

CHAPTER VIII

Market access

One of the most crucial challenges facing SMEs in Asia-Pacific countries is how to create new business (and, therefore, investment) opportunities in regional and global markets. In small economies with a limited domestic market, exports play a crucial role in stimulating economic growth and rapid socioeconomic transformation. SMEs supplying competitive products and services, with greater potential for backward and forward linkages, could contribute substantially to exports and, hence, to higher national income and overall socioeconomic progress. Therefore, development of export-led SMEs should be an important part of any national economic development strategy.

Key success factors for market access, which means freedom to enter a market and sell goods or services,¹¹³ include but are not limited to market intelligence, capacity to learn and adapt, low entry barriers and a solid business network. Within this context, market access can generally be of two types: trade and investment. This chapter is primarily concerned with trade as this is the predominant method of market access for SMEs. However, some of our policy prescriptions are applicable to both trade and investment. These include lowering barriers, communicating regulations and market conditions, holding trade fairs and other forms of promotional events and providing access to finance.

This chapter begins with three theories germane to market access, i.e., market orientation, internationalization and trade. This is followed by trade topics such as the WTO, non-tariff barriers (NTBs), trade finance, quality assurance management and trade promotion tools. Following that, the role of ICT in facilitating market access is considered, concerning aspects like e-commerce, internet marketing and trade facilitation. Strategies are additionally suggested for integrating SMEs regionally and globally through the development of supply chains with the provision of some sectoral cases. The chapter finally concludes with policy implications and recommendations.

A. Market orientation and internationalization of firms

Market orientation is “the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments and the organization-wide responsiveness to it” (Kohli and Jaworski, 1990; excerpted from Amario, Ruiz, and Amario, 2008). The major focus of market orientation is to understand customer needs in both domestic and international markets, so that enterprises can develop products and services to meet these requirements. In short, market orientation means the implementation of a firm’s marketing concept and business philosophy to achieve a greater degree of market access. In this regard, a number of researchers have demonstrated that there

is a combined effect of market orientation and innovation on firms’ positive performance (Verbees and Meulenverg, 2004). The key elements of market orientation include: customer orientation; competitor orientation; inter-functional coordination; long-term focus and profitability; intelligence generation; intelligence dissemination; and responsiveness (Kohli and Jaworski, 1990; and Narver and Slater, 1990).

Traditional studies on market orientation have mainly been limited to large enterprises; however, with the growing importance of SMEs in the world economy, especially in developing economies, it is also expected to be one of the key success factors for SMEs (Spillan and Parnell, 2006). Given the fact that most domestic markets for SMEs in Asia-Pacific countries are limited, there is a need to encourage these SMEs to access international markets to foster their growth. As such, market-orienting efforts such as providing information and incentives to promote their penetration into the international markets would prove beneficial.

The market orientation of SMEs is conceptually related to the phenomenon of internationalization, which, as Singh, Pathak and Naz (2010) noted, is a broad term used by different scholars to connote “exporting, trade, cross-border clustering, cross-border collaboration, alliances/subsidiaries, branches and joint ventures that extend beyond the home country environment”. Note also that exporting is at the lower end of the spectrum of internationalization in terms of the time and resources necessary, which reflects the idea that SMEs are subject to greater resource constraints than large firms (Hessels and Terjesen, 2010; and Hollenstein, 2005) and therefore the choice of entry mode is a process of cost-benefit analysis (Sharma and Erramilli, 2004).

There are a number of different theories to explain the process of internationalization and, by extension, the market orientation of firms. One of the first to gain currency is the Uppsala model, which describes internationalization as a series of incremental steps along a risk/reward continuum. From an organizational behaviour perspective, market orientation is a process of continuous learning (Cyert and March, 1963; and Johanson and Vahlne, 1977) that allows a firm to surmount the barriers of scarce resources and information in order to internationalize operations. This cycle typically starts with exporting, and over time the firm moves into more high-risk, high-reward activities such as foreign direct investment (Korhonen, Luostarinen and Welch, 1996; and Erramilli and Rao, 1990).

In addition, firms initially expand where the psychological distance is smallest, i.e., they penetrate foreign markets that are most similar to their own domestic markets (Johanson and Vahlne, 1977 and 2009) before attempting to access overseas markets that are less familiar. An example would be a United States firm expanding internationally to Canada before attempting to enter the Chinese market. In the current version of the Uppsala model, a firm’s position within a network of

¹¹³ For further details, visit the website at <http://lexicon.ft.com/Term?term=market-access>.

relationships, its commitment to those relationships and trust-building play a more salient role in the internationalization of firm activities than market similarity (Johanson and Vahlne, 2009).

Another internationalization perspective is the famed “eclectic paradigm” of Dunning (1980). This paradigm is also known as the “OLI Model,” because the decision to internationalize and the various possible modes of internationalization rests upon the ownership advantages of firms, the location advantages offered by host nations and the possible internalizing of benefits of firm-owned assets (Dunning, 1980). Firms need to possess assets such as a global brand, technology or managerial know-how to compete in a foreign market with local players. Secondary, they must find that local conditions, such as cheap labour supply or market size, augment their ownership advantages or otherwise enable them to profit. Thirdly, the types of assets owned as well as various competitive and institutional factors compel firms to choose whether to internalize these assets within their boundaries or exploit them through licensing or franchising arrangements.

A contrasting view of internationalization to the incremental approach of the Uppsala model is the idea of “born global” (Armario, Ruiz and Armario, 2008; Knight and Cavusgil, 1996; and Oviatt and McDougall, 1994). This perspective argues that a firm can internationalize from inception; there is no need to proceed in stages. The new firm is able to do business across borders because it already possesses the necessary resources, such as technology (McDougall, Shane and Oviatt, 1994) or a founder with an international orientation (Zahra, Hayton and O'Neill, 2001). These firms are typically in high-tech sectors such as computer software (Armario and others, 2008). However, most SMEs are not high-tech and their internationalization efforts are limited to trade. They are,

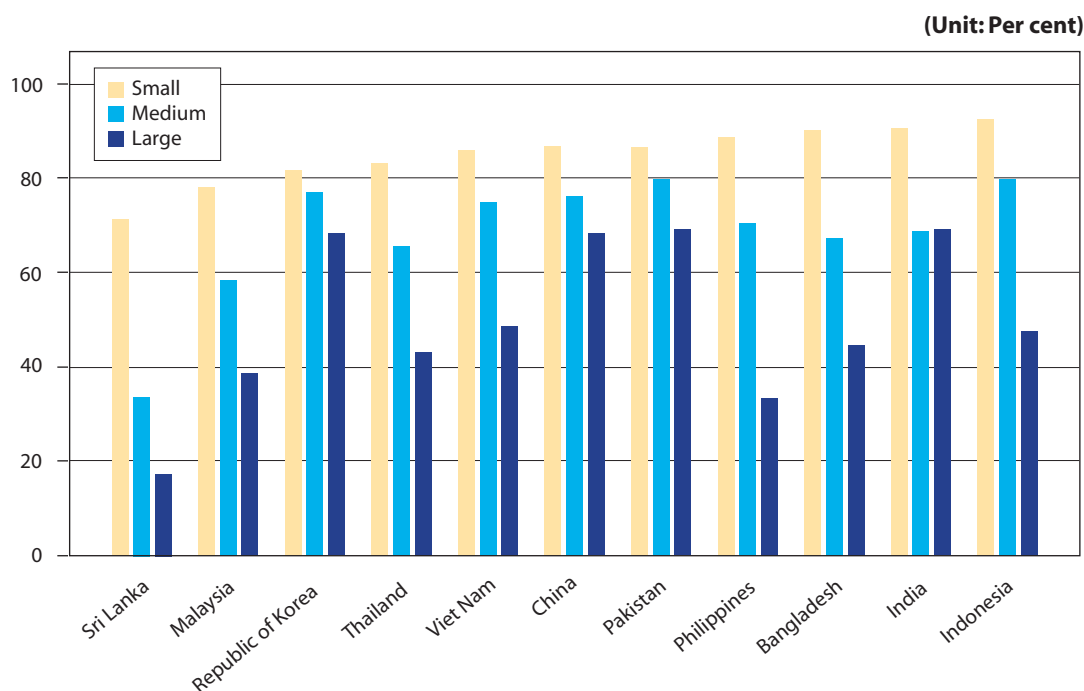
therefore, not “born global” at best, “instant exporters” (McAuley, 1999).

