Trade Facilitation and Enabling Trade: A Study on SMEs in Indonesia

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I. Background of the Study

In December 2013, the 159 members of the World Trade Organisation (WTO) adopted the so-called "Bali Package" during the Ninth WTO Ministerial Conference. The culmination of nine years of negotiations, the package contains a series of measures to streamline trade, allow developing countries, including Indonesia, more options for providing food security, boost least-developed countries' trade and help development more generally. The adoption of the package has instilled new momentum into the troubled multilateral trading system (MTS), at a time when international governance in general continues to struggle (WEF, 2014b).

This agreement is very important for Indonesia given the fact that Indonesia is still struggling to improve its competitiveness and hence to push up its position in the global market by increasing its non-oil and gas export, especially export of manufactured goods. According to *the Global Competitiveness Report 2014-2015* from the World Economic Forum (WEF, 2014a), Indonesia ranks 34 out of 144 countries included in the sample[1]. The WEF defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country/an economy. The level of productivity, in turn, sets the level of prosperity that can be reached by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to grow faster over time. The concept of competitiveness adopted by the WEF thus involves static and dynamic components. Although the productivity of a country determines its ability to sustain a high level of income, it is also one of the central determinants of its return on investment, which is one of the key factors explaining an economy's growth potential. The components used by the WEF in determining competitiveness of a country are grouped into 12 pillars, namely institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation (WEF, 2014a). Indonesian ranks for all these components are given in Table 1, which shows that generally Indonesia is weak in all of those components except market size which is the only favorable factor for Indonesian competitiveness.

Tabel 1: Indonesian Ranks for the 12 Pillars of Competitiveness, WEF version, 2014-2015

Three groups of pillars/sub-indeces	Rank
Basic requirements (factor driven):	46
-institutions,	53

[1] .The formation of the index is based on secondary and primary data in countries included in the sample, and the latter data were collected trough surveys (called *Executive Opinion Survey*) on minimum 85 and maximum 100 firms. As for many previous years, the survey 2014 in Indonesia was conducted by the Center for Industry, SME and Business Competition Study (USAKTI), led by Dr Tulus Tambunan, as the country partner institute for the WEF since 1996.

-infrastructure, -macroeconomic environment, -health and primary education	56 34 74
Efficiency enhancer (efficiency driven): -higher education and training, -goods market efficiency, -labor market efficiency, -financial market development, -technological readiness, -market size	46 61 48 110 42 77 15
Innovation and sophistication factors (innovation-driven) -business sophistication -innovation	30 34 31

Source: WEF (2014a)

This is the first part of ongoing study on Indonesian enabling trade with the focus on the importance of trade facilitation (TF) for enhancing Indonesian export, particularly small and medium enterprises (SMEs). This first part examines recent development of Indonesian export and its ETI 2014 based on the WEF's *The Global Enabling Trade Report 2014* (in which for Indonesia the WEF cooperated with the author (the Center for Industry, SME and Business Competition Studies, USAKTI) to collect primary data from more than 85 companies in the country). In addition, this first part also provides findings from a survey on export-oriented SMEs in Indonesia examining their access to TF and the importance of having access to TF for their export.

II. Recent Development of Indonesian Export

II.1 Overall Picture

Most recent data from BPS show that total export value (FOB) of Indonesia in August 2014 reached US$14.48 billons or experienced an increase by 2.48 per cent in comparison with total export value in July 2014, or an increase at 10.63 per cent in comparison with August 2013 (Table 2). Total export value of non-oil and gas in August 2014 reached US$11.88 billons, raised by 2.14 per cent compared to July of the same year, or an increase at 14.61 per cent compared to August one year before. But, cumulatively, total export value of Indonesia for January-August 2014 reached US$117.42 billion or a decline by 1.52 per cent compared to the same period in 2013. Also Indonesia total export value of non-oil and gas reached US$96.64 billion or a drop by 1.29 per cent. The largest increase of Indonesian non-oil and gas export in August 2014 compared to July 2014 originated from automotive and its parts with US$106.4 million (28.54 per cent), while the largest decline came from animal or vegetable fats and oils at US$343.9 million (17.78 per cent) (BPS, 2014).

Table 2 Development of Indonesian Export, January-August 2014

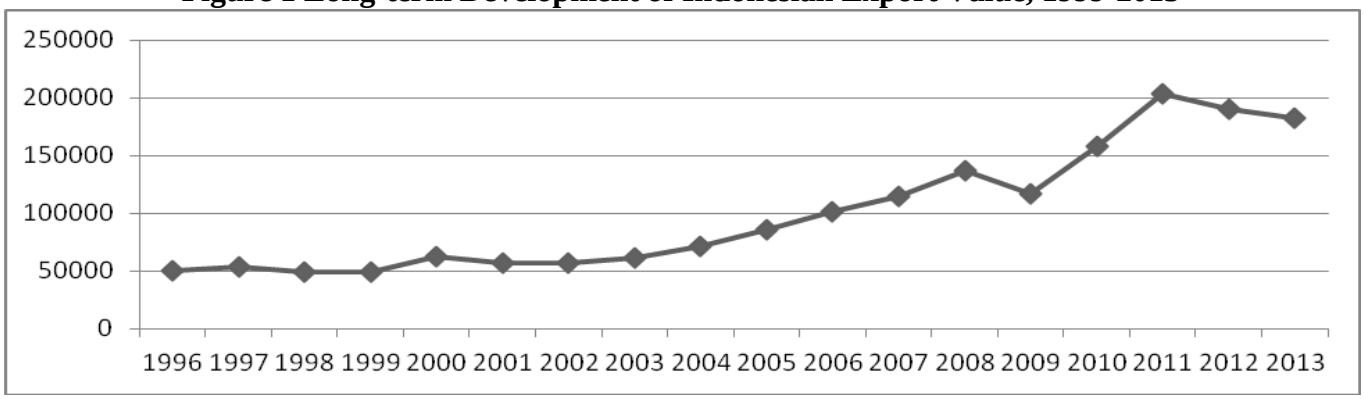
Description	FOB Value (million US$)				Change (%)		Role on total Export Jan-Aug 2014 (%)
	July 2014	August 2014	Jan-Aug 2013	Jan-Aug 2014	July-Aug 2014	Jan-Aug 2013 - Jan-Aug 2014	
Total export value	14,124.1	14,475.1	119,240.3	117,423.8	2.48	-1.52	100.00
-Oil and gas	2,496.3	2,598.2	21,331.1	20,779.6	4.08	-2.59	17.70
-Non oil and gas	11,627.8	11,876.9	97,909.2	96,644.2	2.14	-1.29	82.30

Source: BPS (2014)

In fact Indonesian export started to decline in 2012, after experiencing a steady increase on average per

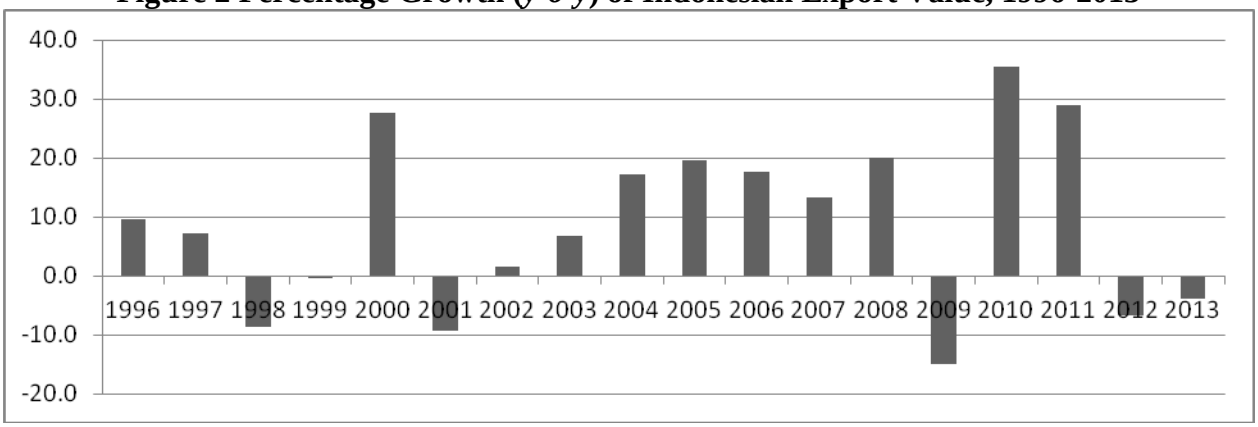
year from almost US$ 49.9 billion in 1996 to around US$137 billion in 2008, and up again to US$ almost US$203.5 (after dropped in 2009) (Figure 1). The *year-on-year* (y-o-y) based growth rate of Indonesian exports in 2012 and 2013 is, respectively, -6.6 per cent and -3.9 per cent (Figure 2). The continued decline of Indonesian export during the period 2011-2013 was found in almost all key countries of destination, i.e. Japan from US$ 33.7 billion to almost US$ 27.1 billion; People's Republic of China from US$22.9 billion to US$22.6; Singapore from US$18.4 billion to nearly US$16.7 billion; United States from almost US$16.5 billion to US$15.7 billion; Republic of Korea from around US$16.4 billion to US$11.4 billion; India from US$13.3 billion to US$13.0 billion; Malaysia from almost US$11 billion to nearly US$10.7; Taipei, China from US$6.6 to nearly US$5.9 billion; and Australia from almost US$5.6 to US$4.4 billion. Only to Thailand, Indonesia export raised slightly from almost US$5.9 billion to US$6.1 billion during that period (ADB, 2014).

Figure 1 Long-term Development of Indonesian Export Value, 1999-2013



Source: ADB (2014)

Figure 2 Percentage Growth (*y-o-y*) of Indonesian Export Value, 1996-2013



Source: ADB (2014)

For many years Indonesian trade balance is always deficit, meaning that Indonesia imports more than exports. For instance, based on data 2012, total export value of Indonesia was US$ 188.5 compared to total import value of US$ 190.4. Although it is a large country based on size, total population, and availability of important raw materials, and it is also an open economy, Indonesia is still relatively small in world trade. Based on data 2012, the country's share of world trade was only 1.02 per cent, and its trade openness (i.e. (imports+exports/GDP) was 43.1 per cent (WEF, 2014b).

