Chapter 7. Access to market and internationalisation

Introduction

For most of human history, production and consumption have been tightly bundled together, as the prohibitive cost of moving goods resulted in a geographic clustering of production and people (Baldwin, 2006[1]). Baldwin and others argue that this situation was disrupted by two great production "unbundlings" that precipitated a significant expansion in global trade. The first of these unbundlings was highly aggregative, and had the effect of substantially increasing income disparities between countries – disparities that became persistent as firms in higher-productivity countries continued to innovate, scale and increase their productivity, and thus the price and quality competitiveness of their goods, via agglomeration.[1] The second, brought about by a reduction in communication and co-ordination costs, allowed firms in industrialised countries to take advantage of productivity-adjusted wage gaps in lower-income countries (Baldwin, 2006[1]) by unpacking their operations and beginning to "trade in tasks" (Grossman and Rossi-Hansberg, 2008[2]). This second unbundling affords firms in lower-income countries the opportunity to trade competitively[2] on global markets, with trade in turn acting as a competitive pressure to incentivise the firm to boost its productivity over time.

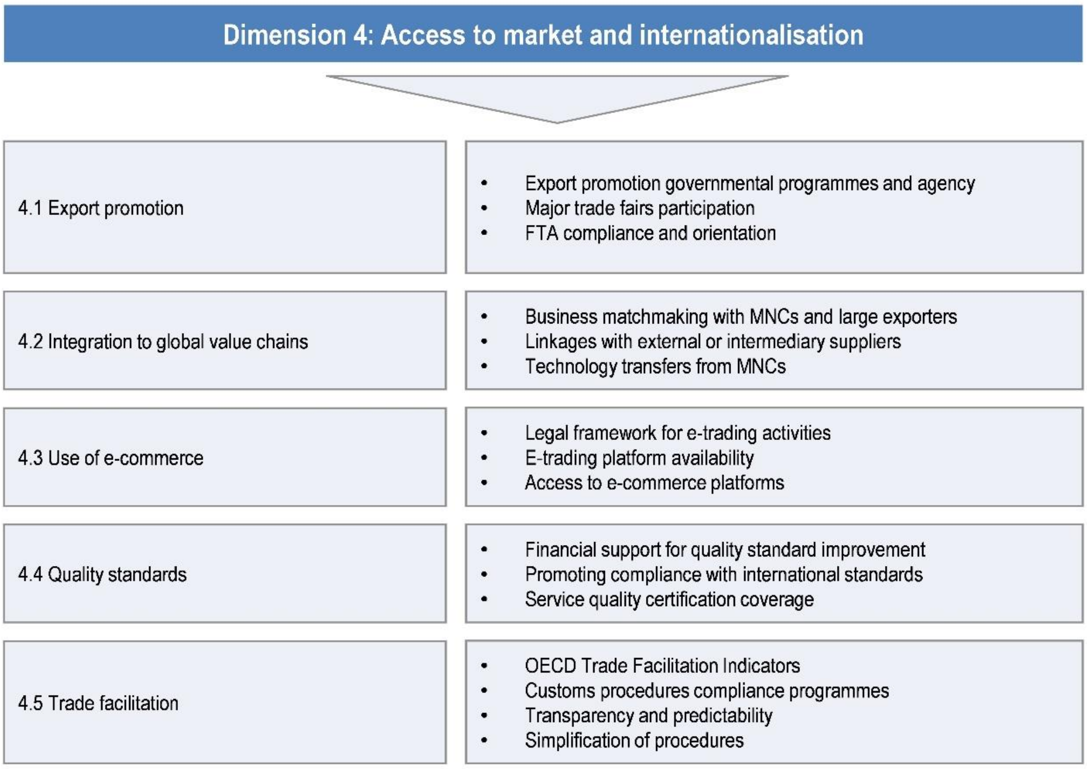
The development of global value chains (GVCs) – a result of the second unbundling – enables countries to industrialise without first establishing an extensive industrial base. SMEs may have a particular role to play in this process. Their flexibility may enable them to adapt quickly, making them particularly well suited to fill supply niches (OECD, 2013[3]; OECD, 2008[4]). Linkages between SMEs and larger international firms can also be an important conduit for transferring know-how, technology and better quality inputs, and can allow SMEs to specialise while increasing their productive and innovative capacity (see also (López González, 2017[5]; OECD, 2018 forthcoming[6]). Internationalisation can also benefit SMEs in industrialised countries: SMEs often use internationalisation as a tool to grow and achieve economies of scale that would not be possible while operating in the domestic market alone (OECD, 2009[7]). Internationalisation may be particularly important for high-technology start-ups since it allows them to recover initial fixed costs more quickly, and because their business success often depends on being able to get to market and scale as rapidly as possible (Burgel et al., 2000[8]).

Despite these benefits, SMEs are generally less likely than larger firms to internationalise. Their limited size, resources, managerial structure and geographic location can result in informational, technical and administrative barriers that make it difficult to access finance, comply with quality standards, bridge connectivity and infrastructure constraints, innovate or find and develop suitable human capital (UNCTAD, 2010[9]; Harvie, Narjoko and Oum, 2013[10]). Policy interventions designed to increase SME presence in export markets and global value chains thus often focus on export financing facilities, training programmes and portals for international marketing, "business matchmaking" activities between SMEs and multinational corporations (MNCs), support to acquire internationally recognised product quality certification, support for attending international trade fairs and the creation of e-commerce platforms on which SMEs can list (Duval and Utoktham, 2014[11]; Yuhua and Bayhaqi, 2013[12]). These programmes are often part of a country's overall economic development and/or export promotion strategy.

Assessment framework

The framework used to assess the sophistication and intensity of policies to enhance market access for SMEs covers five sub-dimensions. These sub-dimensions look at policies and programmes to encourage SMEs to internationalise, help them upgrade their capacity and take advantage of the new opportunities opening up with global technological change. The sub-dimensions and their key components are presented in Figure 7.1.

Figure 7.1. ASPI framework for assessing SME access to market and internationalisation