Figure VIII.1 presents the different degrees of export market penetration based on the size of enterprises in selected countries in Asia and the Pacific. The figure reveals small enterprises account for more than 80 per cent of sales in the domestic market in nine of the 11 Asia-Pacific nations, while in the other two nations they earn between 70 per cent and 80 per cent of their sales from the domestic market. In contrast, large enterprises display a range for domestic sales – from less than 20 per cent in Sri Lanka, to close to 70 per cent in China and India – but their percentage share of domestic sales is much lower than those of SMEs. As a whole, a pattern can be seen from these 11 Asia-Pacific nations – SMEs are oriented towards the domestic market, whereas large enterprises are more directed towards the export market (ADB, 2009). This supports the earlier discussion on the large gap in supply-side capacity between SMEs and large enterprises.

A final theory of high relevance is that of comparative advantage, which is the cornerstone of modern trade theory. This theory was developed by David Ricardo (1772-1823) based on Adam Smith's writings. Put briefly, comparative advantage advocates that a nation should concentrate on producing what it can produce most efficiently, relative to other trading partners, and then trade that item for other goods. This will leave all nations better off than in the case of autarky.

As a simple example, suppose there are two goods (bicycles and cars), two countries (Lao PDR and Thailand) and only one factor of production (labour). Let us further assume Lao PDR has the capacity to make either ten cars or 200 bicycles while Thailand has the capacity to make either 100 cars or 500

Figure VIII.1. Share of total sales sold domestically: Small, medium and large enterprises



Source: ADB, 2009.

Note: Small-sized firms = 5-49 employees; medium firms = 50-199 employees; and large firms = 200 employees and above.

bicycles. It is immediately clear that Thailand has the absolute advantage in the production of both goods, since it can produce more of each. However, the Ricardian model suggests that mutually beneficial trade could still occur when each country produces the good in which it has a comparative advantage.

To understand this, it is crucial to analyze the marginal opportunity costs of production. The opportunity cost of producing one car in Lao PDR is twenty bicycles foregone. On the other hand, the opportunity cost of producing one car in Thailand is five bicycles foregone. Thailand has a lower opportunity cost and hence a comparative advantage in the production of cars. Conversely, the opportunity cost of producing one bicycle in Lao PDR is 1/20 of a car foregone. The opportunity cost of producing one bicycle in Thailand is 1/5 of a car foregone. The opportunity cost of producing a bicycle in Lao PDR is smaller than in Thailand and hence Lao PDR has a comparative advantage in bicycle production. Thailand should therefore focus on car production and Lao PDR on bicycle production before trading these goods for each other.

The agreed-upon trade price determines the extent to which they would be better off than if they were producing both goods only for their home market; but in general, they would have more of both goods than in the autarky case. Policymakers should keep this concept in mind when developing their SME sector.

B. SMEs' capabilities and challenges for market access

SMEs face more risks on account of fewer resources and limited expertise as compared to larger firms. Effective management of SMEs is crucial for identifying and utilizing knowledge and technology, developing quality products and upgrading production processes in order to meet consumer preferences and demands. SMEs also need to equip

themselves with market information on customers, buyers, suppliers, prices, trade regulations and business procedures in the target markets. However, investments in production facilities and collection of data pertaining to marketing research can be a strain on the resources of SMEs.

The major challenges SME face can be categorized broadly in four groups: (a) intensified competition; (b) internationalization; (c) trade liberalization; and (d) management skills. These challenges and their specific capabilities and limitations are summarized in table VIII.1.

As reviewed above, SMEs face impediments to market access, due partially to their inadequate capabilities, and so are often under-represented in the global economy (APEC, 2004). Although barriers to entry into foreign markets differ between firms and countries, the following four factors are critical to market entry capability:

- (a) A lack of knowledge of business opportunities, prospective customers, competition status, channels and distribution, local regulations and practices, and taxation is one of the major barriers for SMEs to gaining access to a particular market. Obtaining and gathering information can be time-consuming and costly, and SMEs commonly lack the necessary manpower and financial resources and have restricted information channels to undertake these activities effectively (UNTFN, 2005). Keeping SMEs updated on changing market trends is vital to their survival and success, both in domestic and in international competition;
- (b) A well-organized policy and regulatory framework is one of the most fundamental determinants of the success of a country's trade activities (ESCAP, 2004b). Such a framework is crucial to SMEs' growth and expansion into foreign markets, as it can provide the necessary

Table VIII.1. Major challenges, and SMEs' capabilities and limitations

Challenges	Capabilities and limitations
Intensified competition	<ul style="list-style-type: none"> • Small operational capacity that results in a relatively high cost of production • Lack of consumer preferences and inability to create brand loyalty: <ul style="list-style-type: none"> – Lack of market intelligence – Inability to network – Inability to meet large demands – Uncompetitive price, quality and/or delivery • Inadequate institutional support and assistance
Internationalization	<ul style="list-style-type: none"> • Inability to internationalize operations, due to limited capacity to analyze, penetrate and segment foreign markets • Technical limitations to act as suppliers to foreign buyers/investors
Trade liberalization	<ul style="list-style-type: none"> • General ignorance of WTO guidelines: <ul style="list-style-type: none"> – Lack of knowledge and skills to implement the guidelines • Less awareness of opportunities and challenges derived from various trade agreements
Management skills	<ul style="list-style-type: none"> • Lack of knowledge about new strategies and techniques • Inability to spare time and manpower to acquire new management skills • Lack of knowledge to use e-commerce • Inability to hire appropriately qualified and talented people • Inability to combat anti-competitive practices

Source: Authors' compilation.

export-capable business infrastructure together with other facilitation services. The capability of SMEs to trade internationally will be significantly improved through a modernized and well-established infrastructure (UNTFN, 2005);

- (c) Another concern is the trade barriers that exporters face, including tariffs as well as non-tariff barriers such as anti-dumping measures. SMEs are in a very vulnerable position when encountering trade barriers in export markets, due to their size and limited resources. Thus, lower trade barriers will help SMEs participate in international trade activities more readily. With this in mind, regional organizations and forums, such as APEC, ASEAN, ESCAP and OECD, while promoting free trade and economic cooperation in their member countries are efficient tools for lowering trade barriers (UNIDO, 2006a); and
- (d) Networking among or between SMEs and larger firms (i.e., participation in international production networks or global supply chains) will allow SMEs to gain access to international markets. It is an important source of information that enhances SMEs' awareness of business opportunities and provides information about engaging in particular markets. These business networks enable SMEs to stay informed of ongoing events and technological advancements within an industry. As such, SMEs' capabilities to access foreign markets can be largely improved through such business networks (UNIDO, 2006a).