Besides trying to push higher growth rate of export, especially non-oil and gas, trying to diversify export (product as well as country of destination) is still another current important issue that Indonesian dealing with. Indonesian policymakers are aware of possible negative shocks originating from international trade if Indonesia relies too much on exports of only a few primary commodities or low-skill, labour-intensive manufactures. Therefore, the government (in this case the Ministry of Trade in cooperation with the Ministry of Industry) has been proactive in their policies aiming at diversification and upgrading of exports. Indeed, while diversification of their productive and export activities remains a pending task for many other developing economies, Indonesia seems to have booked a positive result in the past many years, especially since the Asian financial crisis 1997/98 which made the Indonesian government realized how important is to be less dependence on export of oil and gas and other primary, not processed commodities. Based on a report from UNCTAD (2014), the export concentration index of Indonesia is low suggesting that the country is quite diversified (Table 3).

Table 3 Export Concentration Index of Indonesia and Other Selected Developing Countries, 2003-2012

Country	Change between 2003–2008 average and 2012 (%)	Index average for 2011–2012
Argentina	1.1	15.4
People's Republic of China	1.3	10.0
Mexico	1.7	15.0
Peru	2.1	25.2
India	4.4	17.8
Indonesia	4.8	17.1
South Africa	5.2	16.9
Brazil	7.1	15.8
Hong Kong, China	8.3	20.0
Ecuador	9.1	50.0
Chile	10.0	37.1
Colombia	18.7	42.0

Source: UNCTAD (2014)

II.2 Indonesian SMEs' Export Capacity

Based on some publications such as Battat, et al. (1996), Kuwayama (2001),Tambunan (2009a,b,c, 2010 2012), UN-ESCAP (1997, 2010), and ISED (2012), Table 4 shows estimates of SMEs contributions to total exports in a number of Asian developing countries. As can be seen, SMEs in China play the leading role with the highest export contribution of up to 64 per cent of the country's total merchandize exports, followed by Taiwan (Chinese Taipei) with 56-60 per cent. In South Asia, the export share of Indian SMEs is around a maximum of 50 per cent[2]. In Pakistan for the past three decades the fastest growing export industries have been dominated by SMEs. Important export contributions from this enterprise group emanate from sub-sectors like cotton weaving and other textiles and surgical equipment. In total, these enterprises generate 25 per cent of manufacturing export earnings, or about 2.5 of total export earnings..

[2] Although there were some variations among goods. Even, according to Pandey (2007), in the sports goods and garments sector their contribution to Indian total exports was 90 to 100 per cent, and some other goods their shares reached 60 to 70 per cent.

Table 4 Share of SME in Merchandize Direct Exports (Percentage of Total) in Selected ASEAN and Other Asian Developing Countries, 1990s-2010

Country	Average Share (%)
China	40-64
Sri Lanka	59
Chinese Taipei	56-60
India	33-50
Thailand	10-40
Philippines	20-25
Vietnam	20
Indonesia	20*
Singapore	16
Malaysia	10-15
Bangladesh	11.3
Pakistan	25

Note: * only in manufacturing industry
Source: data/information collected from Battat, *et al*. (1996), Kuwayama (2001), Tambunan (2009b, 2012), UN-ESCAP (1997, 2010), ISED (2012), OSMEP (2010).

While, by using World Bank Enterprise Survey data, Mourougane (2012) shows that as in many other developing countries in Asia, SMEs in Indonesia have a lower propensity to export, especially direct export, than LEs (Table 5). The share of SMEs in non-oil exports has been declining since 2008; they now represent less than a fifth of Indonesian total non-oil exports, though part of SME output may be exported indirectly through subcontracting arrangements with LEs.

Table 5 Per cent of firms exporting directly or indirectly (at least 1% of total sales) in Indonesia and Other Selected Asian Developing Countries

Cambodia 2007	Malaysia 2007	Philippines 2009	Thailand 2006	Vietnam 2009	Indonesia 2009			
					SEs	MEs	LEs	Total
9.1	30.0	5.0	47.0	5.1	1.6	14.2	55.3	4.1

Source: data taken from table 2 in Mourougane (2012) (data from World Bank Enterprise Survey),

Indeed, one important feature of SMEs in Indonesia is that most enterprises are domestic-market oriented for a number of reasons. Among these reasons the most important is the lack of four key inputs, namely: (i) technology and skilled workers (so they cannot make highly competitive products that meet world standards); (ii) information especially on market potentials (including current changes in market demand/taste); (iii) global business strategies; and (iv) capital for financing export activities. In Indonesia, as in other developing countries, it is not uncommon, especially for small (including micro) enterprises (SEs), that doing direct international marketing is too costly, because of the costs involved in promotion, distribution, communications, export licenses, transportation and logistics. However, although SMEs are not directly involved in international trade, they may be integrated into export supply chains by supplying components or semi-finished goods to export-oriented firms, mainly from the LE category (Tambunan, 2014). As stated in a report on the development of SMEs in Indonesia by the Asian Development Bank in 2002 (ADB, 2002), the low representation of Indonesian MSMEs in exports is due mainly to the indirect nature of exporting through

intermediaries. Unfortunately, no national data are available on the involvement of Indonesian SMEs in export supply chains.

Other two important features of the Indonesian export-oriented SMEs are that many of those which do export do not sell all of their products abroad, but they also serve the domestic market, and the majority of those doing exporting do not pursue exports directly. They export, but instead indirectly through intermediaries, such as traders, large-sized exporting companies, trading houses, or through subcontracting arrangements where SMEs manufacture semi-final products that are to be completed by LEs (e.g. the processing of raw materials into ready-made foods in the food industry that would take place in SMEs, and later be packaged by LEs). With respect to the first feature, BPS 2013 data on SEs in the manufacturing industry, for instance, show that only few SEs do export (Table 6), and the percentage of total SEs' production for export purposes varies by group of industry (Table 7).

Table 6 Number of SEs in the Manufacturing Industry by Group of Industry and Market Destination in Indonesia, 2013

Group of industry	Total number of unit	Total exporting units
(1) Food	1167 541	1 967
(2) Beverages	47 470	85
(3) Processed tobacco	63 710	3
(4) Textile	293 039	1 606
(5) Garment	340 002	1 914
(6) Leather & its products, including footwear	40 150	500
(7) Wood & its products (not including furniture) & handicraft from rattan, bamboo & its alike	781 916	6 777
(8) Paper & its products	10 102	356
(9) Publishing & Recording Media Reproduction	31 584	226
(10) Chemical & its products	24 168	230
(11) Pharmacy, chemical medical products & traditional medicine	6 516	12
(12) Rubber & plastic & their products	21 998	18
(13) Excavated non metal products	265 862	940
(14) Basic metal	1 390	56
(15) Metal products non-machinery and its tools	79 735	219
(16) Computer, Electronic goods and optics	339	-
(17) Electrical tools	615	21
(18) Machineries and their tools	1 811	-
(19) Vehicles, Trailer and semi-trailer	3 249	3
(20) Other transportation tools	6 376	-
(21) Furniture	133 831	888
(22) Other manufactures	88 794	4 614
(23) Repairs services & machines and their tools installation	8 168	-
Total	**3 418 366**	**20 435**

Source: processed data from BPS (2013)

Yet another important characteristic of export-oriented SMEs in Indonesia is that those making similar products tend to form a kind of cluster. Clusters of SMEs are indeed common in Indonesia, with the grouping of SMEs in the manufacturing sector regarded as a significant phenomenon. The clustering of SMEs in the country tends to emerge in small town and villages, or in confined segments of large cities. Based on the most

recent data from the Menegkop, in 2005 alone, there were a total of 450 SME clusters assisted by the Ministry, with some of these clusters export-oriented. Furthermore, as shown in Table 8, Java has the largest proportion of SME clusters, including export-oriented SME clusters. This suggests that SMEs on this island are more export-oriented than those located in other parts of the country.

Table 7 Percentage of Total Production of SEs in the Manufacturing Industry for Export by Group of Industry, 2010

Group of industry*	Total Unit	% of total production for export				
		<15	15-39	40-64	65-79	>80
(1)	929 910	50	-	2	30	971
(2)	30 395	-	-	-	-	-
(3)	53 169	-	-	-	-	18
(4)	234 657	55	34	161	24	940
(5)	276 548	47	73	232	-	735
(6)	32 910	73	10	169	-	35
(7)	639 106	90	94	245	43	2890
(8)	7 268	-	221	12	-	47
(9)	24 305	-	1	-	-	-
(10)	19 168	2	-	-	10	-
(11)	5 043	89	-	-	-	-
(12)	13 786	29	-	37	-	-
(13)	215 558	98	366	38	4	307
(14)	1 553	-	-	-	-	-
(15)	61 731	55	50	7	41	448
(16)	434	-	-	-	-	-
(17)	199	-	-	-	-	-
(18)	1 540	-	-	-	-	-
(19)	3 488	-	-	-	-	-
(20)	4 708	-	-	-	-	-
(21)	107 166	-	94	22	43	865
(22)	62 898	82	99	77	171	2449
(23)	7 184	-	-	-	-	-
Total	2 732 724	670	1042	1002	366	9705

Note: * for group of industry, see Table 6.
Source: processed data from BPS (2010)

Table 8 Exporting SME Clusters in Indonesia by Province, 2005

Provinces	Total number of clusters	Exporting clusters*		
		No. of clusters	Total firms	Total workers
Nanggroe Aceh Darussalam	9	2	68	205
North Sumatra	16	5	211	724
West Sumatra	6	n.a.	n.a.	n.a.
Riau	11	3	166	367
Jambi	14	4	182	580
South Sumatra	17	n.a.	n.a.	n.a.
Bengkulu	6	1	36	109
Lampung	16	4	206	530
Jakarta	6	2	210	295
West Java	35	11	593	2,292
Central Java	59	20	1,558	7,803
Yogyakarta	18	8	600	1,676
East Java	71	10	499	1,976
Banten	9	1	55	388
Bali	17	7	515	1,484
West Nusa Tenggara	15	6	509	4,635

