

## **TRADE FACILITATION AND MSME EXPORT GROWTH: AN EMPIRICAL STUDY IN ASEAN**

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**Abstract:** *Micro, small, and medium enterprises (MSMEs) play a significant role in Southeast Asia's economic landscape. They account for a substantial portion of total establishments and employment, making them a vital component of the region's economy. This paper explores the multifaceted contributions of MSMEs in Southeast Asia, focusing on their economic, political, and social significance.*

*These enterprises are instrumental in addressing key socio-economic challenges, particularly in countries like Indonesia, Myanmar, the Philippines, Lao PDR, Cambodia, and Vietnam, where poverty and income inequality persist. By providing livelihoods and income opportunities, MSMEs actively participate in poverty alleviation and income distribution improvement. Moreover, they serve as a driving force for labor-intensive manufacturing and non-primary commodity exports, contributing to economic growth.*

*Furthermore, MSMEs support rural economic development and foster local entrepreneurship, with a particular emphasis on empowering rural women. By analyzing the multifaceted contributions of MSMEs in Southeast Asia, this study provides insights into their pivotal role in socio-economic progress and the prospects for future growth and development.*

**Keywords:** *MSMEs, Southeast Asia, Economic development, Poverty alleviation, Income inequality*

### **Introduction**

In Southeast (SE) Asia, micro, small and medium enterprises (MSMEs) are very important, not only economically but also politically, due to the sector's economic dominance in terms of their share of total establishments (between 97.0% and 99.0%) and their share of total employment (between 61.6% and 97.2%) (Table 1). MSMEs have, therefore, a crucial role to play in supporting governments' efforts in countries in the region still facing problems of poverty and income inequality such as Indonesia, Myanmar, Philippines, Lao PDR, Cambodia and Vietnam to alleviate poverty and to improve income-distribution. They have also a great potential as a growth engine for domestic labour-intensive manufacturing industry and export of non-primary commodities, especially manufactured products. They are also considered important for rural economic development and development of local entrepreneurship, especially among rural women.

**Table 1. MSMEs in SE Asian Region by Selected Countries** (most recent year)

Description	MY	VN	SG	TH	PH	ID	MMR	LA	KH
	2015	2016	2016	2015	2015	2013	2015	2009	2007

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Number of MSMEs	735,43	590,00	216,90	2,765,98	896,83	57,848,6	126,23	126,71	31,14
% of total enterprises	5	0	0	6	9	81	7	7	9
Total	99.2	97.0	99.0	99.7	99.5	99.9	99.4	99.8	99.0
empl	6.6	5.4	3.4	10.75	4.79	114.14	n/a	0.29	n/a
oyment	65.5	77.0	65.0	80.44	61.6	97.0	97.0	83.0	72.0
in	36.6	41.0	47.0	41.1	35.7	39.66	58.0	n/a	n/a
MSMEs (million people)									
Percentage of total employment									
MSMEs share in GDP (%)									

Notes: BN: Brunei Darussalam; KH: Cambodia; ID: Indonesia; LA: Lao PDR; MY: Malaysia; PH: Philippines; SG: Singapore; TH: Thailand; VN: Vietnam, MMR: Myanmar.

Sources: ADB (2014, 2015); SME Corp Malaysia (2015, 2016a,b), ASEAN (2015), VCCI (2015) Hung, *at al.* (2014), the Office of SMEs Promotion (OSMEP) (<http://www.sme.go.th/eng/index.php/data-alert/alert/report-other>), MSMED Council (2010), Philippine Statistics Authority (PSA) (<http://psa.gov.ph/content/2012-updating-listestablishments-ule-final-result>), Department of Trade and Industry Philippines

(<http://www.dti.gov.ph/dti/index.php/2014-04-02-03-40-26/news-room/179-workshop-on-market-access-for-smes-set>), Menekop & UKM ([www.depkop.go.id](http://www.depkop.go.id)), BPS ([www.bps.go.id](http://www.bps.go.id)), Luc (2017), Charltons Myanmar (<https://www.charltonsmyanmar.com/contact-charltons-myanmar/>), IFC&EU (2010), WASME (2017), ERIA and OECD (2014), Bank of Lao PDR (2009), and Department of Statistics Singapore (<http://www.singstat.gov.sg/statistics/visualising-data/infographics/economy>).

For all these reasons, countries in the region have launched various programs and introduced many regulations to support MSMEs. The importance of MSMEs in the region is also recognized by the Association of Southeast Asian Nations (ASEAN), and this is evident from the launch by the ASEAN Secretariat of the ASEAN Strategic Action Plan for SME Development 2016-2025. It has five strategic goals, including enhance market access and internationalization with two desired outcomes, i.e. support schemes for market access and integration into the global supply chain will be further developed, and export capacity will be promoted (ASEAN, 2015).

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ASEAN appears to be leading the Asia Pacific in free trade agreement (FTA) formation. The ASEAN Free Trade Area (AFTA) was implemented in 1993 and the ASEAN Economic Community (AEC) was officially launched in late 2015 with the aim to create a single market and production base. All 10 ASEAN member states (AMSs) continue to improve trade facilitation (TF). It is generally expected that full access to TF for exporting MSMEs will have a great positive effect on their export, *ceteris paribus*, other export determinant factors are in favorable conditions.

This study is considered important for two main reasons. First, as reported by the ASEAN Secretariat (ASEAN, 2015), in contrast to their dominant shares in total establishments and total employment, MSMEs' share of national total exports remains small (between 15.7% and 29.9%). Second, although in some AMSs there are a number of studies, mostly field survey-based, on determinant factors of export performance of MSMEs, literature with the focus on the importance of TF for exporting MSMEs in the region is very limited. Especially studies with empirical evidence at the macro level are not available. But, it is understandable simply because aggregate/national data on exports of MSME in the region are scarce. Only very few AMSs have such data. So, although the issue of TF and MSMEs' exports is clearly an important policy issue in ASEAN, the limitation of macro-level data has made it difficult to study systematically the importance of TF as a means to boost MSMEs' exports in the region.

Despite data constraint, nevertheless, this study was carried out with the aim to get the first picture about the issue and at the same time to fill the literature gap on this issue, especially with respect to MSMEs in SE Asia. It also offers future research directions on the importance of TF on export growth of MSMEs.