Other aspects likely to increase the success rate of SMEs' access to foreign markets, such as greater integration of domestic product standards to international standards and stable global FDI flows, can be also understood in line with the above four factors. SMEs should work with governments to address those issues adequately.

C. Trade environment for facilitating market access by SMEs

The degree of market access for an SME can be affected by the trade environment in which it operates. Relevant factors include, among others, free trade and investment agreements, WTO rules, export products identification, quality standards and certificates and the transportation system including international commercial terms and customs procedures. These pertinent issues are briefly considered below.

1. Impact of trade policy and trade and investment agreements on SMEs

In general, a positive relationship exists between trade liberalization and economic growth (Wacziarg and Welch, 2003). Many countries in the Asia-Pacific region have followed this trend in reforming their trade policies, and an increasing number of liberalized trade/investment agreements have come into force worldwide. The impact of liberalization on SMEs remains uncertain, due to different market situations and development status of SMEs within each country. Trade policy must be designed carefully to minimize any unintended effects on SMEs. Proper policy tools can also be

adopted to facilitate SMEs' penetration of international markets.

Lower tariff and non-tariff barriers due to trade agreements can result in increased foreign competition in domestic markets.¹¹⁴ This increased competition provides incentives to SMEs to improve productivity, as those slow to react may face more pressure and even shut-down. Local firms can benefit from lower costs of cheaper imported inputs, giving them a competitive advantage in both domestic and export markets. The elimination of trade barriers allows large firms to widen their range of suppliers, and indirectly stimulate exports of local SMEs (Tambunan, 2007).

Investment agreements add security, transparency, stability and predictability to the investment framework, which contributes to attracting greater investment inflows (UNCTAD, 2009). As a result, SMEs have more opportunities to integrate into global and regional supply chains through forward or backward linkages with FDI (such as subcontracting). These linkages also trigger positive knowledge spillover when SMEs try to reach the quality standards of TNCs and when trained personnel leave TNCs to start their own SMEs (Dutrénit and Vera-Cruz, 2003).

Currently, free trade areas formulated by trade and investment agreements are not confined to market liberalization and market opening measures alone. They are comprehensive and improve economic cooperation, information sharing and personnel exchange, which creates a positive external environment for SMEs. In addition, some trade/investment agreements may also be specifically designed for SMEs, with the Strategic Action Plan for ASEAN SME Development 2010-2015 serving as an apt example. The plan outlines the framework for SME development that seeks to ensure the advancement of the SMEs within the ASEAN region (ASEAN, 2011). At the same time, regional trade and investment agreements improve regional stability and competitiveness. SMEs inside the region can attract more investments from outside the region, and a virtuous circle is built for future development.

In enhancing SMEs' competitiveness in the liberalization process, government policy plays a crucial role. Governments need to improve long-term capacity and build subcontracting linkages for SMEs by providing technical and financial assistance, skills or vocational training, and market information (Tambunan, 2010). SME agencies can also help SMEs better understand and benefit from trade policy reform by offering relevant information and services. For example,

¹¹⁴ Trade barriers for export products can take various forms such as tariff and non-tariff barriers. Some of them include special import authorization, restrictions on data processing, voluntary export restraints, country quotas, export subsidies, anti-competitive practices and licensing fees (Czinkota and Ronkainen, 2007). Such tariff and non-tariff barriers can cause problems and hinder trade by negatively influencing access to international markets. Due to their size, SMEs are especially exposed to trade barriers as efforts to overcome them are generally time- and resource-intensive (OECD, 2006). SMEs generally are discouraged from internationalizing their businesses, and they might be resistant to paying for consulting services and other measures targeted at entering international markets. Government programmes that support SMEs in overcoming existing trade barriers could help increase their participation. Such measures can include cooperation between governments in reducing barriers and investment in trade consultation services (OECD, 2006).

SPRING Singapore provides two guides about free trade agreements in goods and services with the objective of helping SMEs in Singapore to cope with the new exporting rules as well as take advantage of the lower trade barriers (SPRING Singapore, 2005).

2. World Trade Organization and international trade

In the past few decades, WTO provisions have shaped international trade significantly. In Asia and the Pacific, the SME sector perceives the WTO provisions both as threats and opportunities. Pursuant to the Uruguay Round Agreement and the WTO provisions, the three major issues concerning SMEs are (Kornel, 2006):

- (a) Importance of SMEs as exporters;
- (b) Growing interest in the environment and sustainable development; and
- (c) Scope for increasing trade in services of information and clean technology.

WTO norms have also created the following situations and challenges to SMEs (NSIC, 2008):

- (a) The emergence of the “Global Village;”
- (b) International trade with fewer barriers;
- (c) Erosion of entry restrictions;
- (d) Emergence of the service sector in international trade;
- (e) Intensified global competition;
- (f) Regulations of standards of quality and ownership;
- (g) Regulation of investment flows; and
- (h) Environmental issues.

In this regard, several key agreements and rules under WTO emerged that directly affect the SME sector (also see annex VIII.1 for a detailed discussion on those agreements and rules):

- (a) Sanitary and phytosanitary measures and technical barriers to trade;
- (b) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the related issue of transfer of technology;
- (c) Trade in services;
- (d) Trade-Related Investment Measures (TRIMs); and
- (e) Rules of origin.

Countries in Asia and the Pacific have not been able to respond fully to the above-mentioned challenges and agreements. In particular, the SME sector lacks the requisite capacity to deal with them adequately. The key problem in each of these areas is information asymmetry. Policymakers should make sure the SME sector is aware of the new requirements of these international bodies. This is another area where robust public-private dialogue would be beneficial.

Despite these challenges, the new corporate scenario under globalization has provided the scope for SMEs to strengthen their capabilities and go beyond their boundaries. SMEs

today have an ample opportunity to modernize their entire business operations with access to all needed inputs, including imported ones. The desired skills of SMEs for their effective integration into regional and global markets include (ESCAP, 2009c):

- (a) Exploiting the global export market;
- (b) Enhanced scope for partnership and alliances;
- (c) Easier communication with customers and suppliers;
- (d) Scope of becoming local suppliers to industrial leaders;
- (e) Access to state-of-the-art technologies; and
- (f) Scope to attract investment.