East Nusa Tenggara	6	3	99	412
West Kalimantan	10	1	30	91
Central Kalimantan	11	n.a.	n.a.	n.a.
South Kalimantan	17	1	50	150
East Kalimantan	17	2	73	250
North Sulawesi	3	n.a.	n.a.	n.a.
Central Sulawesi	11	n.a.	n.a.	n.a.
South Sulawesi	26	n.a.	n.a.	n.a.
Southeast Sulawesi	6	2	80	205
Gorontalo	5	n.a.	n.a.	n.a.
West Sulawesi	4	1	69	90
Maluku	4	n.a.	n.a.	n.a.
North Maluku	1	n.a.	n.a.	n.a.
West Papua	1	n.a.	n.a.	n.a.
Papua	3	1	30	90

Note: n.a.: not available

Source: processed data from Menegko & UKM (www.depkop.go.id)

Among the popular export-oriented SME clusters in Indonesia is the furniture producers' cluster in the district of Jepara, in the province of Central Java. In the mid-1980s many firms in the cluster started to export, with the top-ten exporting firms controlling up to 50 per cent of the cluster's total exports. A major breakthrough in exporting for the cluster was the participation of many firms in a big trade fair in Bali in 1989. Since then, the products of this cluster have become known, not only for domestic consumers, but also foreign buyers. At the time, the cluster's exports were aimed at the low-income segment of the markets in the destinated countries and recently heavy competition has been rising from other wood-based furniture producing countries such as China, Vietnam and Cambodia. The strong export performance allowed the cluster to weather a drop in domestic demand as a result of the 1997/98 Asian financial crisis in Indonesia. The cluster's exports also benefited from the improvement of the harbour in the capital of Central Java, Semarang, through facilitated door-to-door container transports, improved credit facilities, and greater participation of foreign buyers, traders, wholesalers and producers in the industry.

In addition, foreign tourists visiting Jepara also played an important role in boosting the export capacity of this cluster. Foreign tourists, who contributed to as much as 25 per cent of Jepara's total furniture exports, became a major intermediary between Indonesian firms and international customers. They also played an important role in the expansion of order-driven production, tailored to the quickly changing customers' preferences.

III Indonesian Enabling Trade Index 2014 and Main Problematic Factors

The Enabling Trade Index (ETI) is developed by the World Economic Forum. The ETI framework captures the various dimensions of enabling trade, breaking them into four overall issue areas, called subindexes (pages 4-6): (i) market access: it measures the extent and complexity of a country's tariff regime, as well as tariff barriers faced and preferences enjoyed by a country's exporters in foreign markets; (ii) border administration:

it assesses the quality, transparency and efficiency of border administration of a country; (iii) infrastructure: it assesses the availability and quality of transport infrastructure of a country, associated services, and communication infrastructure, necessary to facilitate the movement of goods within the country and across the border; (iv) operating environment: it measures the quality of key institutional factors impacting the business of importers and exporters active in a country.

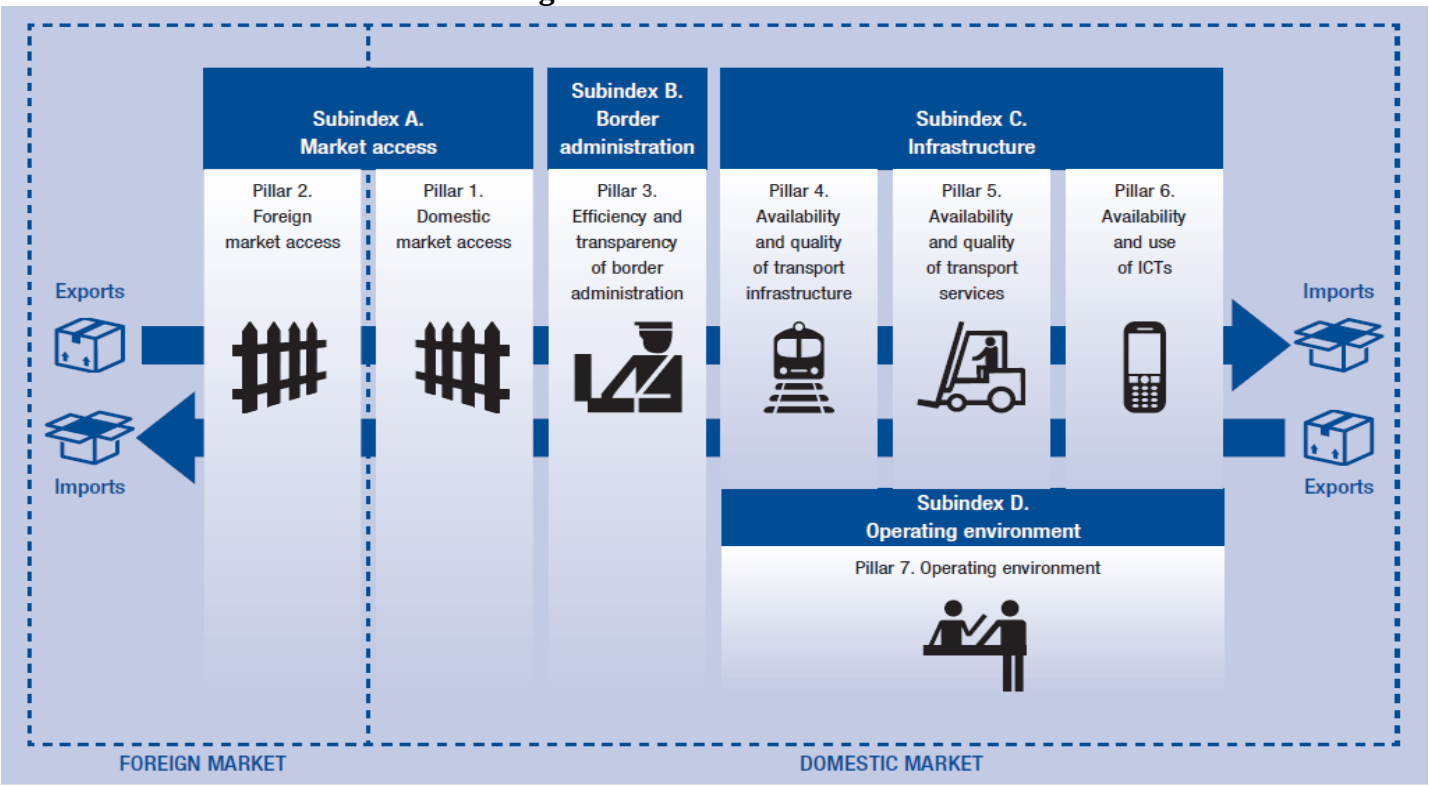
These four areas are in turn subdivided into components, called pillars which capture more specific aspects within their respective broad issue areas. Each of them is composed of a number of indicators (Figure 3). The seven pillars each measure critical aspects of enabling trade. The Market access subindex is composed of two pillars. Pilar I domestic market access (6 indicators), which assesses the level and complexity of a country's tariff protection as a result of its trade policy. This component includes the effective trade-weighted average tariff applied by a country, the share of goods imported duty free and the complexity of the tariff regime, measured through tariff variance, the prevalence of tariff peaks and specific tariffs, and the number of distinct tariffs. Pilar II: foreign market access (2 indicators), which assesses tariff barriers faced by a country's exporters in destination markets. This pillar includes the average tariffs faced by the country as well as the margin of preference in destination markets negotiated through bilateral or regional trade agreements or granted in the form of trade preferences.

The Border administration subindex is composed of only one pillar, namely Pillar 3: efficiency and transparency of border administration (11 indicators), which pillar assesses the efficiency and transparency of border administration. It captures efficiency, transparency and costs associated with importing and exporting goods. It includes an assessment of the range and quality and comprehensiveness of key services offered by customs and related agencies, the average time, costs and number of documents required to, respectively, import and export goods. This pillar also assesses the time predictability of border procedures, as well as the transparency of the process, as measured by the availability and quality of information provided by border agencies and the prevalence of corruption.

The Infrastructure subindex is composed of three pillars. Pillar 4: availability and quality of transport infrastructure (7 indicators), which measures the availability and quality of domestic infrastructure for each of the four main modes of transport (road, air, railroad and sea port infrastructures), air connectivity and sea line connectivity. Pillar 5: availability and quality of transport services (6 indicators), which assesses the availability and quality of transport services, including the presence and competencies of shipping and logistics companies in the country, and the ease, cost and timeliness of shipment. This pillar also measure of postal efficiency. Pillar 6: availability and use of information and communication technologies (ICT) (7 indicators), which evaluates the availability and quality of (ICTs) in a country, as proxied by the use of mobile telephony and internet by the population at large, by companies for business transactions, and by the government for

interacting with citizens. It also measures the quality of internet access, as broadband access has become the norm to fully leverage the potential of the internet.

Figure 3 The ETI Framework



Source: adopted from figure 1 in WEF (2014b, page 7).

The operating environment subindex is composed of a single pillar. Pillar 7: operating environment (17 indicators), which assesses the quality of a country's operating environment, which significantly impacts the capacity of companies that export, import, trade and/or transport merchandise to do business. It assesses a country's level of protection of property rights; the quality and impartiality of its public institutions, including of the judiciary in commercial disputes; the availability of finance, including trade finance; its openness to foreign participation in terms of foreign investment and labour; as well as the level of physical security approximated by the incidence of crime and terrorism.

Pillar scores are computed as the arithmetic mean of the composing individual indicators, which are first transformed on a common scale ranging from 1 to 7, with 7 indicating the best possible outcome. Subindex scores correspond to the arithmetic means of the respective comprising pillars. Consequently, subindex and overall scores always range from 1 to 7.

Table 9 presents the rank of Indonesia and other ASEAN member states, and Table 10 presents the ranks of Indonesia for all subindexes. As can be seen, Indonesia ranks 58th on the ETI, or 4th in ASEAN behind Singapore, Malaysia (25th) and Thailand (57th). Indonesia's tariff regime offers relatively favourable conditions of access to its domestic market (26th) and abroad, Indonesian exporters enjoy some of the lowest tariff rates in the world (8th). Within ASEAN (as well as in the world) for many years, Singapore ranks 1st in

the ETI. The level and consistency of Singapore's performance is indeed outstanding. Singapore leads in two pillars (border administration and transport services), features in the top 5 of three more and ranks 8th and 13th in the remaining two. As a result, the score differential with second-ranked Hong Kong SAR is 0.5 points, which is considerable by ETI standards. A champion of government efficiency, Singapore's excellent performance in terms of border administration is reflected in the top result achieved by the country on the related pillar (Singapore ranks in the top 3 on 10 of the 11 indicators composing the border administration pillar). Singapore established the world's first national single window for trade (TradeNet) in 1989, bringing together more than 35 border agencies.