## **ASEAN Trade Openness and Trade Facilitation**

The common recognition of the importance of free flow of trade (in goods and services) as well as investment flows between AMSs as well as between them and the rest of the world for their high and sustained economic growth and hence poverty reduction was among several important reasons for ASEAN governments to implement the AEC. Although long before that, since the establishment of ASEAN, many ASEAN intra-trade agreements have been signed and implemented. The AMSs are not only progressing in the deepening of economic integration among themselves, but they are also very active in pursuing FTAs with their strategic economic partners outside the region. As of 2016, ASEAN as a regional economic organization and its member states as individual countries were involved in over 100 FTAs. While many of these FTAs are already in full effect (e.g. those with China, Japan, South Korea, Australia and New Zealand, and India), others are either still under negotiations or in the early stages of discussion with trading partners.

Although all AMSs are seeking to increase their international trade through various ways including reforming their foreign trade policies toward liberalization, the degree of trade openness varies among them with Singapore as the leading economy (Table 2 & Figure 1). At least there are two important explanations for that variety. First, individual AMSs may face differences in domestic and foreign non direct trade-policy related constraints such as infrastructure and logistic, transportation, access to financing, availability of raw materials, companies' internal constraints and many others as already discussed in Section 3. Second, the degree of achievement of trade policy reforms may also vary between them.

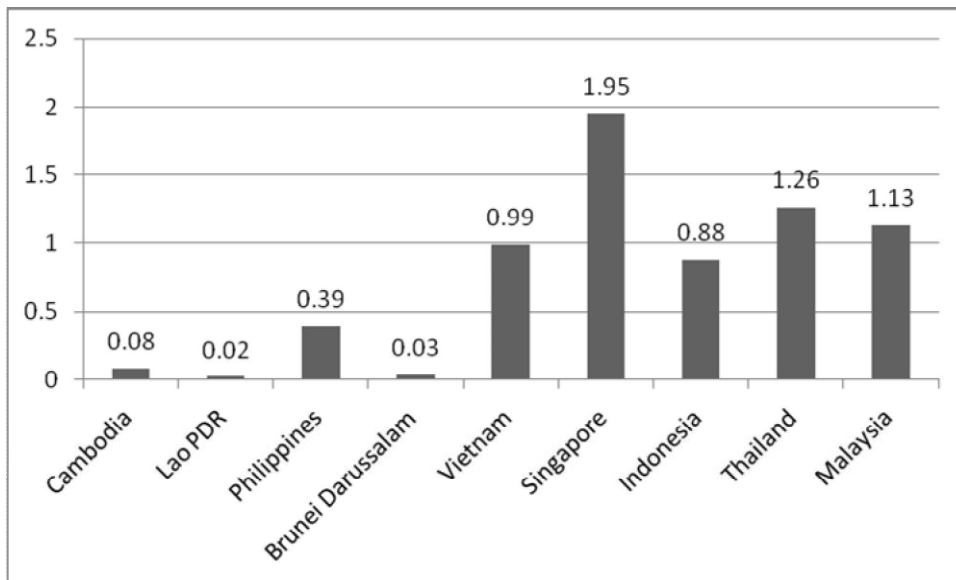
## **Table 2. Trade in Goods\* as % of GDP in ASEAN by Member State**

AMS	2000	2005	2010	2011	2012	2013	2014	2015
Brunei Darussalam	83.5	80.7	83.3	86.7	86.9	83.2	82.9	74.0
Cambodia	90.9	108.5	85.9	95.2	98.1	106.6	107.2	112.7
Indonesia	58.0	50.1	38.9	42.7	41.6	40.5	39.8	34.0
Lao PDR	52.9	52.8	56.5	57.0	58.6	49.7	59.0	64.9
Malaysia	192.1	178.3	142.1	139.5	134.8	134.4	130.9	126.6
Myanmar	1.1	0.3	0.2	0.2	22.6	40.2	44.0	44.3
Philippines	88.7	88.0	55.1	50.1	47.2	45.0	44.8	42.9
Singapore	284.5	337.5	279.8	281.0	272.0	259.7	251.7	219.7
Thailand	103.9	120.7	110.8	121.2	120.4	112.9	112.1	104.4
Viet Nam	96.6	120.1	135.5	150.3	146.5	154.2	160.1	169.5

Note: \* The sum of merchandise exports and imports

Source: International Monetary Fund, May 2016, *International Financial Statistics* (CD-ROM), Washington, DC.

Figure 1. Share of ASEAN World Trade by Member State, 2016 (% of World Total).



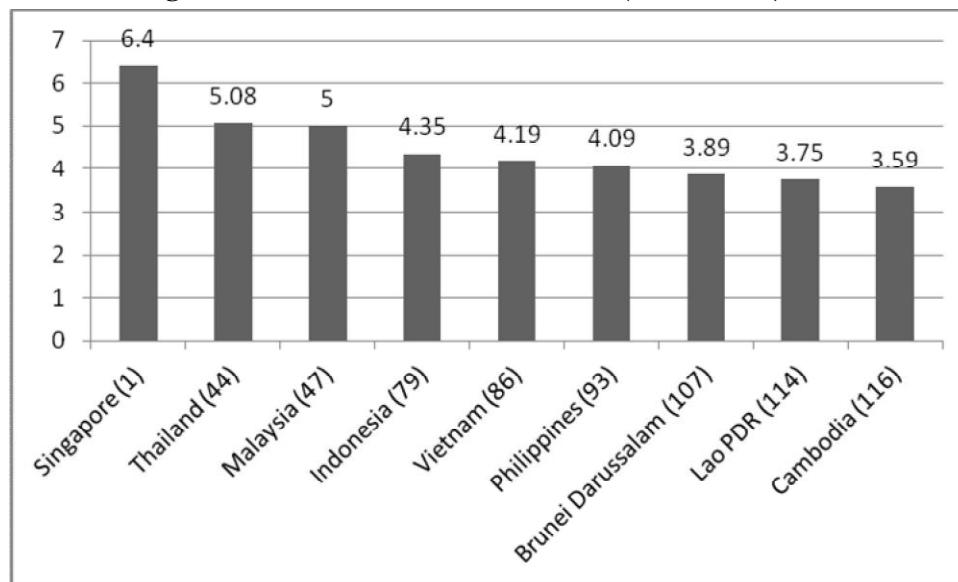
Source: WTO (2016).

One way to assess the level of achievement of trade policy reform in AMSs is to look at the extent to which their border administrations have become more efficient and transparent as a result of the reforms. For this purpose, as explained before, this study uses an index called the Efficiency and Transparency in Border Administration (ETBA) Index, built by the World Economic Forum in collaboration with the Global Alliance (WEF & GAFTF, 2016). This index is consisted of 13 indicators, namely customs services, efficiency of the clearance process, time to import (documentary compliance), time to import (border compliance), cost to import (documentary compliance), cost to import (border

compliance), time to export (documentary compliance), time to export (border compliance), cost to export (documentary compliance), cost to export (border compliance), irregular payments in exports and imports, time predictability of import procedures, and customs transparency index. Thus, this index is a measure of current condition of TF in a country.