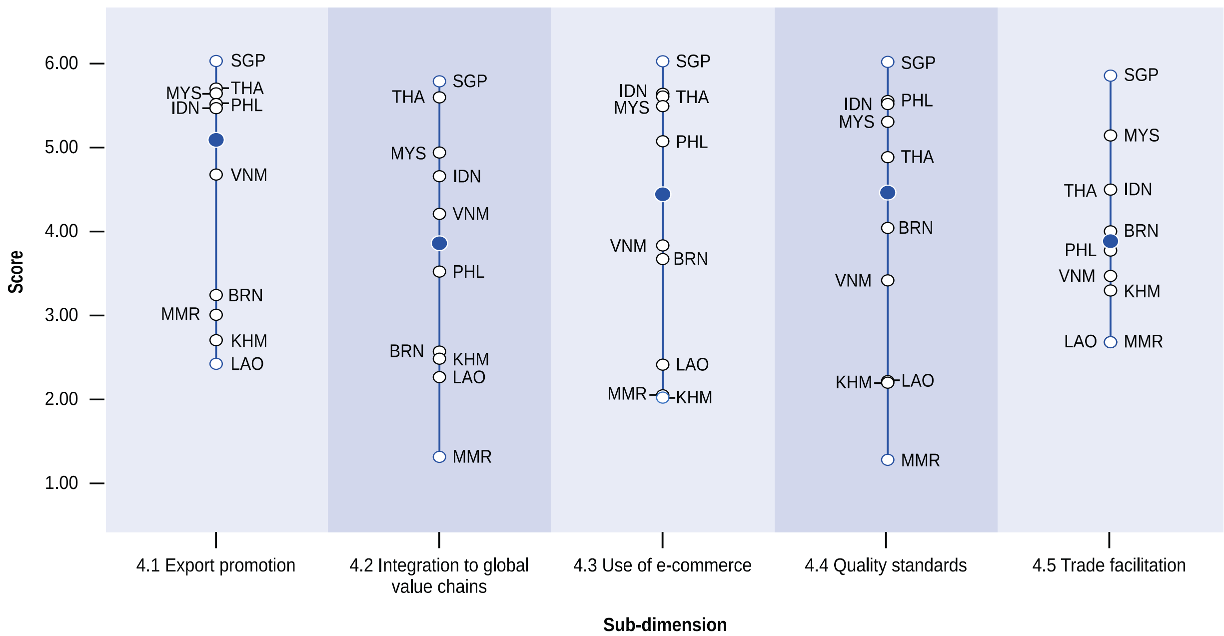
The five sub-dimensions were weighted based on expert opinion. Sub-dimension 4.1 was assigned a weight of 50% based on the notion that this is a foundational step to encourage SMEs to think global. Sub-dimensions 4.2 and 4.5 were assigned the second highest weights (15% each), based on the rationale that integration into GVCs and trade facilitation are an important next step, greatly supporting SMEs that have started to think about going global. Sub-dimensions 4.3 and 4.4 on the use of e-commerce and quality standards were assigned weights of 10%, since they are more concerned with helping SMEs to increase the sophistication of their products and trade networks. These weights do not imply that policy makers should prioritise export promotion, for instance, above other "access to market" related measures. Priorities should be decided on a case-by-case basis, following a clear articulation of policy objectives as well as an analysis of firm-level dynamics in each country. The OECD (2018 forthcoming[6]), for instance, has found the use of foreign inputs to be a significant determinant of firm-level productivity among a sample of Southeast Asian SMEs.

Four of the five sub-dimensions consist of three thematic blocks that are weighted as follows: *i)* planning and design, 35%; *ii)* implementation, 45%; and *iii)* monitoring and evaluation, 20%. The exception is sub-dimension 4.5, where the four thematic blocks have each been assigned a weight of 25%.

Analysis

The overall median across ASEAN in Dimension 4 is 4.55, suggesting that the region as a whole is already quite advanced in this area. However, country-to-country variation is high, both overall and in the five sub-dimensions, suggesting wide variation in policy development across ASEAN member states.

Figure 7.2. Weighted scores for Dimension 4 by sub-dimension



The highest regional median score at sub-dimensional level is in the area of export promotion, which receives a high score of 5.02, although cross-country variation is again high. This is unsurprising given the fact that many AMS have long pursued an export-oriented growth strategy. Going forward, policy makers could prioritise interventions in the areas of GVC integration and trade facilitation, which are both important for SME internationalisation but receive a lower regional median score of 3.86.

Sub-dimension 4.1: Export promotion

Globalisation can open up new opportunities for SMEs, providing them with access to higher-quality factors of production and knowledge transfer, as well as new markets. However it can also expose them to new challenges. Globalisation can heighten competitive pressures, as imports and foreign firms enter the domestic market, and SMEs can be affronted by a host of trade challenges as they seek to internationalise.

Table 7.1. Exporting firms and direct exports in ASEAN, by firm size

Economy	Share of firms exporting directly [5]			Share of total sales that are exported directly (%)		
	Small	Medium	Large	Small	Medium	Large
Cambodia [1]	6.9	19.1	26.9	6.8	16.7	26.3
Indonesia [2]	5.3	7.9	25.2	2.9	5.0	11.7
Lao PDR [1]	1.1	19.8	21.9	0.7	7.7	17.7
Malaysia [2]	4.3	19.2	69.0	2.2	7.6	30.3
Myanmar [1]	1.2	10.7	39.6	1.2	5.3	38.2
The Philippines [2]	3.9	9.0	23.6	1.8	6.1	16.6
Thailand [1]	2.2	3.4	28.1	0.8	2.0	18.9
Viet Nam [2]	4.0	11.5	36.1	2.2	6.6	21.6
Czech Republic [3]	29.9	45.7	60.1	11.8	19.2	38.8
Poland [3]	10.2	19.8	36.4	3.9	6.7	17.5
Mexico [4]	0.7	9.1	15.9	0.1	2.1	5.6

Note: **1.** Data from 2016. **2.** Data from 2015. **3.** Data from 2013. **4.** Data from 2010. **5.** Defined as those where exports constitute at least 10% of sales.
No data is available for Brunei Darussalam and Singapore, which are not covered by the *Enterprise Surveys*. For further information on firm size classification, please refer to the WBES methodology. Data from select export-oriented OECD countries provided for comparison.
Source: World Bank (2015); World Bank (2016).

Firm-level surveys suggest that SMEs are under-represented in export activity, which may support an argument for export promotion policies targeted at SMEs. As indicated in Table 7.1, which presents data from the World Bank *Enterprise Surveys*, SMEs have a lower propensity to export than larger firms and those that do export do so in lower relative volumes. This appears particularly pronounced for smaller firms, and is a trend also observed in OECD countries.

The indicators covered in this sub-dimension explore initiatives by ASEAN Member States (AMS) to reduce some of the cost for SMEs exporting across borders, provide them with information on trading opportunities and requirements, support their attendance at major trade fairs, and support their compliance with free trade agreement (FTA) rulings and quality certification.

Table 7.2. Scores for sub-dimension 4.1: Export promotion

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	3.37	3.84	5.76	3.12	6.00	4.08	6.00	6.00	6.00	5.76	**5.76**	**1.16**
Implementation	3.72	2.84	5.36	2.24	5.74	2.55	5.32	6.00	5.62	4.28	**4.80**	**1.37**
Monitoring and evaluation	2.32	1.00	5.33	1.66	5.00	2.32	5.66	6.00	5.33	3.00	**4.00**	**1.78**
Total sub-dimension score	3.32	2.82	5.49	2.43	5.69	3.04	5.62	6.00	5.70	4.54	**5.02**	**1.34**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

The 2018 scores suggest that AMS as a whole are relatively well advanced in the area of planning and design of export promotion policy and less advanced in the area of monitoring and evaluation. It is in this final block where variation is also highest.

Planning and design: Export promotion can be integrated into broader strategic goals

The 2018 assessment suggests that Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam have developed comprehensive export promotion programmes for SMEs, while Brunei, Cambodia, Lao PDR and Myanmar are currently at an intermediate stage of policy development.

All AMS have an export promotion agency in place, which is usually embedded in the Ministry of Commerce or a related ministry. Countries with relatively advanced export promotion policies have integrated these efforts into broader strategic goals and planning documents. In Malaysia, for instance, the Going Export programme, a government-co-ordinated initiative to expedite SME exports, is one of the six High Impact Programmes covered under the country's SME Masterplan 2012-20. Countries with less developed export promotion policies, by contrast, tend to have only scattered initiatives in place for SMEs. These tend to take the form of facilitating SME participation in trade fairs. They also tend to lack targeted export promotion policies for SMEs, and some are still developing more structured national export strategies.

Implementation: Some countries offer SMEs an array of export support

The 2018 findings suggest that Indonesia, Malaysia, the Philippines, Singapore and Thailand have relatively well-advanced policies and programmes in place to promote SME exports. These programmes appear to be fully operational and well-funded. They tend to offer SMEs support across a wide range of areas, from trade policy information and market intelligence to complying with FTA rulings.[3] They not only facilitate SME participation at major trade fairs but also support them with marketing, product development and navigating export markets. Indonesia and Thailand, for instance, have established trade centres in major cities around the world in order to promote the products and services of local SMEs. These centres also provide market research and information on overseas markets and organise export promotion activities.