Table 9 The ETI 2014 Rankings of ASEAN

Member state	Rank	
	ASEAN	World (138 countries)
Singapore	1	1
Malaysia	2	25
Thailand	3	57
Indonesia	4	58
Philippines	5	64
Vietnam	6	72
Cambodia	7	93
Lao PDR	8	98
Myanmar	9	121

Source: adopted from Table 1 in WEF (2014b) with some modification

Table 10 The Global Ranks of Indonesia for All Subindexes of the ETI, 2014

No	Subindex	Rank (138 countries)
1	Market access	20
	-domestic market access	26
	-foreign market access	37
2	Border administration	69
	-efficiency and transparency of border administration	69
3	Infrastructure subindex	64
	- availability and quality of transport infrastructure	60
	-availability and quality of transport services	58
	-availability and use of ICT	81
4	Operating environment	61

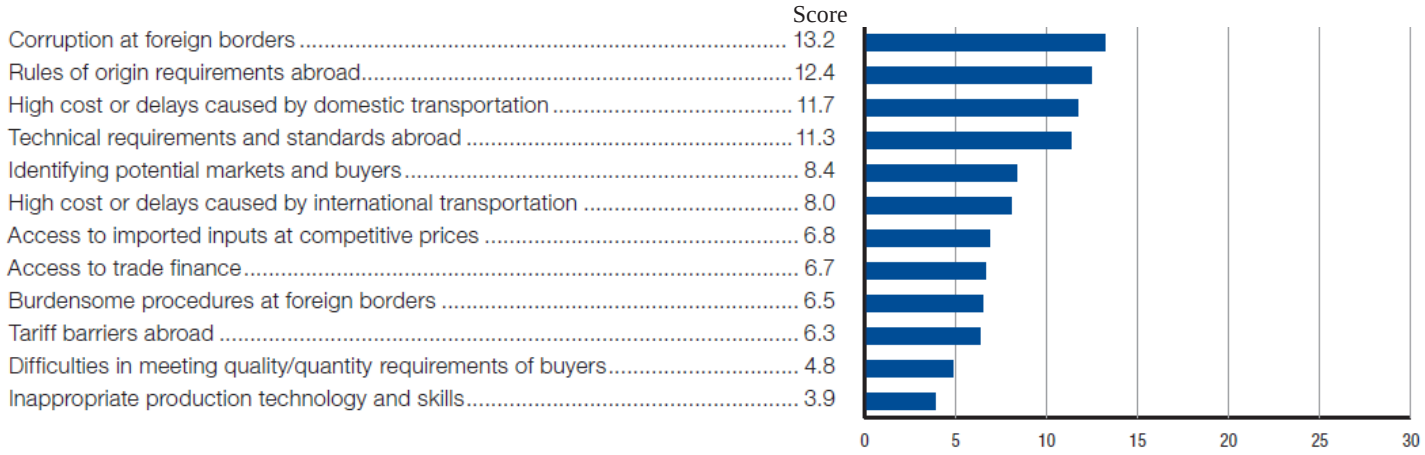
Source: WEF (2014b).

In the second position within ASEAN is Malaysia (25th in the world). It is the best-performing country in the Developing Asia region, almost 30 places ahead of second-best China (54th in the world). In a region afflicted by red tape, corruption and lack of infrastructure, Malaysia is an outlier. The country ranks a remarkable 14th in the world for the availability and quality of transport infrastructure. Maritime connectivity is among the world's best (5th), far behind leading China, but almost on par with Hong Kong SAR (2nd), Singapore (3rd), and Korea (4th). The measures by Malaysia's government to streamline and simplify regulations across its administration are having a positive impact on the efficiency of border administration.

Finally, this WEF's report (2014b) also provides information about the most problematic factors for exporting as well as importing. This information was from individual/own opinions of heads/CEOs/managers/owners of companies from all size categories in key economic sectors (e.g.

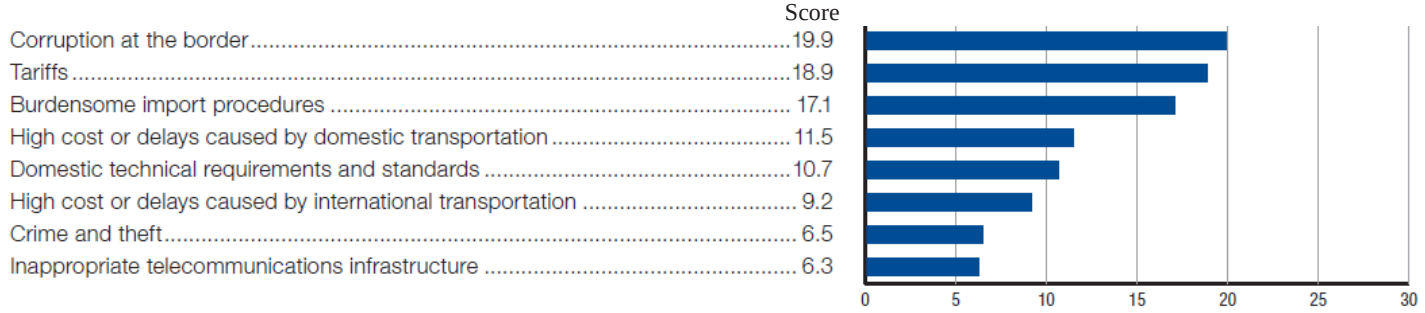
manufacturing industry, mining, agriculture, trade, financing, services) collected through a survey called *Executive Opinion Survey* in all 138 countries surveyed.[3]The next two figures show the information.

Figure 4 Most Problematic Factors for Exporting in Indonesia, Executive Opinions, 2014



Source: WEF (2014b)

Figure 5 Most Problematic Factors for Importing in Indonesia, Executive Opinions, 2014



Source: WEF (2014b)

IV Access to Trade Facilitation

IV.1 Trade Facilitation: Concept, Definition and Measurements

While trade facilitation frequently refers to all measures that can be taken to facilitate and ease cross-border trade flows, there is no standard formal definition. In a broad sense, as stated in Damuri (2006), trade facilitation can be defined as any action intended to reduce transaction costs that affect the international movement of goods, services, investments and people. In Moïsé, et al. (2011), trade facilitation refers to policies and measures aimed at easing trade costs by improving efficiency at each stage of the international trade chain. In Grainger (2009), trade facilitation is the simplification, harmonization, standardization and modernisation of trade procedures. It seeks to reduce trade transaction costs at the interface between business (i.e. exporters and importers) and government and it is an agenda item within many customs related activities. These activities include World Trade Organisation (WTO) trade round negotiations, supply chain security initiatives, development and capacity building programs, as well as many customs modernisation programs.

[3].In Indonesia, the survey was conducted by the Center for Industry, SME and Business Competition Study (USAKTI), led by Dr Tulus Tambunan, as the country partner institute for the WEF since 1996.

The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) defines trade facilitation as the simplification, standardization and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payment (OECD 2003). In UN/CEFACT and UNCTAD (2002), it is stated that trade facilitation covers trade procedures, customs and regulatory bodies, provisions for official control procedures applicable to import, export and transit. These control procedures include, general arrangements, customs controls, official documentation, health and safety, financial securities, transshipment, and provisions relating to: (i) transport and transport equipment, including: air transport; sea transport; and multimodal transport; (ii) the movement of persons, provisions relating to the management of dangerous goods; (iii) payment procedures; (iv) the use of information and communication technologies; (v) commercial practices and the use of international standards; and (vi) legal aspects of trade facilitation.

Articles V, VIII and X from GATT give three recommendations regarding trade facilitation: (i) under Article V – accept commercial documents (e.g. invoice and transport documents) instead of mandating formal regulatory declarations, set simple and clear procedures for identifying consignments, ensure non-discrimination of goods, use of international agreements and a commitment to regulatory cooperation; (ii) under Article VIII – regulatory fees ought not exceed expenses, standardization and simplification of customs and trade documents, coordinated intervention and convergence of regulatory controls, simplification of governing trade procedures, the single window concept, use of risk management techniques, use of information technology, common data models, time guidelines for border clearance and adherence to international customs conventions; and (iii) under Article X – accessible publication of procedures and requirements, active provision of information, procedures for advance and binding rulings, fair and efficient appeal and tribunal procedures and use of memoranda of understanding between regulatory bodies and traders (Grainger (2009).

Trade facilitation by the WTO is understood as the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movements of goods between countries/economies. Therefore, removing administrative and technical barriers to trade as a way to reduce trade transactions costs and facilitate more inclusive participation of MSMEs in international trade, must also be considered as part of improving trade facilitation measures (Moïsé, *et al*., 2011).

Grainger (2009) argues, however, that no matter what the internationally adopted definition is, the implementation of trade facilitation principles is fraught with obstacles. Obstacles may include conflicting interests, institutional limitations and lack of knowledge. In Indonesia, the last two obstacles are obvious. These obstacles are especially serious for SMEs. Grainger argues that policy makers and business owners stand to gain from more substantiated research aimed at deepening the understanding of cross-border operations, its inherent dynamics, stakeholder interests and institutional limitations. Currently such knowledge is seldom found in one place.

No doubt trade facilitation affects transaction or trade costs and hence trade volume; although, the effect may vary by country, depending not only on quantity but also on quality of trade facilitation. Theoretically, there is a negative correlation between the level of development of trade facilitation and the transaction/trade costs, or a positive correlation between the quality of trade facilitation and trade volume.[4] At the Canada/New Zealand Joint APEC Symposium on 9-10 May 2005 in Montreal Canada session on private sector development, under the topic of the ease of doing business, it was concluded that there is a strong link between the quality of an economy's regulatory environment on trade and trade-related facilitates and its economic performance. With respect to SMEs, a poorly constructed regulatory environment imposes a disproportionate burden on this enterprise type, because SMEs find it more difficult to cope with difficult and complex regulations.