As shown in Figure 2, Singapore has the highest score (6.4) which made the country in the first rank out of 136 countries. It is consistent with its highest ratios of merchandise trade to both its GDP (see again Table 2) and world total trade (see again Figure 1), compared to other AMSs. With this, it can be easily concluded that within ASEAN, Singapore has achieved the highest degree of trade openness and it has the best TF.

**Figure 2. The ETBA Index in ASEAN (rank & score)**



Note: the numbers in parentheses are the rank out of 136 surveyed countries by the WEF.

Source: WEF & GAFTF (2016)

**Export Performance of Asean MSMEs**

Based on various sources of information from official reports and literature on MSMEs' exports in SE Asia which were accessible during this study, Table 3 shows MSMEs contributions to total national exports in the region. Unfortunately, this table only covers some AMSs where most recent data are available. As can be seen, the contribution varies by country with Thailand reveals as the AMS with the highest export share of MSMEs, and followed by Philippines.

**Table 3. Percentage Shares of SMEs in Total Export Values in Selected AMSs in Latest Year**

Member States	Share (%)
Thailand	29.9 (2015)
Philippines	25.0 (2015)
Vietnam	20.0 (2002)

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Malaysia	18.6 (2016)
Singapore	16.0 (2002)
Indonesia	15.7 (2013)

Sources: data/information collected from Tambunan (2010, 2014), ASEAN (2015), UN-ESCAP (2010), OSMEP (2010, 2014, 2015), Yuhua (2013), ADB (2014, 2015), SME Corp Malaysia (2016a,b), Wignaraja (2012), Harvie and Lee (2002), Department of Trade and Industry Philippines (<http://www.dti.gov.ph/dti/index.php/201404-02-03-40-26/news-room/179-workshop-on-market-access-for-smes-set>).

Table 3, however, only deals with direct export (sold directly abroad by MSMEs). If MSMEs' indirect exports are also taken into account, their contributions could be much larger than the percentages given in the table. This is because MSMEs in the manufacturing industry often make up a significant part of the value or supply chain, and may not be included in the direct export data. It is also suggested by a report on MSMEs in Indonesia from the Asian Development Bank (ADB, 2002) that the relatively low representation of MSMEs in exports, compared to their larger counterparts, is mainly due to a significant part of MSMEs' exports going unrecorded because they occur indirectly through international trade networks or subcontracting arrangements with intermediaries. In Harvie (2004), it is stated that MSMEs generate about 30% of direct exports, compared to indirect exports, through supply chain relationships with other firms (mainly LEs), which could rise to 50% of total trade. Indirect exports take place through merchant exporters, trading houses and export houses.

Sometimes, these indirect exports are also in the form of export orders from LEs, including multinational companies, where MSMEs play the role of the supporting manufacturer, or the supplier of parts, components and sub-components. A comprehensive study by Abe (2015) shows that many MSMEs in some AMSs are involved in international or regional supply chain or in indirect export activities through subcontracting production linkages with domestic exporting LEs for various reasons, including that doing indirect export is easier and less costly than direct export for MSMEs, market is more secure, and capital requirement is much less or if they need a lot of initial capital to start the production they may have an alternative source of finance from their contracting companies within the supply chain. In the automobile industry in Thailand, for instance, many MSMEs are engaged in the lower-tier production within global value chains that provide them an entry point to the automotive part industry, but no MSMEs in the industry sold their products in international open markets. In Cambodia, Bangladesh, India and People Republic of China, as another example, in garments and apparel industries MSMEs doing direct export are much less than those involved in global value chains because of e.g. entry barriers are relatively low; relatively low cost; favorable business conditions for MSMEs to this kind of business due to their greater flexibility, low skilled technology and adaptability to local community; high demand from multinational companies due to the following two pressures, namely pressure to meet stringent international standard regarding labor and environment, and demands for cheaper products, higher quality and shorter lead time.

Yoshino and Wignaraja's (2015) study shows that ASEAN accounted for 9.3% of world supply chain trade (SCT) over the period 2009-2013 with Malaysia as the largest player. With respect to MSMEs, as shown in Table 4 based on Wignaraja's (2013) study, the percentage in total ASEAN SCT is 22% with

Malaysia with the highest percentage. This table may indicate that Malaysian MSMEs are more active in indirect export (SCT) than direct export shown in Table 3.

**Table 4. MSMEs in Supply Chain Trade (SCT) in SE Asia, 2009-2013**

Member States	Country share (% of total ASEAN SCT)*	MSMEs share (% of all MSMEs)**
Malaysia	2.7	46.2
Thailand	2.0	29.6
Singapore	1.7	n/a
Vietnam	1.1	21.4
Philippines	1.0	20.1
Indonesia	0.8	6.3
Cambodia	0.2	n.a

Sources: \*Yoshino and Wignaraja (2015); \*\*Wignaraja (2013).

**Literature Review: Factors Influencing MSMEs' Exports**

Generally, market orientation of MSME is different than that of their larger counterpart (LEs). The majority of the former group especially micro and small enterprises (MSEs) produce simple and cheap consumption goods which are often considered as inferior goods for local poor or low-income buyers; although there are many evident showing that MSEs also export, either directly or indirectly through e.g. subcontracting or marketing arrangements with LEs. Exporting MSEs are mainly found in furniture, foods, clothes and handicraft industries. Wattanapruttipaisan's (2005) study, for instance, shows that direct contribution made by MSMEs to total export earnings in SE Asia is much less than 50%; although it varies by country. This evidence is consistent with a report from APEC in 2003 which shows that MSMEs in the region contributed less than 30% of direct exports on average. This evidence leads to question: do MSMEs in SE Asia have the capability to export, especially directly to final buyers in foreign countries?

The literature on MSMEs' export has been growing in the past few decades with a general conclusion that MSMEs do have export potential but they faced many constraints which limited them to fully participate in export activities. Table 5 presents main findings of key research papers written since 1990s on determinant factors or main constraints of MSMEs' exports. The papers also provide comprehensive literature reviews on the issue. Most of the papers are based on field surveys on exporting MSMEs in many parts of the world.