Other countries offer more limited support for SMEs. In Cambodia, Lao PDR and Myanmar, for instance, export promotion initiatives for SMEs tend to be limited to supporting attendance at major trade fairs and ad hoc training courses organised in partnership with development partners. Cambodia currently lacks initiatives to support SMEs in navigating the country's FTAs, while Myanmar and Lao PDR lack services to facilitate self-certification and compliance with rules of origin.

Monitoring and evaluation: Only a few AMS assess export promotion regularly

In Indonesia, Malaysia, the Philippines and Singapore, the agency responsible for export promotion appears to have concrete monitoring and evaluation mechanisms in place. The annual performance reports of these agencies are made publicly available. In Cambodia and Lao PDR, meanwhile, relatively little monitoring and evaluation currently takes place.

Sub-dimension 4.2: Integration into global value chains

Developing and advanced countries are increasingly participating in GVCs. This has allowed firms to increase the volume and sophistication of exports without having to master every step required to produce a final product (Stamm, 2004[13]; Baldwin, 2013[14]). At a firm level, however, the benefits of GVC participation ultimately depend on the extent to which firms can use this position to obtain efficiency gains (Lopez Gonzalez, 2016[15]). In particular, the OECD finds the sourcing of foreign value added to be associated with greater productivity, more sophisticated exports and less concentrated export structures (Kowalski et al., 2015[16]).

While it might not make sense for all SMEs to participate in GVCs, integration into global value chains may accord advantages to many. SMEs can benefit on both the buying side (via access to more sophisticated and competitively priced inputs) and on the selling side (via new opportunities to meet a supply niche and specialise) (López González, 2017[5]). Public policy can play an important role in building SME capacity and interest in linking up with GVCs, as well as attracting and targeting foreign firms and encouraging them to engage SMEs as suppliers.

Table 7.3. International linkages in ASEAN firms, by firm size

Economy	Firms using material inputs and/or supplies of foreign origin (%)			Total inputs that are of foreign origin (%)			Firms exporting indirectly (at least 10% of sales)		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Cambodia 1	39.0	43.4	94.5	25.7	29.5	90.9	3.8	0.5	32.7
Indonesia 2	1.6	10.7	42.3	0.9	4.6	16.4	3.6	2.8	7.5
Lao PDR 1	5.0	35.7	71.4	3.4	27.7	59.1	2.7	3.1	7.6
Malaysia 2	45.8	46.7	44.0	17.9	12.6	13.8	6.9	14.6	5.8
Myanmar 1	15.5	26.2	74.3	12.4	18.3	53.8	0.1	0	3.0
The Philippines 2	23.8	53.9	77.4	15.0	31.6	48.6	1.5	0.9	2.8
Thailand 1	4.2	3.6	7.7	1.8	1.0	2.7	0	1.1	1.4
Viet Nam 2	24.5	50.9	65.8	13.9	31.9	37.2	2.4	3.9	5.9
Czech Republic 3	68.6	88.6	100.0	27.5	38.6	42.5	6.3	9.4	3.1
Poland 3	48.3	55.2	70.3	23.4	23.1	29.9	4.5	4.1	8.6
Mexico 4	40.4	50.8	80.3	19.7	16.7	27.8	1.4	3.3	5.1

Note: **1.** Data from 2016. **2.** Data from 2015. **3.** Data from 2013. **4.** Data from 2010.
No data available for Brunei Darussalam and Singapore. For further information on firm size classification, please refer to the WBES methodology. Data from select export-oriented OECD countries provided for comparison.
Source: World Bank (2015); World Bank (2016).

Firm-level surveys suggest that ASEAN firms are less likely to source foreign inputs than firms in a number of export-oriented OECD countries. The gap between smaller and larger firms appears particularly pronounced. In a number of AMS small enterprises are significantly less likely to source foreign inputs than larger enterprises (Table 7.3). A number of exceptions can be seen: the *Enterprise Survey* findings suggest that a relatively high percentage of SMEs in Cambodia, Malaysia, the Philippines and Viet Nam source foreign inputs. In all cases, however, more could be done to promote further SME linkages on the import side.

The indicators covered in this sub-dimension look at the sophistication and intensity of government programmes to promote linkages between SMEs and MNCs and/or larger exporters, and/or with external or intermediary suppliers. They also explore the level of policies and programmes in place to promote technology transfer from MNCs to SMEs.

Table 7.4. Scores for sub-dimension 4.2: Integration into global value chains

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	3.36	3.36	5.04	2.53	5.40	1.94	4.07	6.00	5.76	5.88	**4.55**	**1.41**
Implementation	2.65	2.24	4.74	2.66	5.58	1.00	3.48	6.00	6.00	4.33	**3.90**	**1.64**
Monitoring and evaluation	1.00	1.55	3.77	1.00	2.65	1.00	2.65	4.87	4.32	1.00	**2.10**	**1.43**
Total sub-dimension score	2.57	2.49	4.65	2.28	4.93	1.33	3.52	5.77	5.58	4.20	**3.86**	**1.44**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to chapter 2 and annex A for further information on the methodology.

The 2018 scores suggest that AMS have a number of policies and programmes in place to promote SME participation in GVCs, but that there is considerable space for further development, with the region as a whole receiving a median score of 3.86. A high standard deviation for this sub-dimension also suggests considerable variation between countries, with some countries offering a comprehensive range of policies and programmes that are systematically monitored and evaluated.

Overall, Singapore and Thailand appear to be the most advanced in this area. Singapore has long promoted technology transfer and other linkages between MNCs and SMEs. Starting from the 1980s, its Economic Development Board has provided subsidies for local SMEs to employ engineers and technicians from MNCs over a period of two years (Vandenberg et al., 2015[17]). In Thailand, the Bureau of Supporting Industries Development (BSID), under the Ministry of Industry, and the Board of Investment Unit for Industrial Linkage Development (BUILD) have played a major role in fostering SME participation in GVCs. Associated initiatives have included a free sourcing service provided by BUILD, helping both Thai and foreign buyers source parts in Thailand, and business matching activities by BSID in co-ordination with SME banks.

Planning and design: Some AMS have strong policies for integrating SMEs into GVCs

Singapore and Thailand have the most comprehensive programmes in place to promote SME participation in GVCs. In Singapore, for instance, Enterprise Singapore (SPRING Singapore at the time of information gathering and validation) has developed a number of initiatives to promote SME integration into GVCs and support them in moving up the value chain. These include the Partnership for Capability Transformation (PACT) programme, the Local Enterprise and Association Development programme, the Technology Adoption Programme and the Collaborative Industry Projects programme. Indonesia, Malaysia and Viet Nam have also made notable progress in this area. In Viet Nam, the government has mandated measures to support MNC-SME linkages for SMEs engaged in ancillary industries.[4] These measures include business matching through specialised industrial parks and foreign direct investment (FDI) incentives. They are part of a strong political commitment to deepen Viet Nam's participation in regional production networks, which has become particularly pronounced following the country's accession to the World Trade Organisation in 2007 (Vo, Nguyen and Bui, 2017[18]).