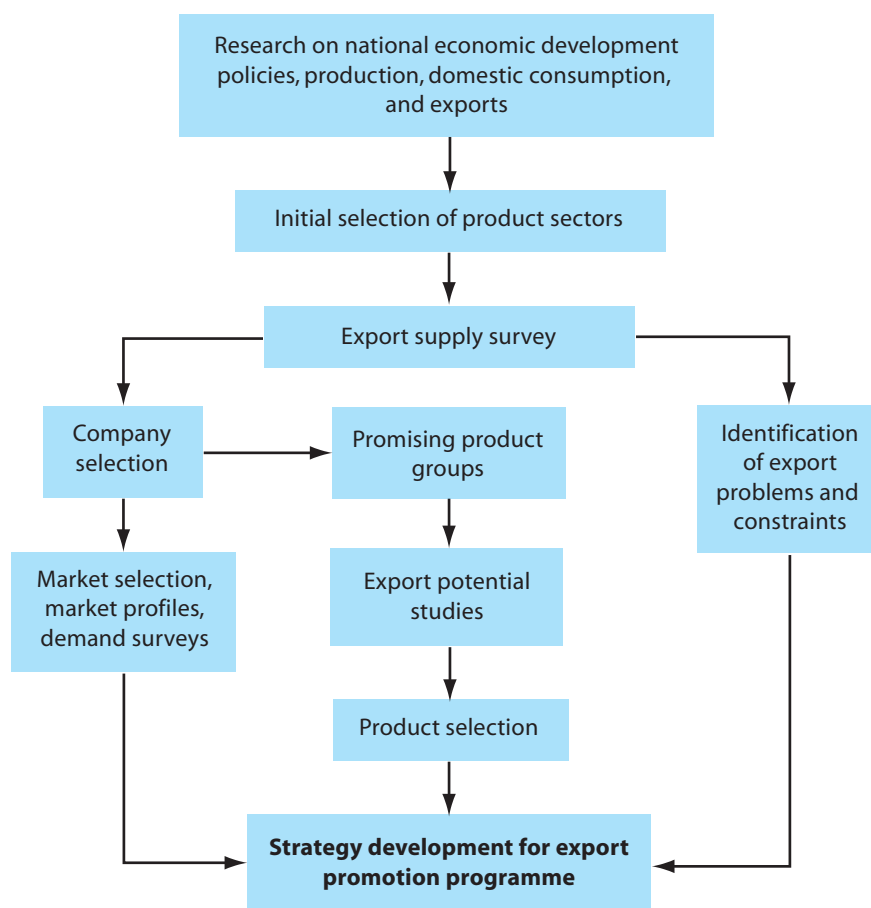
In this regard, technical assistance programmes for least developed countries (LDCs) has been one of the key functions of the WTO. During the past few years, the WTO has been providing trade-related technical assistance and training to beneficiary countries for adjusting to WTO rules and disciplines, implementing obligations and exercising the rights of membership (WTO, 2001). The products can be grouped broadly under five main categories: (a) general WTO-related technical assistance and training; (b) specialized and advanced technical assistance and training; (c) academic support for training and capacity-building; (d) an integrated approach to trainee programmes and internships; and (e) e-learning (WTO, 2001). These products have been further modified to be more demand-driven, so that the activities add value to the results of those formerly delivered, in both the national and the regional contexts. The WTO secretariat is paying particular attention to the requirements of SMEs that suffer from severe capacity constraints and are unable to face the challenges of globalization (WTO, 2007).

One of the most significant outcomes of the WTO Hong Kong Ministerial Conference in 2005 was the “Aid for Trade” initiative. This initiative was aimed at helping developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure needed to implement, and benefit from WTO provisions, and to expand their trade (WTO, 2005). SMEs are a particular target of this initiative. “Aid for Trade” is an important vehicle for improving the capacities of LDCs in gaining access to regional and global markets.

3. Export product identification, pricing and competition

The identification by policymakers of a potential product for the export market generally requires three steps: (a) analyzing the competitiveness of the home economy; (b) selecting product sectors; and (c) verifying supply-side capacity of the selected product sectors by conducting an export supply survey (ESCAP, 2001b). As shown in figure VIII.2, these stages are followed by a further selection of companies and markets, together with an analysis of possible problems and constraints. After identifying qualified exporters and prospective markets, products need to be defined and their potential for export evaluated. Finally, once the product for export promotion has been selected, a strategy for the following processes has to be developed, which involves developing both pricing and competition strategies.

Figure VIII.2. Stages in the process of export product identification



Source: ESCAP, 2001b (Module V, page 5).

Government agencies for trade promotion play a significant role in laying the groundwork for an export promotion programme. They can give invaluable assistance by doing the necessary studies, which SME exporters often cannot afford, to identify what products to promote and to decide which markets offer the greatest opportunity for export growth (ESCAP, 2001b). The relevant agencies can guide this process to increase exports. Training, export promotion centres and the provision of market information to SMEs are the key mechanisms in the process. This issue is revisited later in this chapter.

The price of a product is generally determined by: (a) corporate objectives; (b) costs; (c) customer behaviour and market conditions; (d) market structure; and (e) environmental constraints (Czinkota and Ronkainen, 2007). Depending on these factors, a company can choose between three different strategies for setting a price for their product in national and international markets. While “skimming” is aimed at receiving the highest possible return in a short period, “market pricing” with the following adjustment of production and marketing is the preferred method in large or competitive markets. “Penetration pricing”, as a strategy to achieve a maximum volume of sales through low prices, is generally only suitable for mass markets (Czinkota and Ronkainen, 2007).

Even though these factors can be easily understood in theory, in practice many SMEs need support in developing a good pricing strategy, especially when competing in an

international market (ESCAP, 2001b). Most importantly, SMEs should be trained in how to determine and control their costs and use their competitive advantage effectively. This includes implementing measures such as cost reductions, cost-effective accounting systems or establishing frameworks for effective pricing (ESCAP, 2001b). The challenge facing policymakers today is to support, facilitate and control the coordination of price-building across different countries. Pricing alignment, which may include centralized pricing authorities and so-called pricing corridors for regions (Czinkota and Ronkainen, 2007), is a primary goal.

4. Quality standards and certificates plus quality assurance management

Another key challenge facing SMEs in developing countries in accessing international markets are the technical barriers they must overcome to meet the requirements of international quality standards. While company-level standardization is often used in large enterprises with specific requirements that differ from company to company, standardization on an industry-level is carried out by professional associations and is far more important (UNIDO, 2006b). A company should first adhere to these industry standards as a requirement for offering products or services within a country; such adherence builds the basis for fulfilling international standards.

Generally speaking, a standard has three attributes – level (company, industry/sector, national, global etc.), subject

(automotive, software, food etc.) and aspect (packing, testing, safety, environment etc.) – that defines its applicability (UNIDO, 2006a). Quality certification and total quality management are two prevalent instruments for SME quality standardization. The former refers to the certification by a second or third party to demonstrate that products or services have met specific quality standards while the latter focuses on quality assurance managed by the whole organization (Xydias-Lobo and Jones, 2003).

SMEs must aim to achieve international standardizations in order to participate in global supply chains. ISO comprises of a network of national standardization bodies from 162 countries, and is the world's largest developers of international standards. The ISO 9000 family of standards is an international consensus on good quality management practices and is the primary standard for manufacturers. It is also the main standard used for the purpose of quality conformity assessments. With the latest version, ISO 9001:2008, a supplier can be deemed to have a quality management system that meets international standards. In most instances, it is essential for manufacturers to be certified as ISO 9001 in order to access the market (ISO, 2011).

Another important series of standards is ISO 14000 on environmental management. It is "a framework for the development of an environmental management system and the supporting audit programme" (ISO 14000 Environmental Management Group, 2007). The ISO 14000 standards are important to SMEs as they provide guidance on how to improve environmental performance. Cleaner operations obtain economic benefits, such as reductions in resource use, energy consumption or waste production as well as higher efficiency or the use of recyclable resources (Touchstone, 2010). Applying these standards helps to reduce possible liabilities, improves the public image and attracts new interested stakeholders (IEMA, 2004). Due to their size, SMEs face a number of challenges in the implementation of environmentally beneficial measures. These can include a lack of financial resources, qualified personnel and/or access to technologies. Structural support is needed to foster the implementation of environmental standards among SMEs (Pearson, 2000).