**Table 5. General Findings from Key Literature on Determinants/Constraints of MSMEs' Exports**

Literature	Region/Country	Main determinants/constraints
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Hine and Kelly (1997)	Asia	<p>Inside firms (internal environment): attitudes, values, perceptions of risk, continuous learning, managerial and marketing skills, availability of resources (including financial resources), adjustment of organizational structure, and the availability and effective use of information</p> <p>Outside firms (external environment): expanding trade and commercial movements, differences in national values, language, culture, economic structures, institutions, and histories, the distribution of wealth between countries, the level of protection (i.e. tariff as well as non-tariff barriers policies), exchange rate policies, red tape and other unnecessary administration procedures, and multilateral, regional, and bilateral trade policies.</p>
Sandee, Henry and Buddy Ibrahim (2002),	Indonesia	<p>Obstacles on the supply side: high transaction costs, high wage of workers, lack of access to formal credit.</p> <p>Obstacles on the demand side: increasing competitions from other exporting countries.</p>
Valodia and Velia (2004)	South Africa	<p>In domestic economy: cost of imported inputs/raw materials, poor business linkages, exchange rate movements, niche markets where demand was not price sensitive, lack of production capacity, disability to produce high or international standar quality goods. licensing/paten rights, firm size, lack of knowledge of international markets..</p> <p>In foreign markets: high tariffs, import licensing and other non-tariff barriers, antidumping actions, unreliable South African firms as overseas suppliers, illegal custom control procedure.</p>
Hessels and Terjesen's (2007)	Netherlands	How firms adopt legitimate business or industry practices, how firms access to key resources (e.g. technology, capital, market information, raw materials, international marketing knowledge).
Amornkitvikai, <i>et.al.</i> (2012)	Thailand	<p>Positive effects: government assistance, foreign ownership, municipal location, R&amp;D, skilled labor.</p> <p>Mixed effects: firm size and age, labor productivity.</p>

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Petrit, <i>et al.</i> (2012)	South Eastern Europe	firm size, ownership, sector of activity, the availability of external finance, affiliation with business organisations, education of the workforce and, to a lesser extent, technology-related factors.
Wignaraja (2012)	Malaysia, Thailand, Indonesia, Philippines, Vietnam	Firm size, foreign ownership, higher worker's education, obtaining international agreed certificates (such as ISO), having access to foreign technology, having access to bank's credit.
Mupemhi, <i>et al.</i> (2013)	Zimbabwe	Positive effects: availability of funds, management attitudes, knowledge of the market risk perception, international networks, intensity of competition.  No effects: age and size of the firms, technical ability of managers.
Nyatwongi (2015)	Kenya	Policy and legal framework, market information, high tax costs, technology, finances and management skills.
Harchegani, <i>et al.</i> (2015)	Iran	Environmental factors (which includes stability in political, economic and legal environment, database to access taste of export markets, and attractiveness of export markets), managers' commitment to export (which includes a separate export unit, regular visit of export markets, and using export market research), managers' export marketing strategy (which includes product adaptation strategy, pricing adaptation strategy, product innovation strategy, foreign advertisement, new products), export incentives (which includes export motives, export problems, and competition), objective characteristics of the firm (which includes such as size, export experience, expert human resource and sufficient financial).
Mpunga (2016)	Tanzania	Adequate and stable financial capital, knowledge on foreign language, production technology, information and communication technology (ICT), information search competencies, MSMEs' standard products, restrictive entrance procedures into the country, export market characteristics (e.g. complicated business laws/regulations, customers' indifference with foreign goods, price uncertainty in the export markets, product competition in the export market, and complicated travel accreditation).

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Alam's (2017)	China, India, Russia	Foreign ownership, international certification, foreign technology, establishment in export processing zones.
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Besides literature specifically on factors influencing export of MSMEs, there are also some studies focused mainly on key factors that influenced the decision of MSMEs' owners who initially only served local/domestic markets to engage in export. Julien and Ramangalahy's (2003) research is among these studies which indicates that the limited ability to acquire information and knowledge about foreign markets and to manage foreign activities is largely responsible for MSMEs' relatively low level of exporting commitment and poor performance. While, Belso-Martinez (2006) found that because of these limitations, industrial districts or clusters have been increasingly recognized as an organizational model enabling MSMEs to become exporters and to compete internationally. In Indonesia, for instance, most export-oriented MSMEs are found in clusters. Many MSMEs inside clusters were previously only served local or national markets, but then they also sold their products, directly or indirectly, abroad. Some clusters are more developed than others in export activities, mainly because they have well-developed long-term subcontracting arrangements with domestic exporting big companies or trade contracts with domestic trading companies/agents or distributors in importing countries (Perry and Tambunan, 2009; Tambunan, 2010, 2013, 2015).

Literature on TF has also been growing especially since 2013 when WTO members concluded negotiations at the 2013 Bali Ministerial Conference on the landmark Trade Facilitation Agreement (FTA). Unfortunately, empirical studies on the importance of TF on MSMEs are very few. Among them are Hoekman and Shepherd (2013) who found that export time as a measure of TF together with size of firms and ownership are positively related to MSMEs' participation in direct export. Li and Wilson's (2009) study shows that the improvement in TF tends to increase probability of MSMEs to export. In particular, better information and communication technology (ICT) services, streamlined clearance, and less transportation obstacles increase the chance for MSMEs to participate in export, given other factors that also have influences on firms' capability to do export independently such as finance, skilled workers, technology, and market information. Findings from Cardoza, *et al.*'s (2012) study on MSMEs in Jiangsu Province, China suggests that limited access to finance, domestic inefficiencies in logistics and distribution, international transport costs and payment collection costs, and adverse regulatory frameworks affect negatively decision of MSMEs to participate in export market. Three other factors, namely, government assistance, state participation, and public procurement, are not statistically significant. De Dios (2009), who investigated the impact of ICT-based TF measures on MSMEs in the Philippines, found that the ease and speed of electronic lodgment have reduced transactions costs somewhat and hence MSME exports are at an advantage. This is because compliance costs for MSMEs are disproportionate to their size, so that ICT-based lodgment favors them by lowering total cost burdens and costs per unit export. Son and Son (2011) have investigated cross-border trade between Cambodia, Lao PDR and Vietnam, which has expanded rapidly over many years. They found that among the factors that contributed to this phenomenon was the application of a number of crossborder trade facilitation measures. Their study also shows that the emphasis of cross-border TF among these AMSs was on customs procedures, inspection and quarantine measures, trade logistics, transport, and mobility of business people, while the important role of financial services had been overlooked.

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Using the case study of Vietnam, the study investigated how users and providers of financial services in the border-gate areas saw financial services as a factor of cross-border TF, and it was found that, for the local business community, financial services were an important factor for cross-border TF. Probably, Duval and Utoktham's (2014) study is the most comprehensive research on the importance of TF for MSMEs engaging in either direct exports or international production network (IPN) in the Asia-Pacific region. With a binomial logit regression, it indicates that, among other factors, access to a variety of external trade finance sources including bank financing and supplier credit, is important to boost MSMEs' export participation. Whereas, modern information technology and international quality certification appears to be particularly crucial for MSMEs to participation in IPN.

