Just 40% of these enterprises have developed branding strategies that emphasize their cultural heritage, a critical component for appealing to global consumers who are increasingly driven by authenticity and ethical consumption. While 52% of MSMEs demonstrate innovation in product development particularly by



incorporating traditional techniques or materials—their ability to compete globally is still limited, with only 33% being rated as genuinely competitive in terms of product design and marketability (SLI, 2025).

The significance of this research lies in its multidimensional contributions: theoretically, it bridges the gap between cultural anthropology and international business strategy; practically, it provides actionable insights for MSME stakeholders and policymakers on how to elevate product positioning rooted in local traditions; and from a policy standpoint, (Irawan, Putro, Sifa, & ..., 2023) it supports the formulation of inclusive economic models that prioritize community-based value creation. By shedding light on this under-researched area, the study advocates for a redefinition of competitiveness not solely in terms of price and efficiency, but also in terms of meaning, heritage, and sustainability.

While Smith (2019) and Zhao & Lee (2021) have examined MSME resilience through digital transformation and global value chains, these studies do not interrogate the deeper cultural assets that distinguish local MSMEs in the global context. Furthermore, recent scholarship by Ortega (2022) touched on cultural branding but fell short of framing local wisdom as a strategic competitive mechanism. This study goes beyond by integrating cultural authenticity as a central variable in assessing global readiness. To the best of our knowledge, no existing research has comprehensively analyzed the global competitiveness of MSME products based specifically on their local wisdom content—making this investigation not only relevant but also groundbreaking in both academic and practical terms.

RESEARCH METHOD

This study employs a qualitative research approach with a descriptive-analytic design to explore the competitiveness of local wisdom-based MSME products in facing global markets. The qualitative method is chosen because it allows for an in-depth understanding of cultural, contextual, and behavioral dimensions that cannot be captured through numerical data alone. Through this approach, the researcher seeks to grasp the embedded values, strategic challenges, and opportunities inherent in MSMEs that incorporate local wisdom into their products.

Data collection techniques include in-depth interviews, field observations, and document analysis. Key informants will consist of MSME owners, cultural heritage experts, marketing practitioners, and export consultants. To ensure the credibility and reliability of the data, this study applies triangulation techniques—comparing data from multiple sources, cross-verifying with field observations, and validating findings through peer debriefing and member checks with informants. Detailed field notes and audio recordings will be transcribed and coded systematically to enhance transparency and traceability.



Sampling will use a purposive sampling technique, focusing on MSMEs that explicitly incorporate local traditions in their product concepts. The research setting will include selected MSMEs operating in culturally rich regions, such as Yogyakarta, Bali, and West Sumatra, known for their strong heritage-based economic activities. Analysis the study adopts Porter's Diamond Model of National Competitiveness to assess factors such as firm strategy, demand conditions, related industries, and government roles. This model is complemented by the Cultural Branding Theory to interpret how local values are articulated in market-facing strategies, making it possible to frame local wisdom as a structured competitive advantage in the global market.

RESULTS AND DISCUSSION

Results : The Competitiveness Of Local Wisdom-Based MSME Products In Facing Global Markets

1. Strong Cultural Integration Yet Limited Market Penetration

This study reveals that 68% of Indonesian MSMEs have successfully integrated local cultural wisdom into their products through traditional crafting techniques, indigenous materials, and culturally inspired narratives (SLI, 2025). This cultural embedding serves as a strong foundation for differentiation in a global market that increasingly values authenticity, ethical sourcing, and sustainability.

Only 45% of these businesses are considered export-ready (SLI, 2025). This indicates a significant gap between cultural richness and strategic capacity to penetrate international markets. (Irawan, Fitri, & Maeni, 2023) Contributing factors include limited knowledge of export regulations, lack of access to foreign market intelligence, and underutilized digital tools and global distribution channels.

Smith (2019) emphasizes that digital transformation alone is insufficient without a well-structured business strategy. This is echoed by Zhao and Lee (2021), who argue that global value chain participation requires both product uniqueness and adherence to international standards, along with partnerships across sectors.

Furthermore, Ortega (2022) points out that cultural branding must be developed systematically and communicated consistently to succeed globally. Without a strong marketing framework, products grounded in cultural identity risk being perceived as culturally interesting but commercially insignificant by international buyers.

This study recommends structured policy interventions to strengthen the global market readiness of culture-based MSMEs. These include export training,



product certification facilitation, international promotional platforms, and enhanced digital integration. Such measures are essential to transform cultural potential into tangible global competitiveness.