Apart from general standards such as ISO 9000 or ISO 14000 that apply to all companies active in trade, relevant quality

assurance and management standards differ from industry to industry. As many SMEs in Asia and the Pacific are suppliers of the automotive industry, the widely accepted ISO/TS 16949 standard plays an important role (ISO, 2011). The ISO/TS 16949 is also issued by national standardization bodies, such as the DQS-Group in Malaysia and the Sri Lanka Standards Institution (UNIDO, 2006c). The Codex Alimentarius Commission, under the Food and Agriculture Organization of the United Nations (FAO), the Hazard Analysis Critical Control Point (HACCP) standards of WTO and the ISO 22000:2005 standards govern food safety (UNIDO, 2006c). Many countries require the latter food management system certification for an enterprise in the food supply chain, ranging from feed producers and primary producers to retail and food service providers (ISO, 2011).

5. Transport system, international commercial terms and customs procedures

The transport system involves trade logistics and facilitation in international and domestic business transactions. Broadly defined, trade logistics covers transport-related physical infrastructure (e.g., roads, ports and warehousing) and associated services (customs, distribution and information management). Trade facilitation includes any related area ranging from institutional and regulatory reform to customs and port efficiency (ESCAP, 2009c). The development of the transport system is aimed at increasing the volume of international (and domestic) trade by reducing the costs and increasing the speed of transporting traded goods without damaging the value of the goods. Insufficient infrastructure, in addition to non-physical issues (e.g., denial of access to foreign vehicles and drivers and other incompatibilities) can be the major reason for delays in the flow of cross-border trade and transport between developing countries (ESCAP, 2009c).

Table VIII.2 presents the quality index of trade and transport-related infrastructure within the Asia-Pacific region. The index is based on a worldwide survey of operators providing feedback on the logistics friendliness of the nations in which they operate and those with which they trade (World Bank, 2011e). In 2009, the developed economies of Australia, Japan and New Zealand had the best quality of transport system in the region. East and North-East Asia are still lagging behind; however, the quality of trade and transport-related infrastructure is not too far off the ones in developed economies in the region, and a trend of further improvement is visible. The development of trade and transport infrastructure in South and South-West Asia, and North and Central Asia were the lowest in the region in 2009, and were also below the world average level of 2.64; however, North and Central Asia made the largest improvements in 2009.

Table VIII.2. Quality of trade and transport-related infrastructure by subregion

Subregion	2006	2009
East and North-East Asia	3.16	3.28
South-East Asia	2.90	2.91
South and South-West Asia	2.27	2.22
North and Central Asia	1.98	2.32
Developed Economies	3.79	3.84

Source: World Bank, 2011e.

Note: 1 = low, 5 = high.

Box VIII.1. SPRING, Singapore

To improve the access of Singaporean SMEs to global markets, the Singaporean enterprise development agency, SPRING, actively promotes the convergence of national standards and relevant international standards in products and services. It also advocates industry involvement and leadership in the development of new international standards. As a result, more than 80 per cent of the Singapore standards are aligned with international standards in order to facilitate greater market access for Singaporean exports. SPRING Singapore has also established the Export Technical Assistance Centre to help SMEs understand and comply with the international standards, technical regulations, green initiatives and compliance requirements for food and electrical/electronics exports.

Source: SPRING Singapore, 2008.

The International Chamber of Commerce (ICC) (2011) conceived and maintains internationally accepted commercial terms (Incoterm rules), which are essential to the daily language in international and domestic trade as well as contracts for the sale of goods. The unification and standardization of general phases used in business transactions help traders to avoid costly misunderstandings, and increase the efficiency and transparency of the transaction process (ICC, 2011). The latest version of Incoterms, published in 2010 by ICC, contains 11 rules presented in two distinct transport modes (i.e., general and sea/waterway) (table VIII.3 and figure VIII.3).

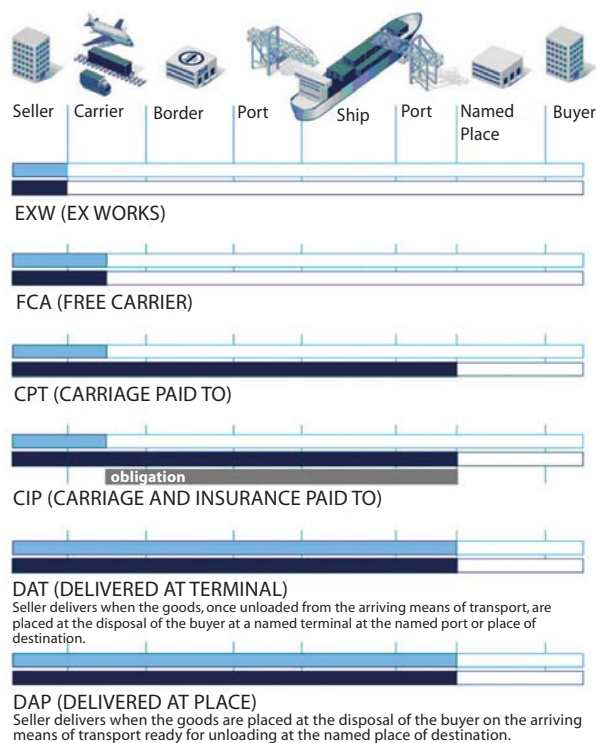
Despite being based on commonly accepted commercial terms (e.g., Incoterms) and other international and domestic trade practices, customs procedures vary from country to country. The term “customs procedures” specifically refers to the treatment of goods by national customs authorities. The

Table VIII.3. Incoterms 2010 rules

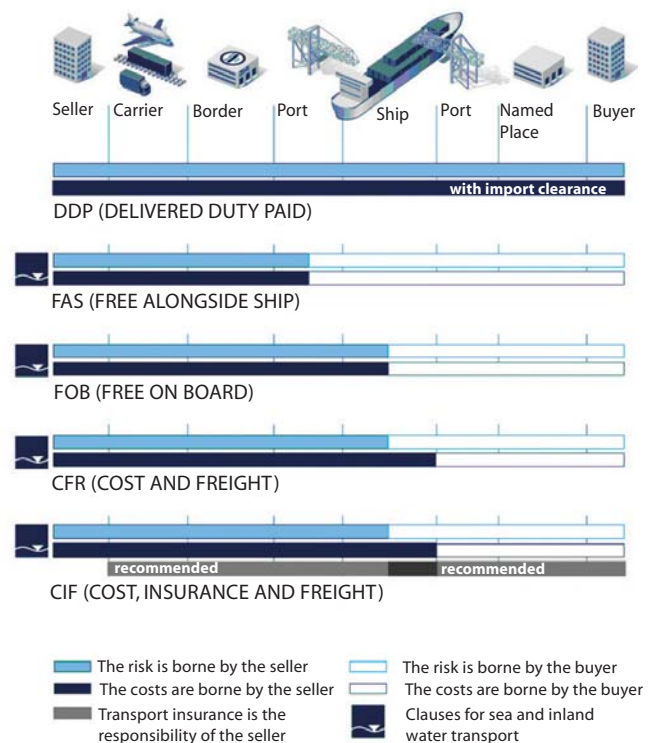
Rules for any mode or modes of transport	
EXW	EX works
FCA	Free carrier
CPT	Carriage paid to
CIP	Carriage and insurance paid to
DAT	Delivered at terminal
DAP	Delivered at place
DDP	Delivered duty paid
Rules for sea and inland waterway transport	
FAS	Free alongside ship
FOB	Free on board
CFR	Cost and freight
CIF	Cost, insurance and freight

Source: ICC, 2012b.

Figure VIII.3. Incoterms 2010 rules



Source: ICC, 2010.