Indonesia has also some studies on TF, but not specifically on MSMEs, such as by Damuri (2006) and Rahardhan, *et al.* (2008). One important finding from the former one is that many traders faced difficulties in meeting certain new introduced trade regulations and procedures as part of the country's effort to improve its TF because they were issued and implemented at the same time, without any notification whatsoever. The lack of formal consultative mechanisms exacerbated the situation even further. The second study was based on a field survey of exporters, and it shows that, from the perspective of the respondents, the most important items of TF were: (i) with respect to tariff barriers: removing all problems related to custom procedures, bringing tariff differences in line with declining MFN tariffs, improving administration procedures in filling out all required forms, and providing information on the Common Effective Preferential Tariff (CEPT) scheme; (ii) with respect to non-tariff barriers: the elimination of problems related to import licenses, regulations on specific technical requirements, costs of various extra taxes, including tax of foreign exchange transactions, import license, and many others, and custom clearance procedures.

The only research on the importance of TF on MSMEs' export in Indonesia is from Tambunan who had conducted two surveys in 2009 and 2012. In 2009, the study was based on a survey of 39 export-oriented MSMEs in the wood furniture industry in the province of Central Java. The respondents were asked which forms of TF were considered as the main problem for them in doing export. Although different individuals (or groups of individuals) have different perceptions about the degree of the problem with respect to each forms of TF, the following six forms of TF were mentioned by the respondents, i.e. (1) customs regulations and cost involved (7 respondents); (2) shipments (2 respondents); (3) documents required for export (4 respondents); (4) environment, health and safety regulations (3 respondents); (5) harbour facilities and costs involved (2 respondents); and (6) trade financing, especially with respect to letters of credit and/or trade credit (21 respondents). Another interesting finding was that the lack of access to trade financing was also a problem for the majority of respondents. It is interesting because many banks in Indonesia have been implementing efforts to facilitate MSMEs in trade. Not only private commercial banks, such as Bank International Indonesia and Standard Chartered Bank, but also several state-owned banks such as Bank Mandiri, BRI, BNI and Bank Ekspor-Impor Indonesia are providing TF to MSMEs. The TF in Indonesia includes loans for working capital, investment credit, letters of credit (L/C), foreign exchange line, bank guarantee, shipping guarantee, business management account –international trade (current account with interest and integrated trade facility), Loans Against Trust Receipt (LATR), Inward Bills Collection (IBC), Invoice Financing for Suppliers (purchase), Credit Bills Negotiation (CBN) Clean and Discrepant, Pre-

Export Financing, Export Bills Collection (EBC), etc. It revealed that many of the respondents who said that trade financing was a problem, were not informed about all those banks' facilities.

Tambunan's second (2012) study was also based on a field survey conducted in two clusters of export-oriented MSMEs with 82 respondents: 30 producers in Solo city in the province of Central Java and 52 producers in D.I. Yogyakarta. The respondents were only those currently exporting and were selected randomly based on the lists of members provided by regional offices of Chamber of Commerce and Indonesia. Not all respondents were MSMEs; some were also LEs for a comparison reason. Face-to-face interviews were conducted using a semi-structured questionnaire, consisting of a list of questions covering broad areas related to TF. The findings suggest that LEs have more access to TF needed to support their export activities than their smaller counterparts.

For instance, around 73.9% of a total of 23 LEs in the sample had access to trade financing, while only 7.1% of a total of 59 MSMEs surveyed had access. For trade insurance, almost 70% of the sampled LEs had access to, compared to only around 3.6% of the sampled MSMEs. For access to information, the comparison is almost 87% of LEs versus almost 39% of MSMEs.

## **Theoretical Framework**

The above literature review indicates obviously that there are many factors affecting the export performance or export capability of MSMEs simultaneously.

Depending on their initial sources (e.g. internal vs external; national vs. international), or the way they affect (i.e. directly vs. indirectly), and on the emphasis or the aim of a research, these factors can be grouped into several categories. As illustrated in Figure 3, the factors can be divided into 'domestic/national' factors and 'foreign/international' factors. The latter can further be distinguished between 'foreign trade policies' (e.g. protectionism or free trade regime; import regulations) and 'other non-domestic/international factors' (e.g. international transportations, regional security, foreign market competition environment, etc.). Domestic or national factors consist of policy and non-policy factors. The policy factors include national trade policies (e.g. regulations, administration requirements, export and import tariffs), and the non-policy factors can be distinguished between factors inside the company or the 'company's internal factors/environment' (e.g. skills of workers, business organization style, knowledge and vision of owners/managers, availability of technology and capital, business networks) and factors outside the company or 'company's external factors/environment', which include TF. Other external factors are such as access to technologies, training/education, and information; availability and prices of raw materials; and others which are not considered as TF.

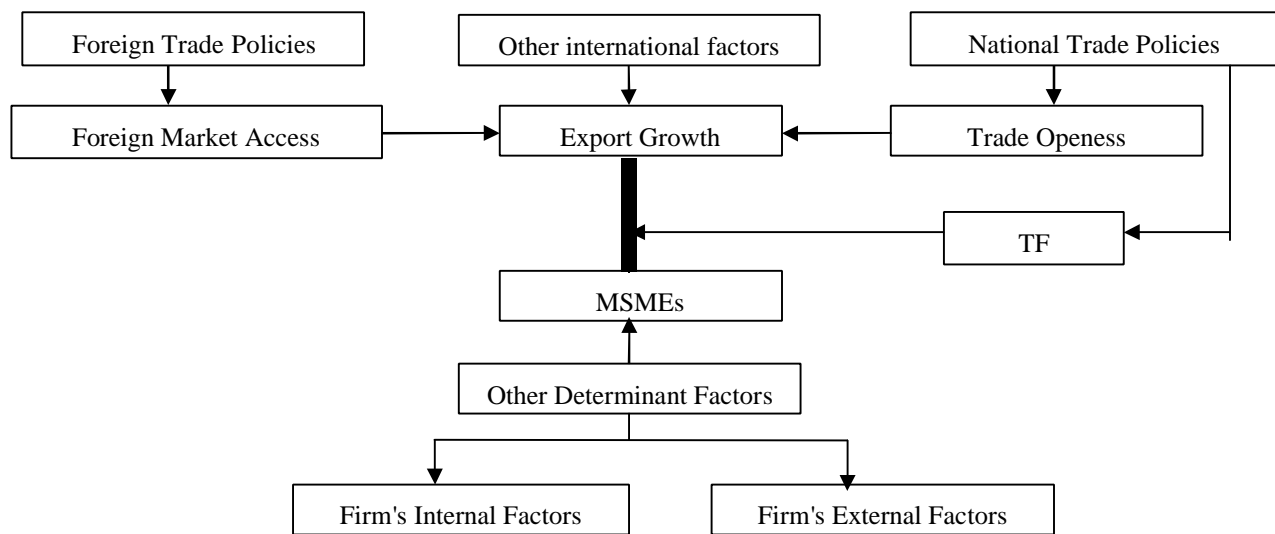
Theoretically, it can be expected that foreign trade policies, reflected by, the degree of foreign market access, will have effects on MSMEs' exports. Less or no import restrictions in countries of destination means more export of MSMEs, *ceteris paribus*, other export determinants are in favourable condition or at least remain constant.