2. Cultural Branding as an Undervalued Asset

Branding rooted in local heritage remains an underutilized strength among local wisdom-based MSMEs. Data shows that only 40% of businesses have deliberately developed cultural branding strategies to position their products in the global marketplace (SLI, 2025). Cultural branding involves not just the visual identity or packaging aesthetics but also storytelling, brand narratives, and marketing that elevate the emotional and cultural appeal of a product. For international consumers, especially those in developed countries, this type of branding significantly enhances perceived authenticity and ethical value. The absence of these strategies weakens the cultural proposition of MSME products abroad. This result suggests that MSMEs require both marketing capacity building and mentorship programs focused on articulating their local identity into brand equity.(Irawan, 2024) While the products themselves are inherently valuable, failure to communicate that value across cultures reduces their competitive leverage.

Many local businesses undervalue the power of cultural branding, despite its growing relevance in consumer engagement and market differentiation. Cultural branding refers to the use of local symbols, heritage, narratives, and traditions as core elements in brand identity and communication. This asset, while intangible, contributes significantly to brand equity, emotional resonance, and consumer loyalty, particularly in niche or heritage-conscious markets. According to Holt (2004), cultural branding enables firms to create iconic brands that resonate with deeply rooted cultural myths, helping them stand out in competitive markets.

A recent survey conducted among 50 MSMEs (Micro, Small, and Medium Enterprises) based in heritage-rich regions in Indonesia revealed that only 28% actively incorporated local cultural elements in their branding strategies.(Rikantasari, Irawan, & Mun'im, 2024) The majority cited limited awareness of cultural branding benefits and a lack of expertise in brand storytelling. Yet, those who did apply cultural narratives experienced on average 15% higher customer retention rates and 21% greater brand recall compared to those who relied purely on functional or price-based marketing approaches (Suryani et al., 2022).



This underutilization shows a significant gap between cultural resource availability and its economic capitalization. Cultural branding is not only a marketing tool but a form of soft power that can elevate product value perception in global markets. As branding increasingly shifts from rational features to emotional and cultural connections, MSMEs ignoring this trend risk falling behind.

The table below presents supporting data from the 2022 cultural branding survey conducted across Central Java, Yogyakarta, and West Sumatra:

Table 1. Branding as an Undervalued Asset

Branding Strategy Used	Percentage of MSMEs (%)	Average Customer Retention (%)	Average Brand Recall (%)
Functional Branding Only	72%	58%	45%
Cultural Branding Integrated	28%	73%	66%
Cultural Branding with Storytelling Focus	10% (subset of 28%)	81%	74%

Source: Suryani, D., Anugrah, R., & Hidayat, T. (2022). Cultural Marketing and Competitive Edge of Indonesian MSMEs. *Journal of Local Business Dynamics*, 8(2), 134-150.

This evidence underscores the necessity of integrating cultural branding into MSME strategies to not only preserve local identity but to compete effectively in increasingly saturated markets.

3. Innovation Rooted in Tradition Boosts Product Relevance

Approximately 52% of local wisdom-based MSMEs demonstrate a commendable level of product innovation, particularly by blending traditional methods with modern consumer preferences (SLI, 2025). Examples include contemporary fashion using batik textiles, culinary products with localized ingredients packaged for urban markets, or household goods combining indigenous craft with modern ergonomics. This innovation is not about abandoning tradition but rather recontextualizing it in ways that fit the lifestyle and expectations of global consumers. However, these innovations are often carried out informally without systematic research and development. The absence of structured innovation labs, prototyping facilities, and design mentorship programs limits



scalability. MSMEs that have successfully innovated demonstrate greater market traction, both domestically and in niche international markets. The results affirm that innovation driven by cultural roots significantly enhances the relevance and distinctiveness of MSME products in the global arena.

In the competitive landscape of MSME products, especially those targeting both domestic and international niche markets, the fusion between innovation and tradition has proven to be a key strategy to maintain cultural authenticity while ensuring market relevance. This approach, often referred to as "heritage-driven innovation", allows local entrepreneurs to adapt traditional designs, recipes, and production techniques into modern market contexts without diluting cultural value (Pralhad & Ramaswamy, 2004).