The remaining AMS are at an earlier stage of policy development, but work is taking place, often supported by development partners. In Lao PDR, the Ministry of Commerce and Industry and the Lao National Chamber of Commerce and Industry, in partnership with barterfli Holdings, provides paid assistance for SMEs to connect with foreign companies.[5] In Myanmar, the UN Industrial Development Organization (UNIDO) and the US Agency for International Development (USAID) are implementing a number of programmes to increase SME participation in GVCs. The country, with donor support, also has established training facilities in a number of Special Economic Zones (SEZs) that support SMEs in linking up with foreign firms and upgrading their participation in these networks.

Implementation: Three countries have well-funded GVC integration programmes

Malaysia, Singapore and Thailand are well advanced in this area. They have a number of programmes in place, and these programmes are well funded and executed. In Singapore, for instance, around SGD 300 million (Singapore dollars) was allocated for PACT, and another SGD 80 million was earmarked to enhance the programme. Between March 2013 to March 2016, an estimated 1 024 SMEs were involved in 147 projects under the enhanced PACT programme. In Thailand, meanwhile, BUILD allocated THB 23.9 million (Thai baht) in 2017 for programmes to promote SME-MNC and SME-large enterprise linkages. It is difficult to pinpoint the exact budget apportioned to such programmes in Thailand since they are implemented by a number of different agencies.

Among the remaining AMS, Viet Nam has established a relatively strong policy framework for SME-GVC integration, but programmes are not yet fully operational and performance has not been assessed. The same hold true for Cambodia, which has highlighted SME integration into GVCs under its Industrial Development Policy 2015-25. Those with less-developed policy planning in this area also seem to have fewer and less comprehensive programmes in place. In Lao PDR, there appears to only be one programme (the Plaosme initiative) and a number of ad hoc business matching sessions. In Myanmar, there are no clear measures in place.

Monitoring and evaluation: All AMS could improve their monitoring of GVC integration

All AMS receive relatively low score in this area, although Singapore and Thailand clearly lead the way. Both conduct programme monitoring and reviews, but the results are not made public.

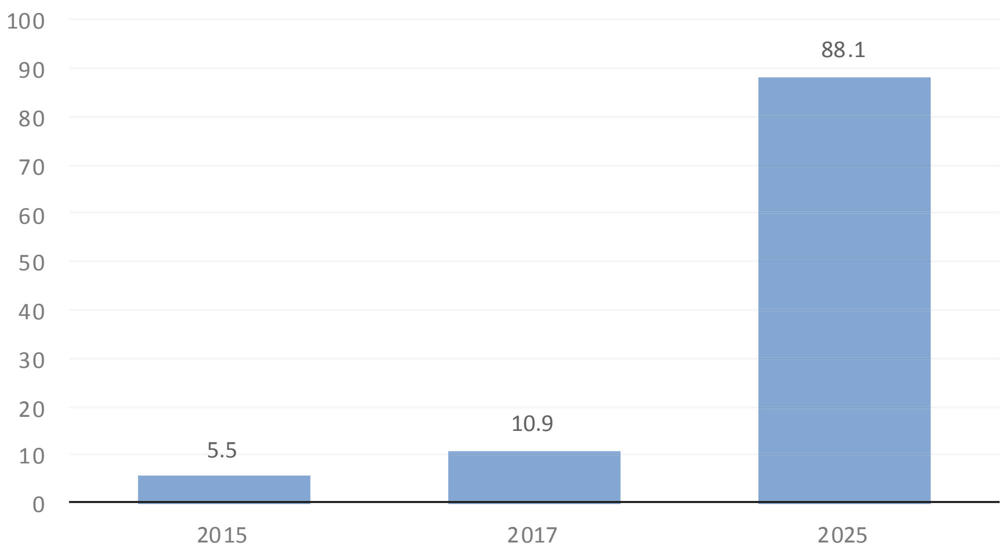
Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Viet Nam do not seem to have clear monitoring mechanisms in place, and Lao PDR and Myanmar seem to be at the very early stage of implementing policies in this area. Indonesia, Malaysia and the Philippines conduct some monitoring of GVC integration programmes and policies. In the Philippines, the Export Marketing Bureau of the Department of Trade and Industry (DTI) reviews programmes through client satisfaction feedback. These programmes are not independently monitored by a third party.

Sub-dimension 4.3: Use of e-commerce

The use of e-commerce is expanding rapidly, with online sales expected to account for more than 16% of total retail sales worldwide by 2021 (eMarketer, 2018$_{[19]}$).[6] This development opens up important new opportunities for SMEs, which can use e-commerce to access non-traditional markets while bypassing some common size-related constraints.[7]

E-commerce is also becoming increasingly important in Southeast Asia. Significant growth is anticipated over the next ten years, with some analysts forecasting a compound annual growth rate of around 32% (Google-Temasek, 2017[20])[8] Southeast Asia's perceived potential in this space is attracting bullish investment. The region has already produced a number of internet "unicorns" (companies valued at over USD 1 billion), with Chinese companies and investors such as Alibaba Group and JD.com particularly active. Perhaps the most notable business-to-consumer e-commerce company in the region is Lazada. As of April 2017, Lazada was registering around 41.4 million monthly page views in Thailand and 54.4 million in Indonesia alone (eMarketer, 2018[19])

Figure 7.3. E-commerce growth in Southeast Asia (USD billion)



Source: Google and Temasek (2017).

This robust private sector activity opens up new opportunities for public-private collaboration. For instance, Singaporean SMEs can now market themselves online, free-of-charge, by listing on the 99% SME website, thanks to a partnership among Singtel, DBS, and Lazada Singapore (Straits Times, 2017[21]). In Indonesia, the executive chairman of the Alibaba Group has stood as special advisor to the government's steering committee on its e-commerce roadmap since 2017. Private sector collaboration could be considered an important aspect of public programmes to promote the use of e-commerce.

Table 7.5. Scores for sub-dimension 4.3: Use of e-commerce

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	4.74	2.24	5.58	3.90	6.00	3.50	5.58	6.00	6.00	5.16	**5.37**	**1.21**
Implementation	3.77	2.33	5.89	2.54	5.32	1.44	4.98	6.00	5.89	3.53	**4.37**	**1.59**
Monitoring and evaluation	1.55	1.00	4.87	1.00	4.88	1.00	4.32	6.00	4.30	2.10	**3.20**	**1.85**
Total sub-dimension score	3.66	2.03	5.57	2.71	5.47	2.07	5.06	6.00	5.61	3.82	**4.44**	**1.46**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to chapter 2 and annex A for further information on the methodology.

Focusing on the policy environment for increasing SME use of e-commerce, this sub-dimension looks at the availability of e-trading platforms in each AMS (such as e-payment and logistic facilities and online marketplaces), at government programmes to facilitate SME access to these platforms, and at the sophistication of legal and regulatory frameworks to govern e-commerce activities.

The 2018 scores show that the region performs moderately well in this area as a whole, and particularly in planning and design, where it registers a median score of 4.44.

Planning and design: Legal frameworks for e-commerce vary in sophistication

Indonesia, Malaysia, Singapore and Thailand appear to be the most advanced in the area of planning and design. These countries have clear legal instruments in place to govern e-commerce, e-payments and consumer protection. The Philippines follows closely behind, and it is currently undertaking steps to enhance its regulatory framework for e-commerce – notably by amending its Consumer Act to include a provision on e-commerce. Cambodia, Lao PDR and Myanmar do not yet have a clear strategy in place to promote e-commerce, and legal frameworks remain incomplete.