Similarly, it can be expected that national trade policies, reflected by the level of trade openness (i.e. percentage of total export and import in GDP), will have effects on export performance of MSMEs, *ceteris paribus*. National trade policies toward liberalization will be resulted in e.g. low or no tariff for imported raw materials or production tools needed by exporting MSMEs, and low or no tariff for MSMEs' exported goods. But, national trade policy can also be reflected by the condition of TF: as the

main aim of countries adopting free trade policies is not solely to raise import but to increase their export, and to achieve that they have to, among others, provide or to improve existing TF. So, domestic export-oriented firms can export easy and efficient.

Now, of course, at the end it all depends on the ability of MSMEs to make a good use of increasing export opportunity caused by more foreign market access or national free trade policies or better access to TF. In other words, good company's internal environment and business friendly environment (company's external factors) must also in place.

**Figure 3. System of Factors Affecting MSMEs' Exports**



In summary, *ceteris paribus*, other determinants are constant or in favour of MSMEs' export, more foreign market access or/and more TF will affect MSMEs' exports positively, and hence export share of MSMEs will increase, given that export of LEs keeps constant.

**Econometric Model and Sources of Data**

To estimate the effects of foreign market access and TF on export share of MSMEs, this study uses a simple linear regression model with percentage share of MSMEs in total export values in selected AMSs (see Table 4) as the dependent variable, denoted by "Y".

The independent variables are efficiency and transparency of border administration (ETBA) in ASEAN (rank and score), denoted by "X<sub>1</sub>" (see Figure 3) and foreign market access (FMA), denoted by "X<sub>2</sub>" (see Figure 5). The coefficients of independent variables are "a" and "b". The data is obtained from various sources. This is not comparing between countries but to analyze the relation between the variables. Data for export share of MSMEs were collected from various accessible sources e.g. national statistic agencies, government reports/database and academic papers. Data for FMA are from the FMA Index, which is a subindex of the Global Enabling Trade Index (GETI) published in selected years (the last one in 2016) by the World Economic Forum (WEF). The GETI is based on data from more than 100 individual countries collected by the WEF from its annual Executive Opinion Survey for its annual report The Global Competitiveness Report. The FMA Index can be seen as a proxy of foreign market accessibility for AMSs' exports. Data for ETBA are from the ETBA Index, which is also part of the GETI.

It measures the degree of efficiency and transparency of border administration in more than 100 individual countries. This index represents the condition of TF in this study. The more efficient and transparent are the border administration of a country, which means the better the condition of the country's TF, the higher its index.

**Result Findings and Discussion**

The main research question here is: does TF have real effect on MSMEs' export? The above review of studies on TF and MSMEs' export by using firm-level data from a number of developing countries may suggest that indeed TF is important to boost MSMEs' export. While, evidence based on macro-level data does not exist or hard to find. Even, data which were available for this study presented in Table 3 give the opposite impression that efficiency and transparency in border administration, as an important part of TF, have no effect at all on MSMEs' exports. Because, if there is any effect, the percentage of MSMEs' exports in Singapore, for instance, should be much higher than what is shown in Table 3, or even it should be the highest in the group, simply because Singapore has the highest ETBA Index (see again Figure 2). Even, the regression result shows a negative correlation between TF and export share of MSMEs (Table 6).

**Table 6. The Regression Result**

Y	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
X1	-.0145706	.0239896	-0.61	0.586	-.0909161
X2	.0617749				
Constant	.0083297	.0511216	0.16	0.881	-.1543621
	.1710216				
	.2480806	.271093	0.92	0.428	-.6146583
	1.11082				
Number of obs = 6					
F( 2, 3) = 0.24					
Prob > F = 0.7983					
R-squared = 0.0636					
Root MSE = .06888					

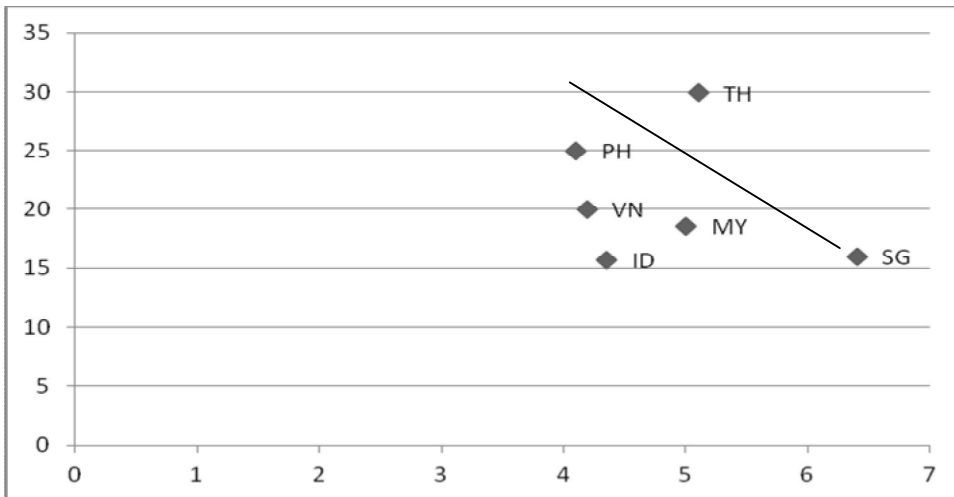
Econometrically, one way to test the accuracy of a model which indicates the fit of the model is the Root MSE of estimate. It judges the magnitude of the root MSE of estimate relative to the values of the dependent variable, and particularly to the meaning of Y. The closer to zero is better. As observable in the regression result, the root MSE is at 0.07, which means that the estimate is particularly small and closer to zero and so it is relatively accurate. The P-value is at 0.8, which is significantly high compared to the alpha at 0.05. Based on the result, it could be said that the study needs more data elaboration to explain the relation between dependent variable and the independent ones. But, as explained before, one serious limitation of this study is data. With respect to the coefficient of determination, Table 6 shows that rsquare is 0.06 or 6% meaning that the 6 percent of the variation is explained by the two independent variables, while the rest remains unexplained. Hence, no matter how the coefficient of determination is measured, the model's fit is very small. Because there is more than one independent

variable, this work uses the method of analysis of variance (ANOVA) to determine whether the model is valid. To test the validity of the regression, at least one variable is not equal to 0 and so the null hypothesis is not true.

