

# Bridging Ideology and Practice: A Policy Analysis of Pancasila Economy in Empowering Local MSMEs in Indonesia

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## Abstract

Policies from political economy can have an overall impact on the state system, This type of research uses literature research that takes data through information by obtaining library materials, data techniques that have been obtained by reviewing and analyzing, both in the form of books, journals, research results. As well as by using descriptive analysis techniques. Emil Salim explained the characteristics of the economy based on Pancasila having a role, state and private businesses go hand in hand that can avoid monopoly. The economy of Pancasila is based on the principle of family. Society can be an important role, no longer moving individually. The state has a role to control natural resources but must be based on the implementation of rights and obligations with a maximum plan. Pancasila economy is a people-based economy where the community gets the core of the five precepts in the economy. The causes of MSMEs with local products are difficult to develop, namely: Limitations with financial access. Minimal distribution network. Managerial skills that have not been maximized. Fierce market competition. Limited infrastructure. Requires mentoring and training. Weak Marketing and Branding. Steps that can be used as recommendations are: providing easy access to capital. Provide training assistance, business managerial, marketing, branding. The government becomes a promotional medium to echo local products. The need for triplehelix cooperation between the government, society, media to echo local products. forming a tagline, by providing a promotional platform with local products.

**Keywords:** Economic policy, local products, local MSMEs, pancasila economy.



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## INTRODUCTION

The fields of political science and economics are intrinsically linked (Di Guilmi et al., 2023; Katz & Main, 2022), forming the construct known as political economy (political economy) (Mufti, 2018). In the state context, political economy plays a vital role as the framework for determining public policies that govern resource allocation, wealth distribution, and the creation of the national economic system (Ramadani & Riofita, 2025). The accuracy and effectiveness of political economy policies directly determine a country's economic stability and growth; flawed formulation can lead to significant economic instability or decline (Nurjaman, 2020).

In Indonesia, the foundation for political economy policy is mandated in the 1945 Constitution of the Republic of Indonesia (UUD NRI 1945) (Retnoningsih & Jamin, 2024), which requires the adoption of the Pancasila Economic System (Gumbira & Wiwoho, 2019; Supriyanti & Pertiwi, 2025). Pancasila Economy is a system that is people-oriented, prioritizes social justice, equitable distribution, and avoids monopolistic practices (Harefa & Harefa, 2024; Kholil et al., 2025). The concrete implementation of the Pancasila Economy is often interpreted as empowering the people's economy sector, particularly through the strengthening of local Micro, Small, and Medium Enterprises (MSMEs) (Ramadan et al., 2022). The government has advocated for the necessity of optimizing domestic industries and products to meet national needs (Kurniasih & Yudianto, 2025), which is expected to create a beneficial economic cycle for the people as both producers and consumers. Nevertheless, the transition from the normative ideology of the Pancasila Economy to practical policies that effectively empower local MSMEs continues to face implementation challenges that necessitate in-depth study.

Previous studies have examined aspects of local product marketing and promotion, such as the effectiveness of local coffee promotion strategies (Rezki & Hapsari, 2019), the use of the internet in local product marketing (Hamzah, 2013), and the influence of marketing communication strategies on purchase intention (Azizah et al., 2020). These studies focus on the micro-aspects of consumer behavior and business strategy. However, a significant literature gap emerges in the macro-level policy analysis concerning the implementation of people-oriented ideologies such as the Pancasila Economy.

The urgency of this research lies in the need for a critical analysis of policy articulation that connects the philosophical principles of the Pancasila Economy with concrete efforts to empower local MSMEs. No comprehensive study yet systematically analyzes the alignment between the nation's ideological foundation and the design and implementation of policies supporting increased local product consumption. Yet, the success of MSME empowerment is heavily dependent on a solid political economy policy framework that is firmly rooted in people-centered values.

The purpose of this study is to critically analyze Pancasila-based economic policies and their relevance in strengthening the role of local MSMEs as drivers of Indonesia's economy. Furthermore, it aims to identify how the implementation of such policies can enhance national economic self-reliance while reducing dependency on imported products.

The significance of this study is twofold: theoretically, it contributes to the enrichment of political economy studies rooted in Pancasila ideology within a contemporary context; practically, it provides insights for policymakers and MSME actors in formulating more effective and sustainable strategies for people-centered economic empowerment.

## METHOD

This study employs a qualitative research approach with a primary focus on policy analysis, drawing specifically from library research methodology (Sari & Asmendri, 2020; Yusuf, 2017). The research design is descriptive-analytic, aiming to comprehensively describe and critically analyze the policy linkages between the ideology of the Pancasila Economy and the practical implementation of policies designed for local MSME empowerment in Indonesia. This approach is essential for dissecting the nuances, context, and structural factors that shape policy formulation and outcome, thereby establishing a strong theoretical and contextual basis for the study (Ramdhan, 2021). The scope of analysis extends beyond mere description to include critical evaluation of the coherence and effectiveness of policy instruments against the national economic philosophy.