A field study conducted in 2023 among 60 local MSMEs from Bali, Yogyakarta, and West Sumatra showed that 65% of businesses that embedded traditional knowledge into their product innovation (e.g., using batik motifs in tech accessories, or traditional herbal formulas in modern skincare) reported higher product relevance among Gen Z and millennial consumers. These businesses achieved up to 24% improvement in repeat purchase rate and a 19% growth in social media engagement, indicating increased consumer resonance with products that embody both novelty and cultural identity (Wulandari et al., 2023).

The findings confirm that innovation does not always require abandoning roots; rather, it becomes more powerful when cultural continuity is used as a differentiator. This model creates what is known as cultural resonance branding, wherein innovation feels familiar and emotionally meaningful, allowing MSMEs to break into broader markets while preserving local identity.

Table 2. Rooted in Tradition Boosts Product Relevance

Product Strategy	% MSMEs Using Strategy	Repeat Purchase Rate (%)	Social Media Engagement Growth (%)
Modern Innovation Only	35%	42%	31%
Tradition-Based Innovation	65%	66%	50%
Tradition-Innovation with Local Story	28% (subset of 65%)	71%	62%



Source: Wulandari, M., Aditya, D., & Zulfikar, A. (2023). Relevance Through Roots: Innovation in Tradition-Based MSMEs. *Journal of Ethnic Business and Innovation*, 7(1), 88–104.

This strongly supports the thesis that integrating traditional cultural elements not only safeguards local wisdom but also significantly enhances product relevance, emotional value, and long-term brand loyalty among culturally-aware consumers.

4. Global Competitiveness Remains Modest Despite Rich Heritage

Despite cultural richness and innovation, only 33% of the MSMEs surveyed are considered globally competitive in terms of design and marketability (SLI, 2025). This finding illustrates a fundamental challenge: the translation of cultural uniqueness into globally acceptable standards of quality, functionality, and branding remains insufficient. Factors such as inconsistent product quality, lack of certifications, weak supply chain coordination, and limited digital presence contribute to this modest competitiveness rating. The research also reveals that successful globally competitive MSMEs often benefit from collaboration with creative industries, government-sponsored export facilitation programs, or participation in international trade expos. Therefore, bridging the gap between cultural authenticity and global standards is essential. This demands multi-sectoral synergy involving government, academia, and industry associations to provide holistic support—from funding and technical training to legal support and export navigation. Without this ecosystem, cultural richness alone is insufficient to drive global business success.

Despite possessing a wealth of cultural heritage, many local MSMEs in Indonesia continue to struggle in achieving global competitiveness. Rich traditions, artisanal craftsmanship, and indigenous knowledge systems—though abundant—often fail to translate into sustainable global market presence. The issue lies not in the absence of cultural capital, but in the limited capacity of these MSMEs to scale, brand, and certify their products according to international standards (Porter, 1990).

Based on a 2023 study by the Indonesian Institute of SME Development, involving 75 export-intended MSMEs from regions like Toraja, Bali, and Papua, it was found that only 22% of heritage-based MSMEs successfully penetrated export markets. The rest faced barriers such as lack of packaging standards, limited use of digital platforms, inadequate certifications (like halal or fair trade), and minimal



exposure to global marketing channels. Interestingly, those who combined cultural branding with digital strategies saw 2.5 times higher chances of export deals, yet this group comprised less than 15% of the total sample (Rachman et al., 2023).

This modest global competitiveness underscores a paradox: Indonesia holds high-value intangible assets but lacks the structural and strategic alignment to globalize them effectively. While countries like Japan and South Korea have successfully globalized cultural elements (e.g., kimchi, anime, or k-beauty), Indonesia's MSMEs remain largely domestic in reach. The need for capacity-building in e-commerce literacy, international certification, and cross-cultural packaging design is urgent and foundational.

Table 3. Competitiveness Remains Modest Despite Rich Heritage

Criteria Evaluated	% of Heritage-Based MSMEs
Penetrated Export Market	22%
Have International Certification (e.g., Halal/Fair Trade)	30%
Use of Digital Branding and Export Marketplace	18%
Combination of Cultural & Digital Branding	13%
Rely on Local Market Only	78%

Source: Rachman, F., Dewi, T., & Mulyono, H. (2023). Heritage Without Borders: Evaluating Export Readiness of Indonesian MSMEs. *Journal of Global Business Empowerment*, 5(2), 115–131.

This data reveals a clear challenge: heritage alone is not enough. Without systemic support in innovation, digitalization, and regulatory compliance, cultural products risk remaining beautiful yet invisible on the global stage.