There are several measurements/indicators often used to estimate the quality of trade facilitation in a country. These include the logistics performance index (LPI), the ease of doing business (EDB) and total transportation costs to abroad as a percentage of total import value. The LPI reflects the overall perception of a country's logistics based on over 1,000 responses to a survey of logistics performance, which can be evaluated in selected key subcategories. These subcategories may include: (i) efficiency of customs and other border procedures; (ii) quality of transport and information technology (IT) infrastructures; (iii) international and domestic transportation costs; (iv) ease of shipments and logistics competence; and (v) tracking ability and timeliness of shipments. The value of the index ranges from 1 to 5, with a higher score representing a better performance.

The EDB, initiated by the World Bank, is about the trading across borders subcategory rank, which represents a country's trade facilitation capabilities based on six indicators: (i) number of documents for imports and exports; (ii) time (in days) for imports and exports; and (iii) cost (US$ per container) of imports and exports. A higher rank is associated with a more favorable environment for trading across borders.

Total transport costs as a percentage of total import value can be distinguished between total freight costs and air-freight costs. The first reflects the ratio of total freight charges and insurance costs to the net value of merchandise goods imports. In the case of Indonesia's imports, this is calculated at the origin of Indonesian ports and is reported as a percentage of Indonesia's total import value. This includes all shipments through air, maritime and land freight but excludes domestic transportation costs between cities. The second indicator, by definition, reflects the ratio of total air-freight charges and insurance costs to the net value of merchandise goods imports. In the Indonesian case, this is calculated at the origin of Indonesia's gateways, and is reported as a percentage of total imports. The average air-freight rate reflects the costs of transport from Indonesia's main ports to foreign countries, at the Indonesian customs procedure point.

[4] There are enough studies which show that improvement on trade facilitation could lead to substantial economic gains or trade expansion. Among the studies is by Wilson, Mann, and Otsuki (2003), who suggest that raising capacity in broad measures related trade facilitation, such as customs, regulations and infrastructure across whole countries, could increase world trade.

IV.2 SME's Access to trade facilitation

IV.2.1 Some Evidence from ASEAN

As already explained at the beginning of this chapter, trade facilitation frequently refers to all measures that can be taken to facilitate and ease cross-border trade flows. With respect to SMEs, trade facilitation is defined as measures or actions taken by government, as well as the private sector, that make it easier for SMEs to export or import. This includes low transaction costs and minimum losses due to failed trade transactions caused by unpredictable factors. This is especially the case for exporting, as it is for larger size exporting companies. Trade facilitation measures are important for exporting SMEs because while many of these enterprises have a great export potential, on the other hand, they lack the necessary resources to export directly. These resources include working capital, knowledge/information on international market conditions or potential and the skills required to export. At least theoretically, by having full access to trade facilitation, the export volume of SMEs will increase and then generate an increased multiplier effect on employment creation and subsequently poverty reduction. This expectation is supported by trade growing faster than GDP in most state members in ASEAN for several decades, and according to Layton (2010), this development should be seen as a direct effect of simplification and harmonization of trade and the reduction of tariff and non-tariff barriers to trade in the region.

In ASEAN, interesting studies on the importance of trade facilitation for international or regional trade activities are increasing. This includes the study by Son and Son (2011) that investigated cross-border trade among countries in the GMS countries, which has expanded rapidly over the years. Among the factors that contributed to this phenomenon was the application of a number of cross-border trade facilitation measures. The study found, however, that the emphasis of cross-border trade facilitations in the GMS 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. 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 trade facilitation, and it was found that, for the local business community, financial services were an important factor for cross-border trade facilitation.

De Dios (2009) also did research on the impact of IT-based trade facilitation measures on SMEs in the Philippines. Considering that the transactions costs of complying with trade regulations and procedures are higher for smaller firms, the main question in this research was whether the use of IT in trade facilitation further inhibits, or encourages, the participation of Philippine SMEs in foreign trade. For the purpose of the research a small survey of customs brokers was conducted, since the majority of Philippine trade is conducted through them, and brokers are mostly SMEs themselves. Thus the survey was undertaken to ascertain the impact of IT-based customs procedures on the operations. One important finding from the survey was that

electronic lodgment made it easier and faster for brokers (most of which were SMEs) to make import declarations. Facility and speed, aside from the ability to view the results immediately, saved time. Lodgment time dropped for about 60 percent of broker respondents. About 90 percent of the respondents found that electronic lodgment has facilitated trade for them. The ease and speed of electronic lodgment also seems to have reduced transactions costs somewhat. The study concluded that if costs and the risks of trading are lowered, or trading is made more efficient, SME exports are at an advantage. This is because compliance costs for SMEs are disproportionate to their size, so that IT-based lodgment favors them by lowering total cost burdens and costs per unit export. In addition to the field study, the paper also provides a survey of literature on the impact of trade facilitation on SMEs in various parts of the world, which suggest that improvement in trade facilitation, including the use of IT, has strong positive impacts on SMEs trade activities.

Macasaquit (2009) also provides information on trade facilitation and its effects on SMEs' activities in the Philippines. As is evident from this study, many SMEs in the country are direct exporters, while there are so-called internationalized subcontractors or suppliers that have links with multinational companies (MNCs) or domestic LEs that are export oriented. It is estimated that around 60 percent of exporters are SMEs. The study emphasizes that these SMEs are the ones that would certainly benefit from good trade facilitation measures. As these enterprises have smaller assets and operational capability, as compared to larger counterparts, cumbersome trade procedures and costly requirements are prohibiting SMEs from actively pursuing international trade. Unfortunately, in the Philippines, transaction costs remain high, according to various indices and ranking, including trade costs computations and ease of doing business assessments. The weighted ad valorem trade costs are the highest among the ASEAN 5 (i.e. Indonesia, Singapore, Malaysia, Thailand, and the Philippines). Meanwhile, in the scorecard for trade facilitation, which includes information on logistics performance, the time and costs of trading, and customs performance, the Philippines together with Lao PDR and Myanmar have the lowest indexes among ASEAN countries. Using 2007 data, the study finds that the Philippines has higher per unit costs of trade, longer expected trading times and require a large amount of documentation. All these "unfriendly" trade facilitation measures make it difficult for exported-oriented SMEs in the country to export efficiently.

Otsuki (2011) tried to quantify the benefits of trade facilitation in ASEAN. The study assessed the performance and progress of ASEAN economies in trade facilitation, and the effect of improved trade facilitation on the region's manufacturing trade. Under a scenario of raising the below-average countries halfway to the global average, it was estimated that ASEAN's trade would need to increase by US$99 billion, three-quarters of which would have to come from the region's own improvements. The study also found that regulatory reforms, for example enhancing transparency of trade-related regulations and ensuring law-abiding operations of the regulatory authorities, were the most effective ones.

Other important studies are from Shepherd and Wilson (2009) focusing on ASEAN, and ADB and UN-ESCAP (2009) and Shepherd (2010) on countries in Asia-Pacific region (APEC). The 2009 study shows that trade flows in ASEAN are particularly sensitive to trade facilitation, especially transport infrastructure and information and communications technology. The finding suggests that the region could make significant economic gains from trade facilitation reform. While the study in 2010 reveals two important facts. Firstly, that trade costs in many APEC economies have dropped significantly since the 2001 Shanghai Declaration, in which APEC economies committed to reduce trade costs by 5 per cent over five years through tariff reduction and trade facilitation. Performance of individual economies, however, varied substantially, with some economies far below the Shanghai target. ASEAN member countries also experienced some declines in trade costs, but generally to a lesser extent than in APEC. But, in both groups, tariff reductions have played an important role in reducing overall trade costs. Progress on non-tariff trade costs has been much less impressive. This finding raises serious questions as to the effectiveness of trade facilitation efforts in the APEC region, which should clearly be focused on non-tariff trade costs, or improvement of trade facilitation (Shepherd, 2010). Secondly, trade facilitation performance in Asia and the Pacific has improved, which has reduced days to import and export and also other trade costs including international transportation costs.

However, the trade facilitation performance gap between the APEC region and the world's most developed economies remains large. Also national trade facilitation measures in many developing countries in Asia have often inherently focused on facilitating imports and exports from and to developed countries, partly because of the increasingly sophisticated requirements imposed by developed countries on their trading partners, as part of trade security initiatives. As such, trade facilitation concerns at many land borders have remained unanswered. Asian landlocked countries such as Lao PDR are particularly affected by the lack of intraregional trade (ADB and UN-ESCAP, 2009).

As in many other ASEAN member states, international trade activities have also been the engine of Indonesian economic growth during the "New Order" era, known as the period of economic liberalization in 1980s and 1990s. The growth of exports and imports has been generally higher than overall economic growth, at around 7 percent annually. Even when the Indonesian economy was hit hard by the 1997/1998 Asian financial crisis, which led GDP growth to decline by more than 13 percent, international trade sectors, especially exports, still grew by more than 10 percent (Damuri, 2006). After the end of the "oil boom" at the end of the 1970s/early 1980s, as the Indonesian government realized that the country could no longer depend on exporting oil and gas, the government became more serious in promoting the export of non-oil and gas goods, especially manufactured. Many varied measures have since been taken, including customs deregulation and abolishment of various trade licenses, introduced at the end of the 1980s to further liberalize and facilitate trade activities and to encourage non-oil exports. The development of the trade infrastructure was also a

government priority. Several ports were equipped with modern logistic and transport facilities to make trade activities easier.