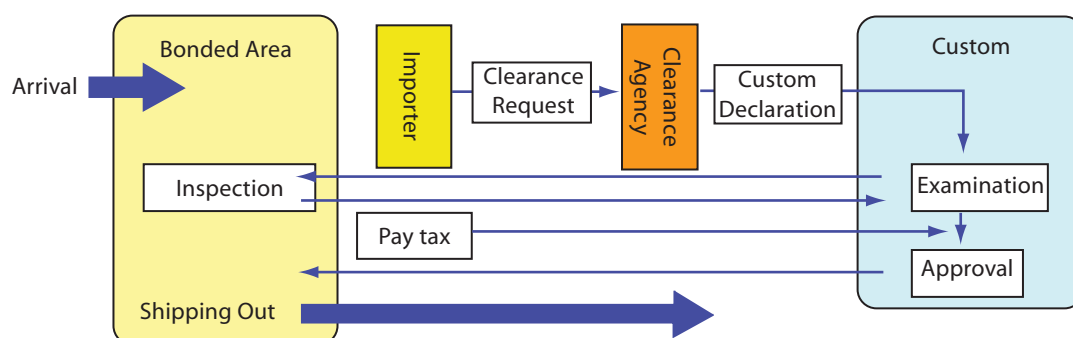
procedures cover the entire range of customs, from import and export of goods, movement of passengers, goods in transit, inspection, duty collection to information management and systems. The general procedures for imports are outlined in figure VIII.4 and include clearance requests, custom declarations, examinations, inspections, paying tax and approval (Kai Ga Shoppers, 2012, based on Japan Customs, 2011).

Table VIII.4 shows the efficiency of customs procedures within the Asia-Pacific region. Apart from the developed economies of the region (i.e., Australia, Japan and New Zealand) which attain the highest efficiency, customs procedures in East and

North-East Asia are most efficient on average, with South-East Asia slightly above the world average of 4.2 in 2009. The customs procedures in North and Central Asia are generally have a lower efficiency; however, there has been steady improvement over the years (World Bank, 2011f).

Transport systems, which include commercial terms and customs procedures, facilitate SMEs' access to international markets, providing various logistics services (e.g., shipping, transportation, customs clearance, forwarding and brokerages, warehousing and documentations). Policymakers need to monitor the system, since high costs and unreliable delivery are major obstructions to the export business of SMEs.

Figure VIII.4. Import procedures



Source: Kai Ga Shoppers, 2012, based on Japan Customs, 2011.

Table VIII.4. Burden of customs procedure by subregion

Subregion	2007	2008	2009	2010
East and North-East Asia	4.70	4.55	4.60	4.70
South-East Asia	3.93	4.02	4.18	4.20
South and South-West Asia	3.29	3.23	3.41	3.70
North and Central Asia	2.99	3.14	3.39	3.48
Developed Economies	4.91	4.97	5.07	5.15

Source: World Bank, 2011f.

D. Trade promotion tools for SMEs

Trade promotion tools, by their very nature, are intended to stimulate interest between foreign buyers and local SME exporters, and specifically to increase the business of SMEs by exposing them to new buyers. Effective trade promotions can result in increased foreign orders for domestic exporters and suppliers.¹¹⁵ Export-oriented economies in Asia and the Pacific use these tools to garner interest from foreign buyers. Trade promotion tools have been a key driver for continued economic growth in the region. Specific objectives of export promotion initiatives include:

- (a) Developing or refining products (and services) for export by communicating with potential customers;

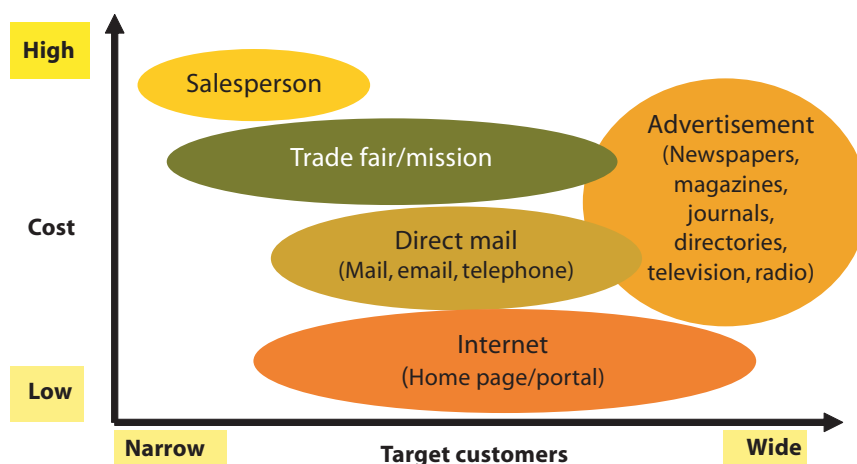
¹¹⁵ This is achieved by presenting SME export benefits (e.g., low cost, high quality and short and flexible delivery) to foreign buyers.

- (b) Gaining new customers/intermediaries in neighbouring, regional and global markets;
- (c) Strengthening relationships with existing customers and intermediaries; and
- (d) Increasing the amount of exports.

Examples of trade promotion tools include, among others, salespeople, trade fairs/missions, direct mailing/e-mails, homepages and advertising. Figure VIII.5 explains those trade promotion tools, and their targets and costs. For example, a salesperson would be an effective tool for approaching a selected number of prospective customers due to communication effectiveness; however, it involves a higher cost than other methods. On the other hand, traditional direct mailing and e-mail could facilitate contacts by SMEs with a large number of prospective customers at low costs; however, the persuasive power of these methods would be less effective than that of a salesperson. Advertising through mass media could also help SMEs reach a wider range of sales prospects, but it could be too expensive and less effective without specific marketing strategies and appropriate media selection (see chapter 12 of Czinkota and Ronkainen, 2007, for a detailed discussion of this aspect).

The following section considers three major trade promotion tools – trade fairs, buyer-seller meetings and trade missions. Table VIII.5 provides an overview of the key characteristics of these three tools. The Internet, currently another important

Figure VIII.5. Various trade promotion tools: Cost and target



Source: Modified from Japan Finance Corporation, 2008.

trade promotion tool, is covered later in this chapter in the section on ICT applications for SMEs' market access.

1. Trade fairs¹¹⁶

Professional events organizers, in collaboration with governments and business associations, organize trade fairs (both domestic and international). They target companies in various industries with exhibits of their latest products and services, information on recent market trends and networking. These fairs can be immensely important for SMEs who cannot afford international advertising to market their products to foreign customers. For example, Vietnamexpo 2011 exhibited products from various Vietnamese companies and sectors (i.e., agriculture, fashion, machinery and equipment) for the international community, thus attracting businesses to the nation (Vinexad, 2008).

Some specific objectives of SME participation in trade fairs include (Czinkota and Ronkainen, 2007):

- Providing a chance to examine and see in action those products that are difficult to market indirectly;
- "Waving the company flag" against competition to boost the morale of sales personnel and distributors;
- Finding an intermediary;
- Networking with government officials and decision-makers;
- Marketing research and collecting competitive, regulatory and technical intelligence;
- Reaching a sizable number of sales prospects at a reasonable cost; and
- Strengthening relationships with existing customers, business associations and other stakeholders.

¹¹⁶ Also referred to as trade shows, exhibitions or expos.