The scatter diagram in Figure 4 confirms the regression result, which indicates that the relationship between TF and export share of MSMEs has a negative coefficient. How could this happen? Logically, that the existence of TF (regardless of its form or type) should have a positive, not negative coefficient (regardless its value and statistical significance) since the main purpose of TF is to simplify export and import at a cheaper cost.

**Figure 4. MSMEs' Export Share and the ETBA Index of Selected AMSs MSMEs' Export Share (%)**

Export share (%) ETBA Index



Sources: Table 4 & Figure 3

At least there are four possible reasons:

a) Data problem. Especially in developing low income countries, the lack of basic data on MSMEs for important variables, including export, is a serious problem. In ASEAN, only few member states, i.e. Malaysia, Thailand, Indonesia, and the Philippines, have official data on MSMEs' export. For Singapore and Viet Nam, data were not from related government agencies but taken from some academic papers. Without data on export, it is impossible to examine empirically at the macro level the importance of TF for export growth of MSMEs;

b) Inadequate information on existing TF.

Most likely that many MSMEs' owners, especially in rural or remote areas with no or limited access to information and communication, are not aware of any existing TF. Or if they have ever heard about it, they do not know its procedure. Even in urban areas or cities, not all owners of MSMEs are well-informed with existing TF or aware about the benefit of using it for their export. From his study based on a field survey of export-oriented MSMEs in two important cities in the province of Central Java, Indonesia (i.e. Solo and D.I.Yogyakarta), with a total of 82 respondents, Tambunan (2009) found many

of the respondents never heard about TF, either provided by the central, regional or district government. According to him, there are two possible reasons, namely lack of information from the government about its provided TF, and/or, lack of own initiative of exporters in seeking information about TF provided by the government. More interestingly from his study is that some respondents, especially from the category of micro enterprises, were found to have no any idea about what kind of supports or facilities they really need for their export;

c) MSMEs have many internal constraints.

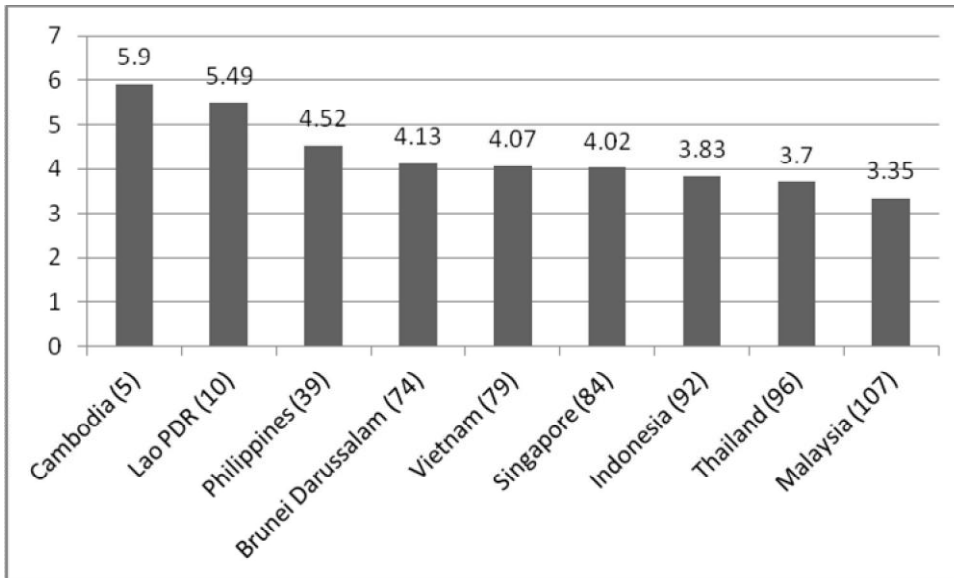
Although TF is available and can be fully accessed by MSMEs, it does not mean that MSMEs can create their export automatically. It is generally discussed and empirically evident in the literature that MSMEs especially in low income countries are facing many internal constraints that inhibited MSMEs to engage in export or limited the ability of exporting MSMEs to increase their export. The internal constraints are including (i) lack of skilled workers; (ii) lack of advanced technology, including information and communication technology (ICT); (iii) shortage of capital not only for financing export but also to purchase new machineries and other investment purposes; (iv) lack of managers with expertise and extensive knowledge on targeted foreign markets/global demand, international marketing foreign language, foreign culture and import regulations in destination countries; (v) lack of entrepreneurial zeal of the owner; (vi) lack of innovation culture or capability to do research and development; (vii) lack of economies of scale and scope; and (viii) lack of global networks, including solid distribution channels. All these constraints are more perceived by micro and small rather than medium enterprises, and especially those in rural areas.

So, it is not surprise that MSMEs in developing countries are generally local/domestic market oriented (e.g. Roberts and Tybout, 1997; OECD, 2008, 2009; Ottaviano and Martincus, 2009; Li and Wilson, 2009; Abe 2015);

d) Lack of foreign market access.

Based on their deep investigations on export capability of MSMEs in a number of less developed countries, Ottaviano and Martincus (2009), Li and Wilson (2009), and Abe (2015) conclude that the successful of MSMEs in export also depends on low or no entry-barriers in destination countries. In this study, the degree of foreign market access facing individual AMSs is measured by the Foreign Market Access (FMA) Index from the WEF, as shown in Figure 5. It assesses tariff barriers faced by a country's exporters in destination markets. It has two indicators, namely (i) the average tariffs faced by the country, and (ii) index of margin of preference in destination markets negotiated through bilateral or regional trade agreements. With respect to this second indicator, among other reasons, less developed /low-income/poor countries usually have lower tariff barriers and/or more preference for their certain export commodities given by developed/rich countries as part of their development aid for the countries.