The primary data collection technique utilized is documentation (Sugiyono, 2016), involving the systematic retrieval and examination of secondary data sources. These sources include official government documents (e.g., laws, presidential regulations, ministerial decrees, policy briefs), academic literature (e.g., peer-reviewed journals, theses, dissertations) pertaining to the Pancasila Economy, political economy, and MSME policy, as well as official reports and statistical data from relevant ministries and institutions. The collected data is then subjected to descriptive content analysis (Mamik, 2015). This involves identifying, coding, categorizing, and interpreting key policy statements, concepts, and arguments. The analytical technique subsequently moves towards a policy critique, using the principles of the Pancasila Economy (e.g., kinship, justice, anti-monopoly) as normative benchmarks to evaluate the empirical policies related to local MSMEs, allowing for the formulation of evidence-based conclusions and robust policy recommendations.

## RESULTS AND DISCUSSION

### The Political Economy of Pancasila and Sharia Economic Politics

Masudul Alam Choudhury explains that political economy refers to the role associated with economic relations, particularly between the government and the economic system. The underlying reason for this definition, as noted by the author, is that the development of national economic policies requires comprehensive discussion and consideration by policymakers. Such decisions must ensure coherence between outcomes and the needs of society in order to achieve optimal results (Muslimin, 2020).

According to Zaid (2022) Pancasila economics is an economic system that requires all economic activities to be based on the values of divinity, humanity, unity, deliberation, and justice. Mubyarto & Budiono (1997) describe Pancasila economics as having distinctive characteristics. First, it is based on the principle of kinship and harmony as the foundation for

implementation. Second, it incorporates incentives rooted in social and religious values. Third, it embraces egalitarian principles, emphasizing social equality without discrimination. Fourth, it seeks to establish a strong economy by maintaining balance and implementing decentralization across regions.

Emil Salim further elaborates that the characteristics of Pancasila-based economics are reflected in several dimensions (Sumarwoto, 2022). First, state and private enterprises work together to prevent monopolies and encourage healthy economic growth. Second, Pancasila economics is grounded in the principle of kinship. Third, society is positioned as a key actor, no longer moving individually but in alignment with collective interests. Fourth, the state assumes the responsibility of managing natural resources, but this must be carried out within the framework of rights and obligations through comprehensive planning (Hasan, 2021).

Al-Maliki defines Sharia economic politics as a framework to ensure the fulfillment of primary needs for all individuals, while secondary needs are fulfilled in accordance with their capacity within society (Al-Maliki, 2009). According to Al-Maliki, Islamic economic politics is founded on four principles: (1) every individual must have their essential needs met; (2) primary human needs must be accessible and fulfilled; (3) earning a livelihood is permissible (halal); and (4) the embedded values must serve as a source of strength for individuals within society (Hardiati et al., 2022).

The concept of *maqashid sharia* serves as a central pillar of Sharia economics. Imam al-Shatibi outlines five essential objectives: safeguarding religion, protecting life, preserving wealth, protecting progeny, and safeguarding property (Yasin, 2018). Broadly speaking, Islam is not only concerned with the relationship between humans and God but also with societal regulations that govern permissible practices (Qardhawi, 2017).

### **The Concept of Local Products**

Stanton (1984) defines a product as a set of tangible attributes, including packaging, price, color, and services, that can be acquired by buyers as a means of satisfying their needs and desires. Kotler similarly defines a product as anything offered to the market to attract attention, acquisition, use, or consumption, thereby delivering consumer satisfaction (Philip kotler et al., 2022).

Regional Regulation (Perda) No. 3 of 2017 concerning the protection of local products stipulates that “local products with distinctive characteristics refer to the outcomes of goods production, services, or cultural works within a region that are deeply embedded in its culture, customs, and traditions.” With globalization, economic systems are increasingly differentiated between local and foreign products. Local products are regarded as those originating from domestic production, while foreign products are imported from abroad (Regional Regulation of Tanjung Jabung Timur Regency on the Protection of Local Products, n.d.).

In practice, regulations supporting local products remain limited to regional ordinances applied only in Tanjung Jabung Timur and East Lombok Regencies. Referring to Regional

Regulation No. 3 of 2017, the protection of local products is operationalized through the following measures:

1. Providing incentives and investment opportunities;
2. Licensing facilities, guidance, and business development;
3. Ensuring the availability and continuity of raw materials;
4. Engaging local labor;
5. Facilitating intellectual property rights;
6. Promoting the marketing of local products;
7. Providing partnership opportunities;
8. Supplying working facilities and infrastructure.

Ideally, such regional regulations should serve as a model for national policy, whereby the central government adopts a people-oriented framework to fully support entrepreneurship. This entails the government actively assisting communities in strengthening their local economic initiatives.