Implementation: Targeted e-commerce programmes for SMEs are important

Indonesia, Malaysia, Singapore and Thailand receive the highest scores in this area, and each is implementing targeted e-commerce programmes for SMEs on a national scale. These programmes include the Smart Online SMEs programme in Thailand and the SMEs Go Digital initiative in Singapore and Indonesia. In Malaysia, the government launched a Digital Free Trade Zone (DFTZ) in 2017, in partnership with the Alibaba Group (Box 7.1). Malaysian government agencies are also implementing other e-commerce initiatives for SMEs, such as SME Corp.'s "Go e-Commerce" programme.

Box 7.1. Streamlining e-commerce transactions: Malaysia's DFTZ

Malaysia and Alibaba Group launched a Digital Free Trade Zone (DFTZ) in 2017 to provide a holistic e-commerce trading environment for SMEs and other companies. Said by Malaysia to be the world's first digital free trade zone, the DFTZ aims, by 2025, to double the growth rate of SME goods exports in order to reach USD 38 billion, to facilitate USD 65 billion worth of traded goods and to create 60 000 Malaysian jobs.

The DFTZ combines physical and virtual zones. It has an "eFulfillment (SMECorp., 2017[22]) Hub" to help SMEs export their goods easily; a "Satellite Services Hub" to connect SMEs with relevant services; and an "eServices Platform" for digital management of cargo clearance and other cross-border trade processes. Its objective is to provide an opportunity for SMEs to thrive in the global marketplace.

SMEs that use the DFTZ will have access to:

- A dedicated Malaysia Pavilion page in Alibaba featuring "Made in Malaysia" products
- Trained and certified e-commerce advisors
- A detailed analytic dashboard and report of store and sales performance
- Traffic from Alibaba's other marketplaces, such as Tmall.com, TaoBao and 1688.com

To enjoy these benefits, SMEs need to register their business entities, be exporters or interested in exporting, and produce or manufacture "Made in Malaysia" products. The DFTZ thus encourages the formalisation of SMEs and domestic production, as well as facilitating SME use of e-commerce to go global.

Source: SME Corp. (2017), http://www.smecorp.gov.my/index.php/en/programmes/2015-12-21-09-44-11/digital-free-trade-zone-dftz; MYDFTZ (2017), https://mydftz.com.

The remaining AMS have begun to enhance their legal and regulatory frameworks for e-commerce, but do not generally have specific programmes in place targeting SMEs. In Cambodia, Lao PDR, Myanmar and Viet Nam, targeted measures take the form of ad hoc workshops and seminars, but comprehensive programmes are currently missing.

Monitoring and evaluation: Progress is needed on assessing e-commerce strategies

AMS have less advanced mechanisms in place for monitoring and evaluating e-commerce initiatives, with the exception of Singapore (which scores 6.0). Two notable performers in this area are Malaysia and the Philippines, which have set up dedicated bodies to monitor implementation of their e-commerce strategies. Malaysia established a joint secretariat to monitor all programmes implemented under the National e-Commerce Strategic Roadmap. In the Philippines, an E-commerce Office was set up under the DTI to monitor implementation of the Philippines E-Commerce Roadmap 2016-20. Indonesia and Thailand have internal monitoring mechanisms in place for all programmes, but they rarely conduct specific and in-depth reviews of a particular programme.

No clear mechanisms for the monitoring and evaluation of e-commerce programmes have yet been identified in Cambodia, Lao PDR or Myanmar. This can also be explained by the relatively limited work currently taking place in this area in those countries.

Sub-dimension 4.4: Quality standards

Quality assurance is an important condition for SMEs to scale in export markets. SMEs are most commonly encouraged to consider compliance with general standards such as those set by the International Organization for Standardization (ISO). Compliance with commonly recognised standards can send an important signal to customers that an SME's products and services conform to a certain level of quality, enabling them to better compete with larger companies. Additional requirements may be in place – according to the Standards Map database of the International Trade Centre (ITC), any firm exporting from one of the ten AMS may need to comply with any of 115 standards (ITC, 2017[23]).[9]

Yet SMEs may be deterred from obtaining quality certification by factors including a lack of awareness, complicated requirements (ITC, 2016[24]) and/or high upfront costs. A survey of SMEs in Thailand, for instance, found that restrictive health, safety and technical standards in foreign markets, such as sanitary and phytosanitary (SPS) requirements, were the most significant barrier to trade perceived by SMEs (Punyasavatsut, 2010[25]). Table 7.6 indicates that smaller firms are much less likely to obtain internationally recognised quality certification than larger enterprises, and are less likely to possess internationally recognised quality certification than similar-sized firms in export-oriented OECD countries.

Table 7.6. ASEAN firms with international quality certification, by firm size

Economy	Share of firms with an internationally recognised quality certification (%)		
	Small	Medium	Large
Cambodia [1]	5.1	2.9	18.6
Indonesia [2]	2.0	11.1	60.2
Lao PDR [1]	0.5	3.8	21.4
Malaysia [2]	8.5	15.6	72.0
Myanmar [1]	1.7	2.5	37.6
The Philippines [2]	4.6	9.7	36.4
Thailand [1]	5.6	4.0	42.5
Viet Nam [2]	4.6	11.7	37.9
Czech Republic [3]	22.4	61.7	87.6
Poland [3]	20.0	46.0	62.9
Mexico [4]	19.1	34.6	30.6

Note: **1.** Data from 2016. **2.** Data from 2015. **3.** Data from 2013. **4.** Data from 2010.
No data available for Brunei Darussalam and Singapore. For further information on firm size classification, please refer to the WBES methodology. Data from select export-oriented OECD countries provided for comparison.
Source: World Bank (2015); World Bank (2016).

The indicators included in this sub-dimension look at the availability of support programmes to increase compliance with quality standards, support schemes to obtain quality certification, and the presence of adequate funding behind these programmes and comprehensive monitoring mechanisms to regularly assess their performance.

Table 7.7 Scores for sub-dimension 4.4: Quality standards

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	3.48	1.83	6.00	1.83	6.00	1.00	6.00	6.00	4.33	1.83	**3.90**	**1.98**
Implementation	5.33	2.66	4.98	2.99	5.66	1.66	5.32	6.00	5.33	4.99	**5.16**	**1.41**
Monitoring and evaluation	2.10	1.00	4.87	1.00	3.20	1.00	4.32	6.00	4.87	2.65	**2.93**	**1.75**
Total sub-dimension score	**4.03**	**2.04**	**5.31**	**2.18**	**5.29**	**1.30**	**5.36**	**6.00**	**4.89**	**3.41**	**4.46**	**1.58**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to chapter 2 and annex A for further information on the methodology.

The 2018 scores rank the region as a moderate performer in this area, with substantial cross-country variation, particularly in the area of planning and design. As a whole, the region is relatively well advanced in implementation, where it scores 5.16.

Planning and design: A comprehensive strategy is needed on quality standards

Brunei Darussalam, Indonesia, Malaysia, the Philippines and Singapore particularly stand out in this area. In the Philippines, the government has provided capacity-building programmes for SMEs to enhance understanding of quality and food-safety standards. A certification subsidy from the Department of Agriculture is also available for SMEs in the Philippines. In Singapore, capability development grants and vouchers are available to encourage more SMEs to adopt relevant standards. In Malaysia, SME Corp.'s SME Hub runs a National Standards Compliance Programme, which provides SMEs with advice and technical assistance to increase standards compliance. In Indonesia, the Ministry of Co-operatives and SMEs (MCSME) has included programmes related to increasing compliance with quality standards under its SME strategy. In Brunei Darussalam, an MSME Standards Advisory Programme has been offered by the National Standards Centre to increase MSME awareness of quality standard requirements, via workshops and advisory sessions, and between 2006 and 2016 the country ran a certification programme specifically targeted at MSMEs.