Discussion : The Competitiveness Of Local Wisdom-Based MSME Products In Facing Global Markets

Table 4. Nalysis of Findings Using Porter's Diamond Model

Diamond Model Element	Empirical Findings	Critical Commentary
Factor Conditions	68% integrate local wisdom (SLI, 2025)	Strong base, but lacks R&D, IPR support, and export-grade product development pipelines.



Demand Conditions	Local demand strong; global awareness weak	Consumer trends favor authenticity globally, but MSMEs fail to bridge messaging and branding gaps.
Supporting Industries	Only 30% certified; 18% on export platforms (Rachman et al., 2023)	Institutional ecosystem is fragmented; policy and industry collaboration remains minimal.
Firm Strategy & Rivalry	28% use cultural branding; 10% storytelling focus (Suryani et al., 2022)	Strategy is underdeveloped; branding undervalued as a differentiation and trust-building mechanism.

The critical analysis of Indonesia's local wisdom-based MSMEs using Porter's Diamond Model reveals a multilayered competitiveness challenge, rooted not in the absence of cultural value, but in the ineffective mobilization of that value across global business dimensions. The empirical data show that 68% of MSMEs have successfully integrated local cultural elements into their products (SLI, 2025), indicating a strong foundation of factor conditions. These include traditional knowledge systems, unique crafting techniques, and rich storytelling potential. However, these assets remain largely informal and unstructured. There is minimal investment in research and development (R&D), innovation labs, or design incubation spaces that could elevate these traditional assets to export-grade commodities. This exposes a critical shortcoming: the country's cultural capital is rich but under-leveraged due to weak industrial support mechanisms.

Furthermore, although domestic demand for culturally authentic products is increasing—especially among millennials and Gen Z—this demand is not mirrored in global markets due to limited brand visibility and communication. Only 45% of MSMEs are considered export-ready, which indicates that demand conditions are present but mismatched by strategic capacity. The gap between local product uniqueness and global consumer expectations highlights an absence of global branding fluency. The lack of consistent storytelling, inadequate product certification, and insufficient e-commerce utilization all contribute to the inability to translate local appeal into global traction. In terms of supporting industries, the picture is similarly fragile. Only 30% of MSMEs are internationally certified, and a mere 18% use digital branding tools or participate in export platforms (Rachman et al., 2023). This reflects a systemic gap in the institutional ecosystem—ranging from limited mentorship in



international marketing, to poor integration with export consortia, to the absence of cross-industry support that can guide MSMEs through global compliance standards.

When examining firm strategy and rivalry, the weakness becomes even more apparent. While 28% of MSMEs use cultural branding, only 10% apply storytelling methods that resonate with global audiences (Suryani et al., 2022). This means that MSMEs tend to focus on product creation without aligning it to long-term market strategy or emotional branding. Porter's model, while effective in mapping competitiveness structures, falls short in addressing cultural identity as a symbolic and emotional differentiator. Thus, it requires supplementation by cultural branding theory to account for the value-driven, non-material aspects of product perception. Without such integration, MSMEs risk remaining culturally rich but economically sidelined in the global marketplace.

CONCLUSION

The competitiveness of local wisdom-based MSMEs in Indonesia reveals a nuanced yet critical insight into how cultural capital is both a strength and a missed opportunity. While 68% of MSMEs have successfully embedded traditional knowledge, design, and values into their products, this has not translated into proportionate global competitiveness. The application of Porter's Diamond Model highlights systemic gaps in four key areas: weak industrial support for innovation and intellectual property, limited alignment with global consumer expectations, fragmented institutional support systems, and underdeveloped branding strategies. Despite growing global demand for authentic and ethical products, only 33% of these MSMEs are considered globally competitive, with a mere 22% penetrating export markets. The low rate of international certification and minimal digital branding usage further exacerbate this challenge. Most notably, while cultural branding and heritage-driven innovation are recognized for their emotional resonance and unique market positioning, they remain underutilized across the MSME sector. This disconnect between cultural richness and business strategy underscores the need for integrated efforts involving government policy, private sector mentorship, academic innovation hubs, and international collaboration. Therefore, the study concludes that cultural value must not merely be preserved—it must be strategically activated through structured innovation, branding literacy, global partnerships, and institutional strengthening. Without these



deliberate efforts, local wisdom will remain a latent potential—rich in heritage, but modest in its global economic impact.

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