However, trade fairs do have some disadvantages. They can be too costly for firms looking only for one-time or short-term sales. Firms may also have difficulty in choosing the appropriate trade fairs, and participation requires much effort, e.g., registration, preparing materials and setting up displays. SMEs need information about markets, sector, size, reputation and cost of trade fairs in order to choose which trade fairs to attend; but searching for this information is time-consuming. To extract the full benefits from participation in trade fairs, SMEs must conduct the required follow-up activities including direct mailing, visits, trade missions, inviting potential customers for site visits or even opening an office in the target market. These follow-up activities are often difficult for SMEs to execute. According to the Japan External Trade Organization (JETRO) (2011), public support could be sought for successful participation by an SME in a trade fair (e.g., financial support to SME exhibitors

Box VIII.2. Trade fairs: Cost and benefit analysis

Although trade fairs provide an effective channel for SMEs to reach prospective customers, they may become expensive diversions without specific marketing strategies (e.g., target customers, selection of right fairs, development of communications materials, training of salespersons, media credentials and follow-up activities). The expenses required for participation in a trade fair typically include: participation fees (e.g., registration, space and furniture, and insurance); booth decoration; staffing; airfare, freight and accommodation; development of promotional materials (in appropriate languages), samples and gifts; and communications. To analyze the costs and benefits of a trade fair properly, the following equation can be used:

$$\frac{\text{Cost of export promotion event}}{\text{Number of inquiries}} = \$ \text{ per inquiry}$$

Source: Authors' compilation.

Note: Inquiries made by potential customers at the fair and after the fair can be included in the total number of inquiries and the number of business cards collected at the fair can also be used as a measure of inquiries.

Table VIII.5. Characteristics of three major export promotion events

	Trade fair	Buyer-seller meeting	Trade mission
Size	Large	Middle	Small
Format	Loose gathering, often open to the public, general (e.g., Hanover/Milan); or specialized (e.g., auto show/high-tech)	Structured gathering	Closed door
Target	General public/industry stakeholders	Invited buyers/distributors/partners	Short-listed buyers/distributors/partners/stakeholders
Driver	Often organizer-driven	Often business association-/organizer-driven	Government or business association-driven (crucial support by a local host)
Preparation	Less market research needed and more sales-focused	Proper market research needed, including sales activities	Market-research focused
Scope of sales prospects met	Wide	Medium	Narrow
Quality of sales prospects met	Low	Medium	High
Cost (per sales prospect met)	Low (normally participation fee-based)	Medium	High

Source: Authors' compilation.

at international trade fairs). Organizing buyer-seller meetings and trade missions following trade fairs should also be considered.

2. Buyer-seller meetings

Buyer-seller meetings are a form of initial communication that provides a path for information exchange between key players in demand and supply. In general, buyer-seller meetings are either face-to-face negotiations or conducted through the Internet, telephone, video etc. Many government agencies provide website services where buyers and sellers can post their needs, or goods and services offered. Some agencies act as intermediaries that collect orders from buyers and distribute them to one or several eligible sellers to provide goods and services (Cavusgil and Czinkota, 1990). Although online meeting/matching is most prevalent, due to its convenience and efficiency, face-to-face negotiation is still necessary for two reasons: detailed discussion, explanation and clarification; and necessity to establish lasting business relationships between buyers and sellers (Czinkota and Ronkainen, 2007).

3. Trade missions

A trade mission is an international trip that national agencies organize for government officials and business representatives to explore international business opportunities in target nations. Representatives from the private sector are introduced to important local business contacts and relevant government officials, and thus have crucial contacts for developing business relationships. An example of a recent trade mission to the Asia-Pacific region was the Australian Chamber of Commerce and Industry's trade mission to Sri Lanka in 2010 to discuss business opportunities between the two nations (i.e., diversification of its power industry, port development and potential consultant services for liberalizing its state-owned enterprises) (VECCI, 2010).

E. Key players in trade promotion

Some key players are involved in conducting trade promotion activities. They include trade promotional agencies, foreign branches, commercial attachés and business associations.

1. Trade promotional agencies

Numerous Asia-Pacific nations have established trade promotional agencies that provide a number of export promotion services to facilitate SMEs' market access at the regional and global levels, while also enhancing SME supply-side capacity-building and providing quality business development services. They oversee activities to introduce and promote local products into the international market. Some examples are listed below:

- (a) International Enterprise Singapore's collaboration with SPRING Singapore to incorporate Singaporean companies into a capability development programme called BrandPact – which assists them in using distinguishable branding, with unique value propositions, as

a business capability in international markets (www.iesingapore.com/wps/portal);

- (b) The Philippines' Centre for International Trade Expositions and Missions runs a programme to promote trade and export potentials of selected regions; it introduces homegrown indigenous products to mainstream markets and holds special displays for newly developed products and raw materials (www.citem.gov.ph/main/services.htm);
- (c) JETRO (2012a) is a government organization that promotes external trade. JETRO's objective is to ease the access of SMEs to important market information and enable greater export capacity. Activities include surveys of overseas markets, distributing survey data to local parties, and provision of business advice for both Japanese and overseas markets. Its trade tie-up programme is an international business-matching site that allows Japanese companies to display their products and businesses online and connect with other companies around the world. JETRO (2012b) also organizes trade missions and helps SMEs participate in major international trade fairs (www.jetro.go.jp/en/jetro/activities/export/);
- (d) The Cambodia Trade Promotion Department promotes Cambodian indigenous products under the name of "Cambodia Quality – Khmer Products", which seeks to present local products with an image of being unique and reliable (www.tpd.gov.kh/khmer_products.php);
- (e) The Korea Trade-Investment Promotion Agency (KOTRA) supports SMEs by increasing their knowledge concerning trade and thus reducing the involved market entry costs. KOTRA collects and disseminates market information on business practices, cultures and market conditions, and facilitates the expansion of Korean businesses to international markets (<http://english.kotra.or.kr/wps/portal/dken>).
- (f) The Small and Medium Business Corporation of the Republic of Korea is the main government agency that promotes SMEs' market access. It supports foreign market access for SMEs through export incubators and overseas private consulting centres; the latter offer information about foreign markets and companies, and one-on-one business matching services. It also dispatches trade delegations, holds export conferences and provides SMEs with opportunities to participate in international exhibitions in order to improve their global presence (www.sbc.or.kr/sbc/eng/main.jsp);
- (g) SME Corp. Malaysia launched the National Mark of Malaysian Brand programme. Participating Malaysian SMEs are evaluated through stringent standards, with frequent monitoring to ensure quality. The products or services of successful companies are given the right to carry the Malaysian Brand, and are given access to ongoing international trade promotion and advertising of the Malaysia External Trade Development

Corporation (2011b) (www.smecorp.gov.my/v4/node/22); and

- (h) The Department of Export Promotion, established under the Ministry of Commerce of Thailand, has five national trade promotion centres within Thailand to provide services to local enterprises and manufacturers. The centres enhance local

business potential by matching their needs with foreign buyers and traders through the department's worldwide network (www.thai-tradechina.cn/en/about/Default.aspx).

Table VIII.6 summarizes major trade promotion activities in selected Asia-Pacific economies.