**Figure 5. The FMA Index in Selected AMSs, 2016.**

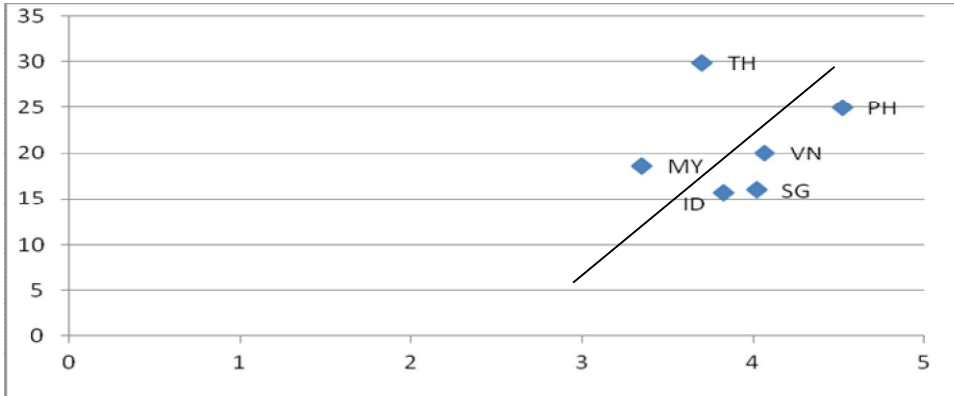


Source: WEF & GAFTF (2016).

Figure 5 shows that Cambodia has the highest index, and thus the country should have the largest export share of MSMEs in ASEAN. Unfortunately, data on Cambodian MSMEs' export are not available. Nevertheless, with data in Table 4, and the regression result in Table 6, the scatter diagram in Figure 6 proves that foreign market access is indeed an important determining factor for MSMEs' export. But, even if foreign market is fully accessible, still there is no guarantee that MSMEs in ASEAN can enter the market as long as they are not able to overcome all the above mentioned internal deficiencies (as well as firm's external constraints such as lack of infrastructure and inefficient logistic). An interesting case here is to compare Thailand with the Philippines: the FMA Index of Thailand is much lower than that of the Philippines, but, as shown in Table 4, MSMEs' export share in the former country is higher than that in the latter one. By assuming that the export data are correct, this may suggest that Thai MSME in general are more able to export than their Philippines counterparts.

**Figure 6. MSMEs' Export Share and the FMA Index of Selected AMSs**

Export share (%)



Foreign market access index

Sources: Table 4 & Figure 4

Finally, annual global surveys by the WEF (the Executive Opinion Survey/EOS) in more than 100 countries may add important information about other current problems, not related to TF or foreign market access, of MSMEs in doing their businesses, including exports. The EOS in each country covers minimum 80 to maximum 85 companies across sectors as respondents. In each country, half of the randomly selected companies are MSMEs (i.e. companies with less than 500 employees). The selection of the companies in each sector was according to the country's GDP structure. Thus, in Indonesia, for instance, the majority of the selected companies are in the manufacturing industry, as it is the largest contributing sector to the country's GDP. The owners/presidents/managers/directors/CEOs of the sampled companies in all sampled countries were given the list of problematic factors, and they were asked to select the five most problematic factors in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings. The information given in Table 6 is drawn from the 2016 EOS regarding AMSs. As can be seen, in Cambodia (KH), for instance, from the given list of 12 factors, the most problematic factor mentioned by the largest percentage (18.1%) of the respondents is identifying potential markers and buyers. In Indonesia, it is high cost or delays caused by domestic transportation with 17.1%, and so on. Although the results in Table 7 can not generalize the whole country, it may suggest that the most problematic factor in doing businesses in ASEAN is factor no.1

**Table 6: The Most Problematic Factor in Doing Business in Selected AMSs based on the 2015 EOS 2016**

No	Problematic Factor	KH	ID	LA	MY	PH	SG	TH	VN
1	Identifying potential markets and buyers	<b>18.1</b>	9.4	<b>14.5</b>	<b>13.6</b>	9.0	11.6	<b>14.3</b>	<b>16.5</b>
2	Inappropriate production technology and	14.4	8.3	9.4	5.1	8.0	4.5	9.8	9.2
3	skills	13.8	7.8	9.5	8.5	10.6	2.3	11.3	12.0
4	Difficulties in meeting	10.6	<b>17.1</b>	13.7	8.7	<b>19.9</b>	2.3	5.2	6.8
5	buyers' quality/quantity	9.7	7.4	8.6	9.4	9.6	9.0	10.2	9.5
6	requirements	8.8	9.7	4.3	8.7	10.3	9.4	11.6	13.6
7	High cost or delays caused by domestic	5.4	8.3	11.3	8.1	10.7	8.1	6.3	2.8
8	transportation	5.1	7.0	8.7	8.5	4.7	1.5	5.1	11.2
9	Access to imported inputs at competitive	3.8	6.3	1.5	4.9	3.5	12.6	4.9	6.3
10	prices	3.5	4.3	7.0	8.9	6.0	<b>17.4</b>	5.2	5.6
11	Technical requirements and standards	3.5	7.5	6.2	7.2	2.7	8.5	3.3	1.4
12	abroad	3.3	6.9	5.2	8.4	5.0	12.9	12.8	5.1
	High cost or delays caused by international transportation	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Access to trade finance								
	Rules of origin requirements abroad								
	Burdensome procedures at foreign borders								
	Corruption at foreign borders								
	Tariff barriers abroad								
	Total								

Note: KH: Cambodia; ID: Indonesia; LA: Lao PDR; MY: Malaysia; PH: Philippines; SG: Singapore; TH: Thailand; VN: Vietnam.

Source: WEF & GAFTF (2016),

**Conclusion and Future Research**

Especially since the start of AFTA in 1993 and followed by the AEC in 2015, all AMSs have reformed their trade policies and made many efforts to increase their exports, including providing or improving their existing TF. It is generally expected across AMSs that TF is an important means to boost MSMEs' exports. This study is however not very successful to prove that. Not because TF is unimportant, but simply because this study lacks of both macro/national-level data and micro/firm-level data. From the first group of data, two kinds of data are most needed, namely time series data on MSMEs' exports and the percentage of exporting MSMEs that used existing TF (for instance, from all exporting MSMEs in individual AMSs, how many of them have (ever) used a special export financing scheme (if any) to finance their export marketing). From the second category of data, the most needed information from individual exporting MSMEs is including their access to TF, their assessment of existing TF, and their opinion about the importance of TF for their export.

The procurement of such macro data as mentioned above is primary a government task, or it can be done by related business association (e.g. in the case of Indonesia, the Indonesian Association of

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Exporters). So, the research agenda should be field survey-based research to collect the above mentioned micro-level data.

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