However, the availability and quality of trade infrastructure, as well as exports and imports procedures, are still the main obstacles for further development in the trade sectors. The high cost of transportation and port services, together with lengthy and complicated trade procedures, contributed significantly to the non-competitiveness of Indonesian products during the time of crisis. Trade infrastructure bottlenecks and unsupportive trade procedures weakened Indonesia's trade performance and earlier competitiveness gained from trade liberalization (Damuri, 2006). This condition is also confirmed by the annual report *Doing Business in Indonesia* by the World Bank (www.worldbank.org). [5]

For Indonesia, research done by Damuri (2006) can be considered as among very few serious studies on trade facilitation in Indonesia. Damuri also did a survey of private sector actors from different lines of business activities, including exporters and importers. The study concluded that, although Indonesia has already implemented various trade facilitation measures currently discussed in the WTO trade facilitation negotiation, the degree of implementation still needs significant improvement in order to provide simplified and harmonised trade-related procedures. In response to an increasing demand for better public services related to trading activities, the Indonesian government has launched a number of programs to improve trade procedures, including a customs related administration program. The programs are also in line with several international agreements on trade facilitation, in which Indonesia has actively participated. Those include the APEC Trade Facilitation Action Plan and ASEAN Customs Agreement. Findings from Damuri's survey reveal that the implementation of several trade facilitation measures needs significant improvement. While the availability of information related to trading activities has shown significant progress, this remains the most problematic issue. The survey also found that many traders faced difficulties in meeting certain regulations and procedures based on new regulations, as they were issued and implemented at the same time, without any notification whatsoever. The lack of formal consultative mechanisms exacerbated the situation even further. Rampant illegal conduct of officials has eroded the competitiveness of Indonesian products. Traders surveyed complain that improper conduct of trade-related officials not only increases costs, but also slows down their activities, which might lead to a loss of business opportunities and substantial market share.

Research done by Rahardhan, et al. (2008) may also reveal some clues about the impact of trade facilitation on export activities in Indonesia. The study examined the impact of ASEAN trade facilitation on trade volume of the main important commodities from East Java. For the purpose of the study, in-depth interviews were conducted with exporters of all sizes, and some key officials. The findings from the interviews showed that, from the perspective of the respondents, the most important trade facilities are: (i) with respect to tariff barriers: removing all problems related to custom procedures, bringing tariff differences in line with

[5]See more other studies on trade facilitation and its impacts on trade costs and flows from e.g. Wilson et al. (2003), Moïsé (2004).

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[6].

Alavi (2009) also discusses the importance of trade facilitation, especially trade finance for the development of SMEs in Indonesia during the 2008/98 global economic crisis. But Alvai does not have strong evidence on the question of whether these enterprises have easy access to trade facilitation and what is the impact on their performance, or on their survival ability, in times of economic crisis.

IV.2.2 Case Study from Indonesia

Until now, field studies on SMEs' access to trade facilitation, and the impact of this access to trade facilitation on their export volume and costs of exporting in ASEAN, has been very limited. In Indonesia, there are only a few field studies, including two conducted by Tambunan (2009c, 2012). For the first study in 2009, Tambunan did a survey of 39 export-oriented SMEs in the wood furniture industry in the province of Central Java. The main argument for conducting this field study was that many export-oriented SMEs in Indonesia, or those with the potential to become exporters, could not export by themselves/directly, but must rely heavily on a third party, such as large-sized exporting or trading companies. He stated that there are at least two main reasons. Firstly are financial problems. Most SMEs, especially SEs, lack capital to pay all the costs involved with export activities, as it is not easy to get enough support from banks or other formal financing institutions. Secondly are the institutional and business constraints that SMEs could not solve because of: (i) no direct access to export markets, or access to information on export market opportunities and requirements; (ii) not being able to adjust to rapid changes in export markets; (iii) high risks with payments and shipment; (iv) delayed payments, which small exporters/producers could not endure as they need daily cash flow; (v) higher costs involved in direct export activities by SMEs; and (vi) no access to trade facilitation.

During the survey, respondents were asked which form of trade facilitation was considered the main problem in exporting. The following six forms of trade facilitation were mentioned by respondents (though different individuals (or groups of individuals) have different perceptions about the degree of the problem with respect to each of the items): (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).

[6]Other studies on TF or some elements of it in Indonesia are including Anas (2003) who focuses on Indonesian customs reform comprehensive measures for facilitating trade, and Hakim (2007).

Based on this finding, however, it cannot be concluded that such trade facilitation items have a bias against SMEs. The finding can only indicate that, among those items, lack of access to trade financing is a problem for the majority of respondents. This finding is interesting given many banks in Indonesia have been implementing efforts to facilitate SMEs 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 trade facilities to SMEs. The trade facilitation 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.

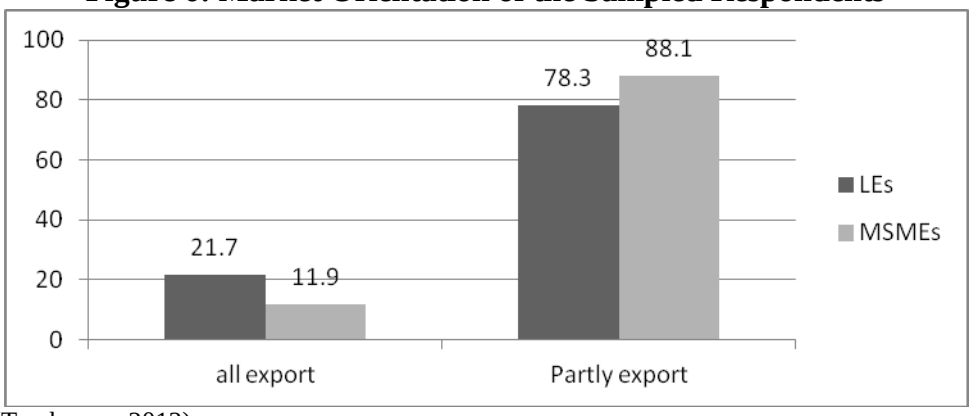
The second study was a field survey conducted in 2012 in two clusters of export-oriented SMEs with 82 respondents: 30 producers in Solo city in the province of Central Java and 52 producers in D.I. Yogyakarta. The respondents were only those currently exporting and were selected randomly based on the lists of members provided by local Chamber of Commerce (Kadinda). Face-to-face interviews were conducted using a semi-structured questionnaire, consisting of a list of questions covering broad areas related to trade facilitation. The sample also included some LEs to give a comparison picture. The initial plan was to have as many exporting MSMEs as possible. However, during the observations and the survey, it was hard to find SMEs that were still exporting at that time. There were many SMEs that were still operating and had exported but were not anymore for various reasons. These reasons included increasing competition from other exporters in international markets and no capital to finance export activities. Besides the field survey, indepth-interviews were also carried out with selected key informants, e.g. related local government.

The sampled respondents exported various commodities including wood/bamboo and rattan furniture, cloths, and handicrafts. Among the surveyed LEs, the largest respondent employed more than 1000 wage-paid workers and had more than one factory located in surrounding Solo city, and the smallest respondent had 100 wage-paid workers also in Solo. Among the surveyed SMEs, the largest respondent employed 86 workers, there was one respondent without wage-paid workers (known in the literature as 'self-employment unit') and many with only two workers. The majority of the sampled MSMEs are from the SE category, and the sample also included a large number of women entrepreneurs.

With respect to the degree of involvement in export activity, among the sampled firms, LEs have been found to be more export-oriented than SMEs, in the sense that there are more LEs than SMEs in the sample with 100 per cent production for export purposes. As shown in Figure 6, about 21.7 percent of the sampled LEs serve only foreign markets, while it is only 11.9 percent for SMEs. This finding may be not so surprising, as SMEs in general (especially SEs) have more difficulties than their larger counterparts in exporting due to their

lack of skills, information and finance. These are crucial inputs that every firm/producer needs, not only to export, but also to identify market opportunities or to understand current market changes, to have full knowledge of existing rules and regulations related to export activities, as well as regulations related to import activities in the countries of destination, and to undertake promotional and regional or global marketing activities.

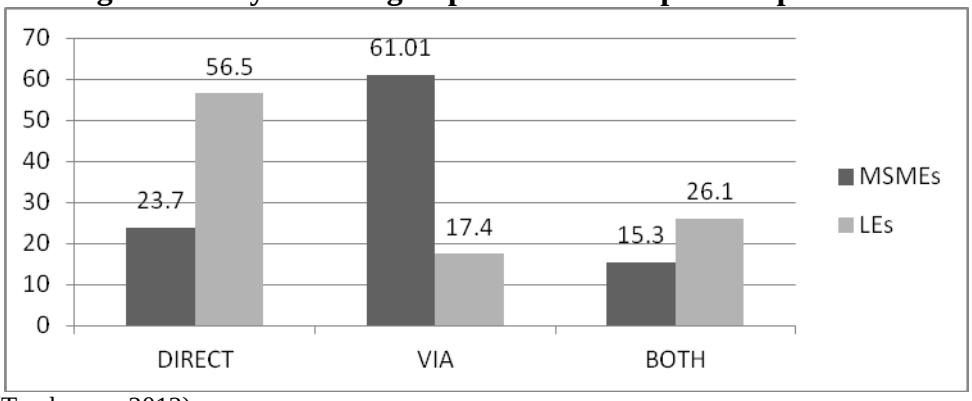
Figure 6: Market Orientation of the Sampled Respondents



Source: field survey (Tambunan, 2012)

It is revealed from the field surveys that, in the sample, there are more LEs than SMEs exporting directly without the help of intermediate agents, such as traders or trading companies or collectors. As can be seen in Figure 7, about 56.5 percent of the surveyed LEs export directly, compared to only around 23.7 percent of SMEs. The reason is the same as that mentioned above – SMEs, in general, are not able to export directly due to shortages in knowledge on regional/international marketing, a lack of skills in bargaining and other aspects directly related to export activity, insufficient capital required to export, inability to identify potential buyers abroad, promotion required, the burden of export administration procedures and infrastructure required for shipping.