Cambodia, Lao PDR, Myanmar and Viet Nam have planned few initiatives in this area. Cambodia and Myanmar have established dedicated bodies for overseeing activities on standards compliance, but a comprehensive strategy is missing. In Viet Nam, the government has mandated all Vietnamese enterprises to be supported through measures to increase their product quality and productivity by 2020.[10] However little seems to have been done to target SMEs specifically.

Implementation: Quality certification for services is rare among AMS

Implementing agencies are operational and quality certification programmes are well-funded in many AMS. In Indonesia, for example, SMEs receive facilitation and assistance from the MCSME in the form of training and special discounts for SMEs to apply for certification of their products or services. The budget for the programmes in 2015 totalled almost IDR 12 billion (Indonesian rupiah), and 89% of the budget was realised, with 1 000 SMEs participating in the programmes, according to the ministry's performance report[11].

In 2016, Singapore allocated up to SGD 100 million for a five-year period to increase standards adoption via the Singapore Standardisation Programme and Singapore Accreditation Programme. In the Philippines, the budget for programmes on standards adoption is a mix of government funding and donor support. For example, Germany's GIZ collaborated in a project called Standards in the Southeast Asian Food Trade. The Philippines' Department of Agriculture allocated more than PHP 10 million (Philippines pesos) in 2017 as a subsidy for organic farming certification.

In contrast, Cambodia, Myanmar and Lao PDR still show limited capacity for implementing quality standard programmes, and they usually rely on donor support. For example, USAID supported Viet Nam's ISO programmes for SMEs.

The implementation category also scores ASEAN member states on quality certification for service sectors like tourism, health or education. Very few AMS have developed a clear framework for this. Indonesia, Malaysia and Singapore have established a regulatory environment for standards in the service sector. Indonesia has done this through its Minimum Service Standard, particularly for education and health services. Indonesian ministries also enact more technical regulations, such as the Tourism Ministry's law on tourism service quality certification. In Singapore, certification services are largely delivered by private service providers and cover a vast variety of service-sector certifications. Likewise in Malaysia, non-governmental accreditation bodies deliver service quality certification in some areas, such as health care (the Malaysian Society for Quality in Health) and financial services (the Institute of Internal Auditors Malaysia). Service quality certification in other countries, including Brunei Darussalam and Thailand, mainly involves tourism.

Monitoring and evaluation: Assessment needs to focuses on programme impact

Indonesia, Malaysia, the Philippines, Singapore and Thailand have relatively clear monitoring mechanisms in place for their quality certification programmes. Often, however, these tend to take the form of ordinary measures to monitor the activity's use of budget, rather than specific impact. In Thailand, for instance, some monitoring takes place on the use of the budget by the Bureau of the Budget.

Little monitoring and evaluation of quality standard programmes appears to take place in Cambodia, Lao PDR and Myanmar. However this is also due to the fact that few such programmes are currently in place in these countries.

Sub-dimension 4.5: Trade facilitation

Progress in advancing trade facilitation is key to boosting cross-border trade, particularly for SMEs. SMEs tend to exhibit lower capacity for dealing with administrative and regulatory procedures (Duval and Utoktham, 2014[11]), smaller networks and lower bargaining power, a lower awareness and rate of compliance with international standards, inadequate or expensive access to financing, and a lower level of information and knowledge on international trade issues (UNESCAP-ITC, 2016[26]). Studies have shown that as trade facilitation advances, so does the likelihood that SMEs will begin to export, and that measures to increase policy predictability and access to information technology services can have a particularly significant effect (Li and Wilson, 2009[27]). Others have shown how a reduction in customs and trade clearance times can have a greater impact on the likelihood of SME participation in international production networks than it does for larger enterprises (Duval and Utoktham, 2014[11]).

The indicators included in this sub-dimension look at the presence and nature of public programmes to support SME compliance with customs procedures. Specifically, they look at the existence of facilities to bridge information gaps for SMEs – for instance manuals or other guidelines, support centres, and / or a trade portal. They also look at progress in simplifying customs procedures, for instance via the creation of an e-customs platform, an Authorised Economic Operator (AEO) programme[12] and /or a National Single Window (NSW) facility. They look at whether these programmes and facilities include specific criteria for SMEs and whether support programmes are in place. Finally, this sub-dimension also integrates the 2017 OECD Trade Facilitation Indicators (TFI) for ASEAN countries.

Table 7.8. Scores for sub-dimension 4.5: Trade facilitation

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
OECD TFI	4.75	3.50	4.33	2.67	4.75	2.25	3.50	6.00	5.17	5.17	**4.54**	**1.13**
Planning and design	2.65	3.48	4.33	1.00	4.30	1.00	4.30	6.00	3.48	1.00	**3.48**	**1.63**
Transparency and predictability	4.87	3.77	4.87	4.87	6.00	4.32	4.88	6.00	4.87	4.87	**4.87**	**0.64**
Simplification of procedures	3.70	2.44	4.43	2.24	5.47	3.18	2.44	5.36	4.43	2.87	**3.44**	**1.15**
Total sub-dimension score	3.99	3.30	4.49	2.69	5.13	2.69	3.78	5.84	4.48	3.48	**3.89**	**0.97**

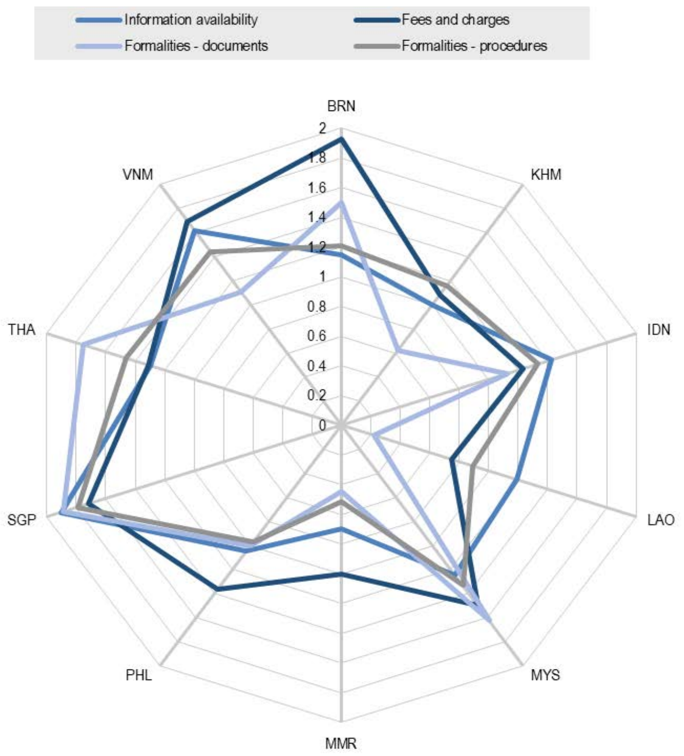
Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Overall, the region performs moderately well on enhancing trade facilitation for SMEs. The regional median is 3.89, indicating a mid-level stage of development. Variation across countries is lower than in the other sub-dimensions of Dimension 4, indicating relatively more equal policy implementation across countries for trade facilitation for SMEs.

OECD TFIs: Indicators rate several AMS as advanced in trade facilitation

The 2017 OECD TFIs were used to help assess trade facilitation measures in AMS. These indicators measure the extent to which countries have introduced and implemented trade facilitation measures in absolute terms. Four sets of these indicators are included in the 2018 ASPI: *i)* information availability; *ii)* fees and charges; *iii)* formalities-documents; and *iv)* formalities-procedures.