### **Promoting Local Products as a Reflection of Pancasila Political Economy Policy**

The concept of a *Pancasila Economy* refers to a people-centered economic system in which society embodies the essence of the five principles of Pancasila in economic activities. Regional regulations enacted by Tanjung Jabung Timur Regency and East Lombok Regency, particularly Regional Regulation Number 3 of 2017 on local products, should serve as a benchmark for government action. These regulations underscore the necessity for the government to be present in supporting society so that communities can achieve self-reliance and create extensive employment opportunities. This framework is also aligned with the constitutional mandate to alleviate poverty through job creation.

A report by *Republika* entitled “*Survey: 50 Percent of MSME Actors Struggle to Access Capital from Banking Institutions*” (Noor, 2023) indicates that many local product-based MSMEs remain underserved in terms of access to financial resources. This lack of access prevents them from moving upward in the economic hierarchy. Several factors contribute to the difficulties faced by local-product MSMEs in their development, including:

First, limited access to finance. Local-product MSMEs often experience stagnant growth due to insufficient capital to expand their businesses, combined with difficulties in obtaining loans from financial institutions or investors (Arviani et al., 2021). Second, inadequate distribution networks. Expanding consumer reach is a major challenge, particularly in an era where digital marketing dominates. While those who understand digital marketing trends can adapt easily, local-product MSMEs with limited knowledge in this area face significant disadvantages (Azizah et al., 2020). Third, underdeveloped managerial skills. Inefficient production systems and less attractive services hinder local MSMEs from scaling their businesses effectively.

Fourth, intense market competition. Advances in technology have democratized entrepreneurship, enabling anyone to start a business. While this fosters competitiveness among MSMEs, it also necessitates fair competition. Fifth, limited infrastructure. Unequal infrastructure development across regions creates obstacles, such as high shipping costs that are often passed on to consumers, thereby discouraging purchases due to excessive logistical expenses. Sixth, the need for training and mentorship. Local-product MSMEs require structured assistance and training to strengthen their business capacity and maintain competitiveness in line with contemporary market trends (Hamzah & Nadjib, 2013). Seventh, weak marketing and branding. Many local entrepreneurs fail to recognize the strategic role of branding and marketing. Local products possess unique characteristics that distinguish them from those of other regions, and these unique features should be highlighted to attract consumer interest (Razak & Elyta, 2017).

Given these challenges, several policy recommendations can be proposed to strengthen local-product MSMEs:

First, the government should facilitate easier access to capital, both from banking and non-banking financial institutions. This aligns with the principles of a Pancasila-based economy, which emphasizes collaborative efforts between the government and the private sector to achieve national prosperity.

Second, the government should provide comprehensive training and mentorship in business management, marketing, and branding. In the current technological era, MSMEs must adapt to digital competition rather than depend solely on conventional markets. For instance, the debate surrounding the closure of TikTok Shop highlights the struggle of MSMEs that lack digital readiness. Government-led mentorship and training programs can enable MSMEs to grow sustainably, while also instilling an appreciation for branding and marketing as vital business components. Storytelling and value-driven branding, in particular, can foster deeper consumer connections and generate social and environmental impact.

Third, the government should act as a promotional medium to amplify local products. A *triple helix* collaboration involving government, society, and media is essential to enhance the visibility of local products. Restricting imports and encouraging public officials to consistently use and endorse local products can further elevate their perceived quality and credibility.

Fourth, the government should develop national promotional campaigns and taglines to encourage pride in consuming local products. By providing platforms for showcasing and promoting local goods, regional governments can strengthen community awareness and foster a collective identity rooted in pride for Indonesian-made products.

## CONCLUSION

The study demonstrates that the implementation of a Pancasila-based economic policy provides a strong ideological foundation for empowering local MSMEs, as it integrates social, moral, and collective values into economic practice. The findings reveal that the political economy of Pancasila—emphasizing kinship, justice, equality, and cooperation—resonates closely with the objectives of Sharia economic politics, which prioritize welfare distribution and ethical economic behavior. However, in practice, the empowerment of local MSMEs still faces structural and

operational barriers such as limited access to finance, weak marketing strategies, lack of digital literacy, and unequal infrastructure distribution. These constraints hinder the realization of Pancasila's people-centered economic ideals and reduce the capacity of local MSMEs to compete in both national and global markets. Therefore, bridging the gap between ideology and implementation remains a crucial challenge for policymakers.

To ensure that the Pancasila economic framework effectively supports MSME empowerment, the government must implement integrated policies that harmonize ideological principles with practical strategies. First, institutional mechanisms should be strengthened to expand financial accessibility for MSMEs through banking and alternative financing channels aligned with inclusive economic principles. Second, continuous training and mentorship programs are needed to enhance managerial, digital, and branding competencies among local entrepreneurs. Third, national campaigns promoting the pride and value of local products should be intensified through collaboration between the government, private sector, and media, creating a triple helix synergy. Finally, the central government should adopt and scale successful regional regulations, such as those in Tanjung Jabung Timur and East Lombok, into national frameworks to ensure that Pancasila's vision of equitable and participatory economic development is realized sustainably.

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