Figure 7: Ways of Doing Export of the Sampled Respondents

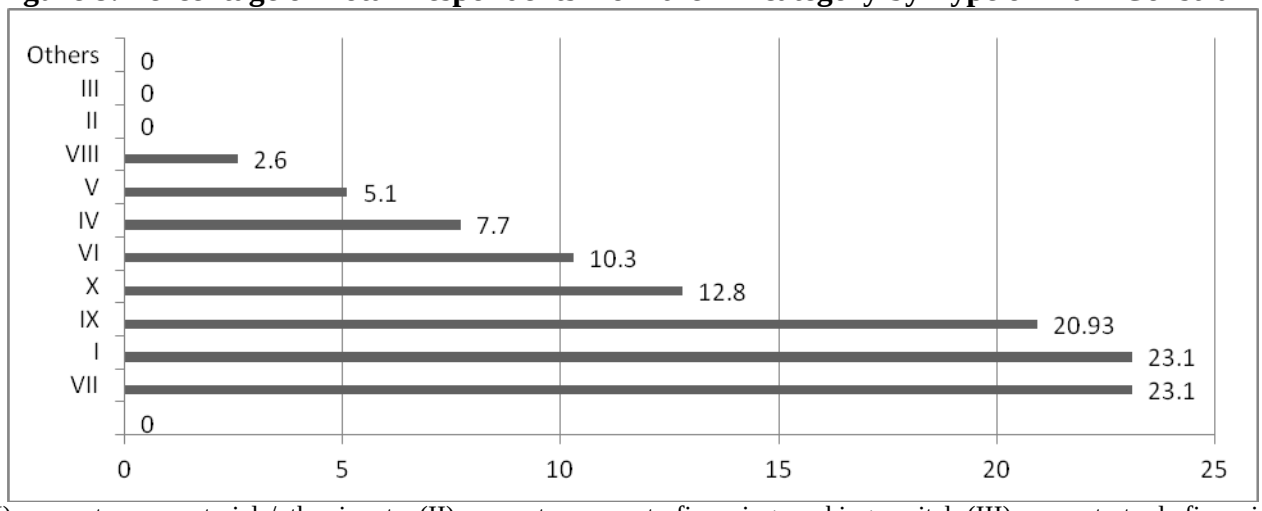


Source: field survey (Tambunan, 2012)

The respondents were asked to identify the main constraints to participating in exporting by being asked to select only two of a list of problems related to crucial inputs/sources of growth that posed serious constraints,

i.e. raw material, fund, trade financing, information, technology, skilled workers, transport facilities, energy, market (identifying/getting buyers), distribution networks, and others (if any). As can be seen in the following two figures, the main constraints identified by the respondents were different between SMEs and LEs. With respect to the LE category, the structure of respondent by kind of constraint shown in Figure 8 indicates that identifying/getting buyers abroad appears as the biggest problem for the largest percentage of respondents. Lack of access to fund/credit, transport facilities, energy and skilled workers seem to be a less serious problem for the majority of LEs. No LEs indicated any serious problems in getting access to trade finance. This is not surprising given the fact that in general it is SMEs (not LEs) which have difficulties in getting credit, including trade finance, from banks or other non-bank financial institutions.

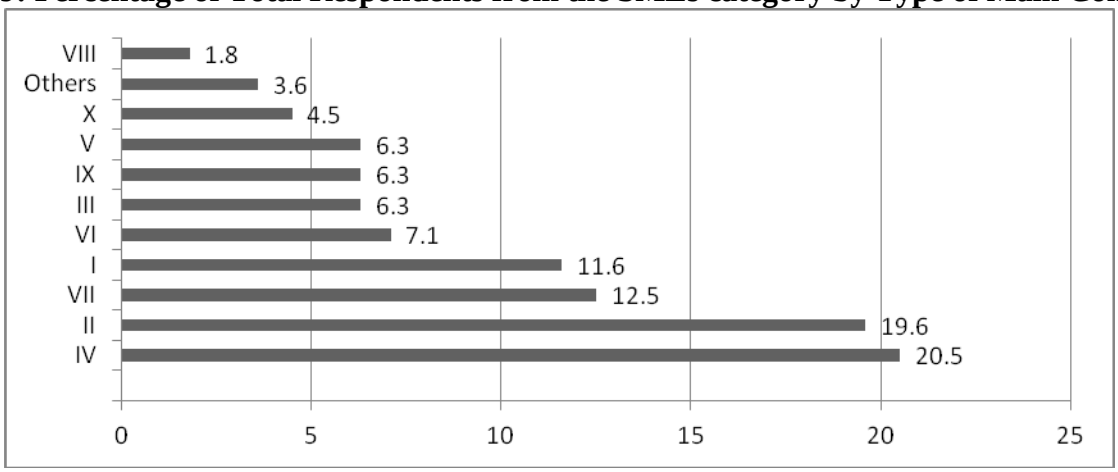
Figure 8: Percentage of Total Respondents from the LE category by Type of Main Constraint



Note: (I) access to raw materials/other inputs; (II) access to money to financing working capital; (III) access to trade financing; (IV) access to information on market, trade policy/regulation, and others; (V) access to technology; (VI) access to workers with high skills; (VII) identifying/getting potential buyers abroad; (VIII) access to efficient transportation facilities; (IX) establishing distribution networks abroad: (X) sustained and cheap supply of energy; and others.
Source: field survey (Tambunan, 2012)

For the SME category, as shown in Figure 9, a lack of access to information on market conditions or changes or potential, and current trade policies and regulations/deregulations, are the most serious constraints for the largest percentage of respondents. This is in line with the figure at the national level shown by national data (BPS) that indicates difficulties in doing marketing, which is caused by, among other factors, a lack of comprehensive and update information on outside markets, are among the serious problems for many SEs (particularly microenterprises). A number reasons can be ascribed to the lack of information access – ranging from not having the money to purchase/use information technology, to having limited knowledge on how to get the right information or conduct good communications – mainly attributed to low levels of formal education. In the microenterprise category, which is the predominant category within SMEs in Indonesia, the owners/producers only have primary education and many never finish school. Therefore, it is hard to expect (if not impossible) that someone with only primary education can read very well or understand the meaning of information required, nor can they be expected to communicate in English.

Figure 9: Percentage of Total Respondents from the SMEs category by Type of Main Constraint



Note: see Figure 6 for types of constraint
Source: field survey (Tambunan, 2012)

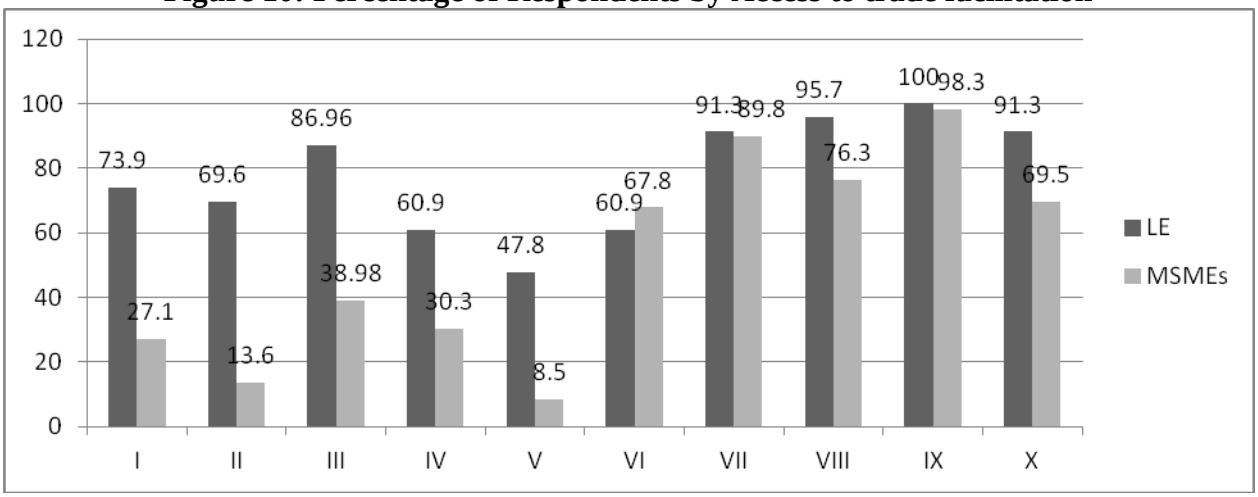
An interesting finding of the field survey, related to the problem of information, was that the majority of respondents said they do not know of the current government regulations relating to export activities, or the current programs initiated or designed by government to support exporters.

The key question asked of respondents was about their access to trade facilitation. No doubt in the era of globalization and world trade liberalization, in which competition is increasingly tight, with more risks of failure caused by unanticipated global economic crises, global political instability, sudden market changes, and unexpected change in trade policies, access to trade facilitation for individual exporters, ranging from trade finance, trade insurance, information, and testing laboratories, has become more crucial than ever before. For instance, although it has enough capital, a firm financing its external trade activities through banks, or backing up its export by trade insurance, faces less financial risk than otherwise.

For the trade facilitation question, the respondents were given a list of types of trade facilitation, and were requested to answer yes or no for each type. If the answer was no, the respondents were asked to give the main reason, whether it was because the procedures were too complex, or too expensive, or they did not know that the particular facility existed, or other reasons. The findings may suggest that LEs have more access to all trade facilitation needed to support their export activities than their smaller counterparts.

As can be seen in Figure 10 on export financing, around 73.9 percent of a total of 23 LEs in the sample had access, while only 7.1 percent of a total of 59 SMEs surveyed had access. For trade insurance, almost 70 percent of the sampled LEs had access to insurance, compared to only around 3.6 percent of the sampled SMEs. For access to information, the comparison is almost 87 percent of LEs versus almost 39 percent of SMEs. For the remaining items, it the results are similar, in that LEs results were much better than SMEs. If these findings represent the real condition of SMEs in general, and the export-oriented ones in Indonesia in particular, then it is no surprise that national data has shown that the export share of SMEs in the manufacturing industry is much smaller than that of LEs.