Figure 7.4. AMS performance on OECD Trade Facilitation Indicators, 2017



Note: Scores are on a scale of 0 to 2, with 2 being the highest. For the purpose of this assessment, only four of the Trade Facilitation Indicators were selected.
Source: OECD Trade Facilitation Indicators (2017), http://www.oecd.org/trade/facilitation/indicators.htm.

Singapore is scored the highest on these indicators.[13] This is not surprising given Singapore's long outward-looking trade policy. Thailand and Viet Nam also achieve high scores, placing them at an advanced level of development in this thematic block. By contrast, Lao PDR and Myanmar are still at an early stage.

Planning and design: Clear strategies are needed to help SMEs with customs compliance

Singapore received the highest scores in this area, followed by Indonesia, Malaysia and the Philippines. Singapore does not have specific programmes in place to support SME compliance with customs procedures, but it provides numerous resources that can be used by SMEs. These resources include the Singapore Customs Academy, which offers courses that are available for all traders, and the Singapore Customs website, which offers multiple enquiry points for all traders. In addition, the country's SME centres[14] provide assistance and services for SMEs, and this includes support in the area of business facilitation and guidance on tapping into government schemes and grants in general. In Indonesia, the government has developed an initiative that exempts export-oriented SMEs from import duties and taxes. The initiative, Kemudahan Import Tujuan Ekspor, is administered by the Indonesian Customs Office.

In contrast, most initiatives in Lao PDR, Myanmar and Viet Nam are part of broader regional initiatives such as the development of a national single window. Some have developed a trade portal, but few other programmes are in place.

Transparency and predictability: Procedural guidance is available in all AMS, but is generally not SME-specific

All AMS provide user manuals or procedural guidance on trade facilitation, however this guidance, which is publicly available, is generally not specific to SMEs and the level of information varies across countries. Singapore and Malaysia appear to be the most advanced in this area, followed by Brunei Darussalam, Lao PDR, Indonesia, the Philippines and Thailand, which are very close to the advanced stage of policy development.

A notable initiative to highlight is the Lao PDR Trade Portal (LPTR), which serves as a single-stop point for SMEs to navigate import and export procedures. Through the LPTR, traders can find information on tariff rates, related legal documents, forms and procedures, as well as measures, standards and requirements related to trading across borders. Lao PDR's progress in increasing the transparency and predictability of cross-border trade has been highlighted as a good role model by UNESCAP and others (UNESCAP-ITC, 2016[26]).

Simplification of procedures: Myanmar has made notable progress

Malaysia and Singapore receive the highest scores in this area. They have developed mature e-customs systems equipped with related IT-support programmes for SMEs. They each have an AEO programme in which volume traded is not the criteria for the AEO qualification, opening the door to SMEs. They both also have a well-developed national single windows. Malaysia has made particular efforts to engage local SMEs in its NSW, notably via the creation of myTRADELINK. This is a trade facilitation portal that provides special discounts to SMEs, as well as free training for first-timers when they register for its services.

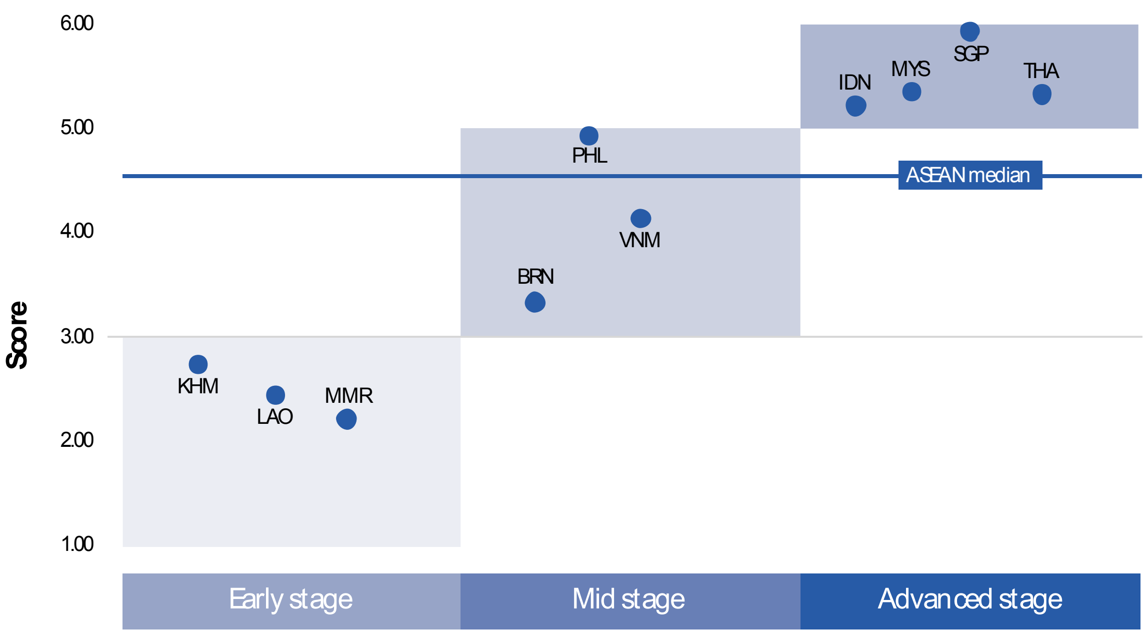
Most AMS have a national single window in place, but these are at different stages of implementation. For instance, the second phase of the Philippines National Single Window was stalled for several years due to bidding issues, and its functions are currently covered by TradeNet, a unified online trade facilitation system developed by the Inter-Agency Business Process Interoperability team.

Among the countries at a lower level of policy development in trade facilitation, Myanmar demonstrates notable progress. It has considerably simplified barriers to trade, for instance by installing an e-customs system, adopting an AEO programme and implementing a national single window, complete with related IT training for traders. In July 2013, its customs department began to implement the Myanmar Automated Cargo Clearance System (MACCS), which is part of the Myanmar Customs Intelligent System being built to support the single window. MACCS, a collaboration between the governments of Myanmar and Japan, was officially launched in January 2017 and was implemented in the Yangon region in 2017, with broader implementation expected in 2018 (Eleven, 2017[28]).

The way forward

One can typically observe robust policy support for export promotion, and countries have often invested significant resources in this area. However, regional results mask important cross-country variations, and in most countries more could be done to target specific barriers faced by SMEs. Despite the significant cross-country variation, a number of trends can be observed, which are illustrated in Figure 7.5 and described in further detail below.

Figure 7.5. Weighted scores for Dimension 4: Access to market and internationalisation



Note: The graph demonstrates the level of policy development in each AMS indicated by the 2018 ASPI scores. Countries fall into one of three categories and are ordered in this category alphabetically.

The majority of countries that fall within the "early stage" category have made significant progress in the area of trade facilitation, particularly customs reform. They now face the challenge of enhancing policies that may enhance SME participation in GVCs and their use of e-commerce, as well as providing support for SME adoption of quality standards. These countries typically benefit from donor support, particularly for increasing SME adoption of quality standards. Many of these programmes may be linked to the AEC agenda.

The majority of countries that fall under the "mid-stage" category already have a policy framework and institutions in place for most of policy areas covered under this dimension. The one area that tends to be less developed is e-commerce, with many countries still developing a policy framework for these interventions and upgrading existing regulation. Most countries are now seeking to ensure that planned policies are implemented and are sufficiently resourced. In the area of trade facilitation, initiatives such as custom reform and the development of single windows are ongoing and have shown positive results, but many initiatives apply to all firms and do not specifically address the needs of SMEs.