Figure 10: Percentage of Respondents by Access to trade facilitation



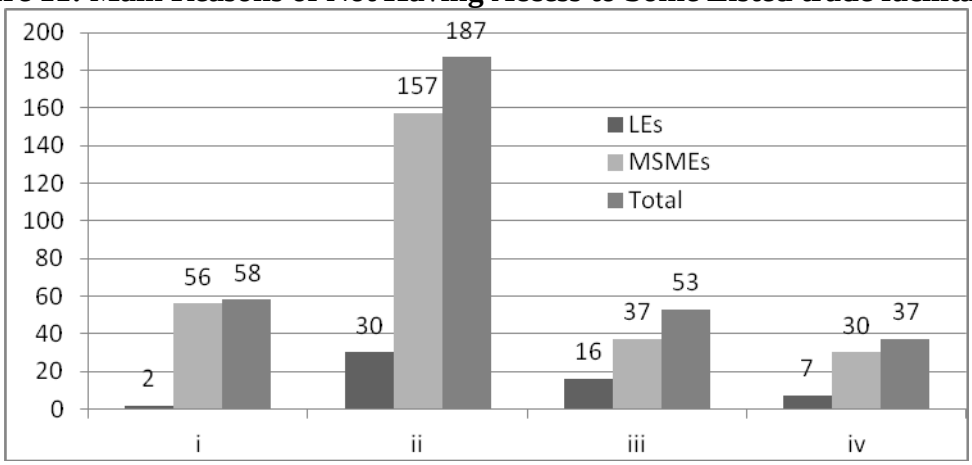
Note: (I) export financing; (II) trade insurance; (III) information; (IV) laboratory; (V) storage; (VI) training; (VII) telephone; (VIII) internet; (IX) electricity; (X) promotion.
Source: field survey (Tambunan, 2012)

For participants who had no access to the listed items of trade facilitation, they were asked for the main reasons. Based on how many times the same reasons were mentioned by respondents, Figure 11 shows that not knowing or personally uninformed (II) is revealed as the main reason, both for LE and SME respondents. However, in terms of percentage, among those who have no access, there are more SME than LEs respondents (i.e. 84 per cent versus 16 per cent) who gave 'have never heard' or 'not knowing' as the main reason. National (BPS) data 2010 on SEs in the manufacturing industry also support this finding that suggests that many SMEs, especially SEs, in Indonesia do not make good use of existing facilities simply because they are not aware such facilities exist, or do not know the procedure. The data show that 2,172,753 out of a total of 2,732,724 SEs surveyed had never borrowed money from formal sources, and around 17.5 percent said they did not borrow money from banks or other non-bank financial institutions because they were not aware of existing special SME credit schemes, or they did not know how to apply. The BPS data also showed that only 208,305 out of the surveyed SEs received business assistance. From the remaining 1,964,448 SEs that did not receive it, 386,605 respondents said that they were aware that such assistance existed but they did not know the procedure, and 'not knowing' is the main reason for the other 1,489,106 respondents. Thus, in total, around 95.5 percent of those who did not receive business assistance, the main cause was a lack of information/knowledge.

There are two possible reasons for this result, namely a lack of information from the government about the existence of particularly facilities, and/or, a lack of action from the producers side in looking for information about facilities provided by the government. In many cases, owners, especially of SEs, do not even know what kind of supports or facilities they really need for good business performance. On the other hand, supporting facilities for SMEs introduced/provided by ministries often lack wide promotion/socialization, so only a small number of SMEs (not only those located in Jakarta and other big cities, but also those whose owners have good

connections or have built strong networks with ministries) know about such facilities and have a greater chance to access them.

Figure 11: Main Reasons of Not Having Access to Some Listed trade facilitation



Note: (I) procedure too complex; (II) not knowing; (III) too expensive; (IV) other reason.
Source: field survey (Tambunan, 2012)

Within the group of SME respondents, the next most important reason is 'procedure too complex' (I) with 96.6 percent compared to only 3.4 percent among LE respondents. The difficulty in procedure is also considered an important reason for many SMEs not making good use of existing facilities, including credit schemes from banks. This is also supported by the national data 2010, which shows that approximately 9.8 percent of the sampled SMEs did not have loans from banks or other non-bank financial institutions and said that the main reason was difficulty to follow or to understand application procedures.

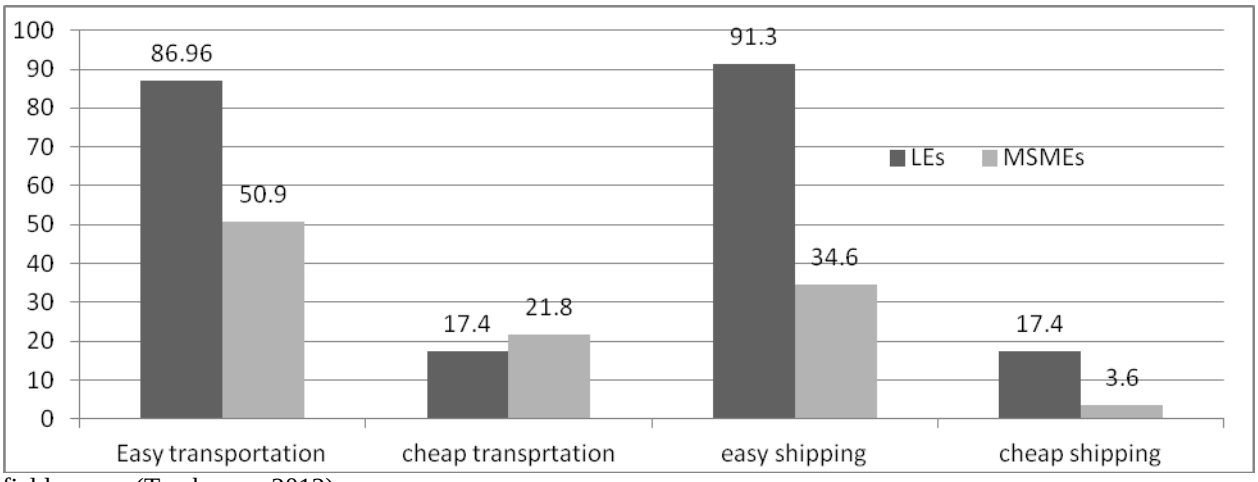
This finding is not surprising, given the majority of owners of SMEs, particularly SEs, only have primary education, making it difficult to understand the procedures for applying, or the system for using a facility. In other words, for low educated producers, the procedures of a finance facility may be too complex, which in fact is not really true. 'Too expensive' (III) was found as the next main reason for not having access to some of the listed trade facilitation. For other respondents, 'no need yet' was the main reason (IV).

Other trade facilitation, which are not unimportant, nor the most important, are services for getting an export license, transportation (in quantity and quality) to harbour, airport or hub, and shipping. With respect to services for getting an export license, three main questions for the respondents were: how much they have to pay, how many documents are required, and how many days they have to wait before they get it? The findings show that the total days LE respondents need to deal with export license vary from a minimum of only one day, to 30 days as the longest; while, interestingly, it is between one and 10 days for SME respondents. The cost also varies, ranging from a minimum of Rp 100.000 to more than Rp 10 million for both categories of respondents. For total documents, it ranged from only one to eight documents for the LE respondents, while for SMEs, the range was between one to 12 documents.

For a broader picture of this issue, the World Bank report on *Doing Business* in 2009, for instance, does not give how many days an exporter takes to get an export license; it only gives total days for export, i.e. starting from the final contractual agreement between the exporter and the buyer abroad (importer). In Indonesia it was 21 days, compared to 23.3 days for the East Asia and Pacific and 10.7 days for the OECD. For export documents (in number), for Indonesia it was 5, for the East Asia and Pacific it was 6.7 and for the OECD it was 4.5; and the cost to export in US$ per container was 704 for Indonesia, 902.3 for the East Asia and Pacific, and 1,069.1 for the OECD.

Regarding transportation (not only road and railways, but also container truck and shipping), the key question for the respondents was: whether it was easy and cheap? As shown in Figure 12, the findings showed that more LE than SME respondents said that transportation was easy. But, for the costs, the result was different. More SME than LE respondents said that transportation was cheap, while it was the opposite for shipping cost. However, this is not really a surprising finding as the export volume on average per individual SME firm is relatively smaller than that for individual LEs, so SMEs do not need big trucks, and often use/hire non-modern trucks to bring goods to ports and many SME respondents export indirectly, so are not directly involved in shipping.

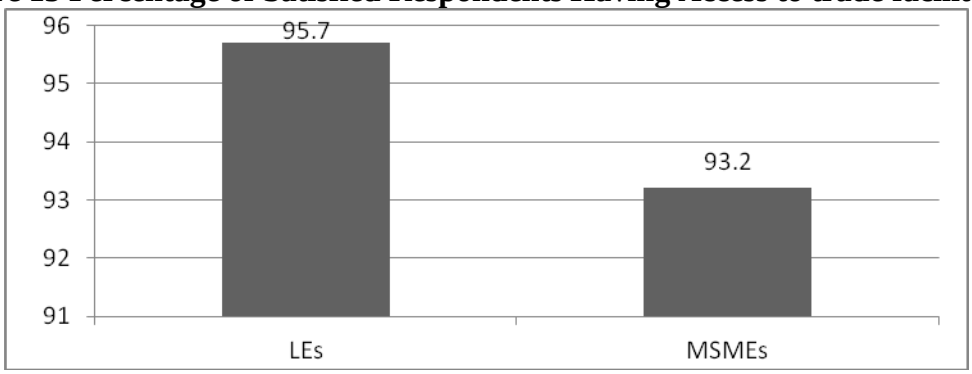
Figure 12: Percentage of the Respondents by Easiness and Cost of Transportation and Shipping



Source: field survey (Tambunan, 2012)

Finally, the respondents accessed some or all of the listed trade facilitation opportunities were asked whether they were helpful for their export activities. The result showed that almost 96 percent of all respondents from the category of LEs were positive; whereas around 93 percent of respondents for the SMEs category (Figure 13). Although the difference is not significant, this may suggest that LEs are more satisfied than SMEs with existing trade facilitation. There can be many reasons including trade insurance, for instance, is more suitable and cheaper for LEs exporting in large volumes, than for SMEs with smaller export volume. It can also be because owners of microenterprises, especially, who have access to the internet but do not know how to use it effectively, do not find the information they need.

Figure 13 Percentage of Satisfied Respondents Having Access to trade facilitation



Source: field survey (Tambunan, 2012)

V Research Agenda

As explained in the first section of this paper, this is the first part of an ongoing research on Indonesian enabling trade with the focus on exporting SMEs' access to trade facilitation (TF). Although the survey is too small to generalize its findings for all SMEs in Indonesia, they can give some clue about the access of export-oriented SMEs to TF. The findings may suggest that more LEs than SMEs that have access to TF, and lack of information or awareness of the importance of having access to TF reveals as the most important reason for many SMEs not having access to TF.

Based on these preliminary findings, the study's has the following questions that need further research:

1) What would be the impact of the implementation of ASEAN Economic Community (AEC) 2015 on Indonesian trade, particularly export, and theoretically, through which channels the impact will occur?
2) How is the readiness of Indonesian SMEs in facing the AEC 2015, what are their main constraints, and what strategies they have adopted to make them able to compete with competitors from other ASEAN member states?
3) What forms of TF that exporting SMEs most needed to improve their competitiveness and to improve their export capability?

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