In general, those in the "advanced stage" category have developed a comprehensive policy framework and are well-advanced in implementation. Some are world leaders in this area. However some gaps could still be addressed, often in the areas of e-commerce, trade facilitation, and enhancing GVC participation.

Among the five sub-dimension, and institutionally, framework for ecommerce activities are not yet in place or currently being developed. Challenges toward greater participation in GVCs are more in program implementation while support for quality certification in services are still limited in many of these countries.

In order to encourage SMEs to internationalise and increase their market access, policy makers could prioritise the following steps going forward:

Table 7.9. Policy recommendations to increase access to markets for SMEs

Level of policy	Challenges	Policy recommendations
Early stage Cambodia, Lao PDR and Myanmar	Export assistance for SMEs tends to be ad-hoc in nature	• **Conduct a comprehensive assessment on the competitiveness gap of SMEs' exports**. This assessment would be a first step in creating more systematic and specific policy measures to support SMEs in exporting. This assessment should cover all factors affecting SME propensity to export, including those implied by regulations.
	Lack of support and infrastructure to promote linkage development between SMEs and MNCs	• **Ensure connectivity cross-country for seamless movement of goods (whether final or intermediate)**. Connectivity is an important pre-requisite for SME participation in GVCs. Good connectivity can reduce trade costs between firms within the country. The following are required to develop a robust connectivity: o Establish well-connected hard infrastructure (i.e., roads, ports, industrial parks, urban amenities, etc.) within countries. In general, this ensures seamless movement of goods with important impact on the development of networks between production chains/units. o Reform trade and investment regime. An open trade policy can facilitate the supply flow of intermediate inputs, while a flexible investment regime can create demand for SMEs' product through outsourcing.

	Legal instruments to support the growth of e-commerce (e.g. on e-payments or consumer protection) are incomplete and there has been no clear strategy to enhance the use of e-commerce among SMEs	• **Align regulations and investment policy in order to provide a conducive business environment for the development of e-commerce**. This is a first step for establishing a strong participation of SMEs in e-commerce. Investment policy needs to be flexible and open to major global investors.
	Clear monitoring and evaluation framework is absence in the member states of this group – partially related to immaturity of policy design	• **Introduce regulatory framework for better monitoring and evaluation**. It is important for countries in the early stage of policy development to introduce and integrate a framework and measures for effective monitoring and evaluation, and this should be considered at the very early stage of policy formulation.
Mid stage Brunei Darussalam, the Philippines and Viet Nam	Service quality certification is not yet well-incorporated, while service sectors are becoming prominent in international trade Some trade facilitation infrastructure is still to be developed Specific initiatives to support SMEs in accessing and utilising trade facilitation infrastructure are not yet well-developed	• **Improve connectivity within countries and conduct reforms to improve trade facilitation**. The trade facilitation performance of SMEs in the member states classified under this group is perhaps not as strong as it could be. Issues at (e.g. inefficient ports or customs) and within borders (e.g. missing infrastructure or logistic facilities) seems to be a strong contributing factor. • **Update infrastructure to help SMEs meet international standards. It is important for member states to maintain their level of conformance with international standards**. In a more globalized environment, countries must be adaptive to fast-changing product standard and a rise in non-tariff measures.
	Specific integration policy elements for SMEs are missing in the countries' broad strategy to attract foreign MNCs	• **Develop programmes that could enhance current, models of partnership between MNCs and SMEs**. Programmes supporting SME participation in GVCs in some countries have not been as strong as in other member states. In these countries, more could be done to enhance partnership programs that would link local SMEs to firms that operate in GVCs.
	The regulatory framework may not have been designed to maximise SME participation in e-commerce	• **Reform regulations to intensify and increase the participation of SMEs in e-commerce activities**. In these countries issues have started to emerge, especially pertaining to fiscal matters such as tax collection, or how fiscal incentives could foster higher SME participation in e-commerce activities.
	Monitoring and evaluation appear to be lacking in most areas	• **Improve regulatory framework for better monitoring and evaluation**. In addition to reviewing and designing a better framework for evaluation, developing stronger ties with the private sector through deeper consultation could provide an additional way to monitor and assess the impact of public programmes.

Advanced stage Indonesia, Malaysia, Singapore and Thailand	Some initiatives to promote SME participation in global production networks are still focusing on certain sectors or industries, while SMEs are dynamically spread across all sectors in the economy Usually these countries would also be looking to upgrade in GVCs, moving to activities that involve the high-speed movement of products within chains, more advanced production technology, and more intensive use of the digital economy	• **Intensify and widen sectoral coverage for policies supporting SME export and participation in GVCs**. It is important for member states in this group to explore support programmes for developing new products and new markets for SME exports. This could help to sustain SME growth in the country. • **Conduct studies to prepare a regulatory framework and policy measures to enhance the third unbundling**. This assumes the country has also moved into quite an advanced stage vis-à-vis in its services sectors, especially those closely related to GVCs.

Notes

1 The theory posits that the "first unbundling" took place in two waves between 1850 and the 1980s, with a hiatus from 1914 to the 1960s, while the "second unbundling" began in the 1980s and continues to the present day. The first was triggered by a decrease in transportation costs, which allowed for a spatial separation of factories and consumers as productive firms increased the price competitiveness of their products and thus reached new customers. The phenomenon led to an agglomeration of production as competitiveness began to hinge on specialisation and achieving the critical mass required to realise economies of scale as well to develop and diffuse innovations. The second unbundling, dated to the 1980s, was initiated by huge strides in ICT adoption and sophistication that significantly reduced communication and co-ordination costs. The net result was the ability to spatially unbundle factories and offices (Baldwin, 2006[1]) and outsource labour-intensive activities to lower-wage countries, thereby increasing price competitiveness.

2 Mainly on labour cost in labour-intensive activities.

3 For instance providing guidance on new rules under the FTA and assistance with self-certification.

4 Through the Prime Minister's Decision No. 1556/QD-TTg, dated October 17 2012.

5 Plaosme initiative, in collaboration with barterfli Holdings.

6 In 2017, e-commerce sales were already estimated to account for around 10% of total retail sales worldwide.

7 For instance, e-commerce can lower barriers to entry by eliminating certain sunk costs such as investment in a physical retail space. It can also connect supply and demand with minimum transaction costs, helping SMEs to reach non-traditional markets. Engagement in e-commerce can lead to higher productivity, heightened competition, greater consumer choice and the creation of new jobs (Rillo and de la Cruz, 2016[8]).

8 Google and Temasek estimate that the gross merchandise value of e-commerce sales in first-hand goods in Southeast Asia will increase from around USD 10.9 billion in 2017 to around USD 88.1 billion by 2025.

9 The exact number will depend on the origin and destination countries, as well as the product or service.

10 Decision No. 712/QD-TTg.

11 Laporan Kinerja Kementerian Koperasi dan UKM Indonesia Tahun 2015, page 66. Available at http://www.depkop.go.id/uploads/tx_rtgfiles/lakipkkukm2015_01.pdf

12 The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

13 See https://sim.oecd.org/default.ashx?ds=TFI for further information on the OECD's TFI scores.

14 For instance the SMECentre@ASME, with the support of Enterprise Singapore.

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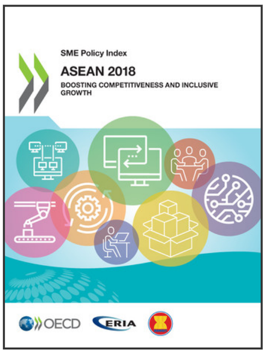

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