Table VIII.6. National programmes for SMEs' market access

Subregion/economy	Programme	Feature
South Asia	India Government stores programme	<ul style="list-style-type: none"> Issue of tender sets free of cost: (a) exemption from payment of earnest money deposit; (b) waiver of security deposit up to the monetary limit for which the unit is registered; and (c) price preference up to 15 per cent over the quotation of large-scale units.
	Export promotion programme	<ul style="list-style-type: none"> Products of SME exporters are displayed at international exhibitions, and the expenditure incurred is reimbursed by the government. Training for SMEs on latest packaging standards for exports and others.
	Sri Lanka Business development service centre	<ul style="list-style-type: none"> Enhance marketing opportunities for SMEs, promote business incubators and sale centres, conduct exhibitions and trade fair programmes, and create links between development service providers, chambers of commerce, advertising organizations, export development boards and SMEs associations.
South-East Asia	Indonesia Various promotional tools	<ul style="list-style-type: none"> Development of promotion tools, including trading boards and exhibitions.
	Malaysia Various export promotion programmes	<ul style="list-style-type: none"> Provide services on exporter development, e.g., exporter training programme, technical and financial assistance. Export promotion programmes include trade matching, financing international trade events, programmes promoting Malaysian restaurants. Trade and market information as well as trade advisory and support.
	Philippines Export assistance network	<ul style="list-style-type: none"> Trade facilitation offices serving existing and potential exporters, offering real-time services in export trade information, export procedures and documentation, and buyer linkages.
	Establishment of Philippine trade centres	<ul style="list-style-type: none"> Serves as permanent exhibition site for SME export products.
	Thailand Board of Investment Unit for Industrial Linkage Development (BUILD)	<ul style="list-style-type: none"> Organizes meetings and factory tours of registered suppliers and assemblers, organizes subcontracting exhibitions, facilitates local suppliers to display their products and provides financial support to potential suppliers to participate in international exhibitions.
	Programmes of the Office of SME Promotion	<ul style="list-style-type: none"> Manages bilateral corporation agreements to promote projects such as franchising, mulberry paper, handcraft, bio-diesel and tourism.
	Department of Export Promotion	<ul style="list-style-type: none"> Acting as a one-stop service centre by providing trade information and advisory services, match-making link-ups, business networking and data on Thai products and manufacturers, as well as helping to find suitable trade partners on B2B business portal.
	Singapore Government Electronic Business (GeBIZ)	<ul style="list-style-type: none"> Provides access to procurement opportunities at 120 government agencies.
	Singapore Business Federation Global Sourcing Hub	<ul style="list-style-type: none"> Online B2B business portal provides instant access to global opportunities, streamlines and automates sourcing processes and provides access to wider supplier and buyer communities.
	Expert Technical Assistance Centre	<ul style="list-style-type: none"> Helps in understanding of and compliance with the standards and technical regulations for food and electrical and electronic exports.
	SPRING	<ul style="list-style-type: none"> Develops quality standards and facilitates market access. Provides marketing toolkit offering comprehensive guides to help SMEs' marketing activities.

Table VIII.6. (continued)

Subregion/economy	Programme	Feature
East and North-East Asia	Republic of Korea	Various promotion programmes
		<ul style="list-style-type: none"> • Trade missions to overseas exhibitions. • Dispatches SME employees to overseas markets to become trade professionals.
	China	Various export promotion programmes
	Taiwan Province of China	Various promotion and business linkage programmes
	Japan	Various promotion and business linkage programmes
	Japan External Trade Organization (JETRO)	<ul style="list-style-type: none"> • Provides funding for SMEs' international market development and the China International SME Fair. • Integrates the resources of local government SME service centres, local chambers of commerce and other relevant agencies, and honorary SME guidance personnel (enterprise service volunteers) to build up comprehensive SME service mechanisms. • Facilitates business tie-ups through exhibitions and industrial fairs. • Business Matching Database, which allows Japanese and overseas enterprises to reach out to potential business partners. • Provides services to Japanese companies through more than 70 offices in more than 50 countries. Also organizes and finances business missions to foreign countries to study local investment environments and market conditions.

Sources: NSIC (2011), SLBDC (2011), Malaysia External Trade Development Corporation (2011a), NAFED (2011), Indonesia Trade Promotion Center (2011), Department of Trade and Industry of the Philippines (2011), BUILD (2011), Agency for SME Development (2011), Department of Export Promotion (2011), GeBIZ (2011), SBF (2011), SPRING (2011c), Small and Medium Business Administration (2011), DFT (2011), Small and Medium Enterprise Administration, (2011b) and JETRO (2011).

2. Foreign branches

To reach potential customers in foreign countries, many trade promotion agencies expand their offices overseas. For example, the Korea Trade-Investment Promotion Agency (KOTRA) established an international network with a number of foreign branches in major (and emerging) export markets to promote Korean products and services, offering a comprehensive support package in every step of the business process to Korean SMEs (KOTRA, 2011). Thailand's Department of Export Promotion also operates Thai trade promotion offices, or Thai trade centres, located in major cities around the world, to foster trade relations between Thai exporters and potential importers (Department of Export Promotion, 2011).

3. Commercial attaché

Commercial attachés are posted to foreign embassies to promote the economic interests of their home country. Generally, they will be based in the economic section of a foreign embassy, which deals with economic relations at a government-to-government level and provides economic information and analysis such as market intelligence on the SME sector to the home country.

4. Business associations¹¹⁷

A number of business associations, such as chambers of commerce and federations of industries, provide training for export capacity-building as well as services to promote export focused businesses among their members. The Thai Chamber of Commerce, for example, holds seminars, provides international market information, and organizes meetings between their members and foreign trade representatives. The chamber also coordinates with other

business associations within Thailand, such as the Board of Trade of Thailand, which acts as a representative of private trade operators in coordination with the government on issues related to trade promotion. It also provides advice and assistance in solving various trade issues which come from governmental policy and regulations (Thai Chamber of Commerce, 2011).

F. Applications of ICT to facilitate market access

Applications of ICT are widely regarded as an effective strategy for SMEs to gain better access to domestic as well as international markets (Migiro and Ongori, 2010). While the extent and need for ICT applications varies among the different types of SMEs, it can play a powerful role not only by providing new business opportunities but also by increasing their competitiveness (Kotelnikov, 2007). For example, using new technologies and the Internet to their advantage and moving away from traditional forms of business to e-commerce, SMEs can reduce transaction costs by saving on capital, marketing and labour expenses (APEC, 2003).¹¹⁸ The arrival of broadband, together with the eager adoption of mobile-based technologies, has further empowered small businesses to address competition. ICT can help cut costs by streamlining internal processes, improving services through faster communication with customers and bettering promotion and distribution of products. It has also assisted in broadening market reach through ICT enhanced market intelligence such as online databases of customers, suppliers and competitors (UNDP Asia-Pacific Development Information Programme, 2007).

SMEs can also benefit from online marketplaces, where they can establish direct business ties with customers or other businesses (B2B). The government can assume the role of the

¹¹⁷ See box VI.3 on the comprehensive role that business associations play in SME development.

¹¹⁸ However, the expectations of the scale of savings from e-commerce need to be balanced, as the empirical evidence is mixed (Santarelli and D'Altri, 2003; and Humphrey and others, 2003).

facilitator, as is the case in the Republic of Korea. The Small and Medium Business Corporation, which is, a Government of the Republic of Korea entity with the mandate to promote SMEs, operates a free online business matching service with the largest database of manufactures and suppliers in the Republic of Korea.¹¹⁹

Government involvement is not necessarily required, as there are other successful examples of private web portals for SMEs. Alibaba, a Chinese company, was founded in 1999 and evolved from a simple online bulletin board to the world's largest B2B company. In China, with an estimated 400 million SMEs, one out of 10 SMEs conduct business via Alibaba (Finance Asia, 2010). In India, more than 1 million SMEs are Alibaba members. In total, almost 69 million users from more than 240 countries are registered with Alibaba for conducting global e-business (Alibaba Group, 2011).

ICT can be utilized to facilitate lengthy international trade procedures such as customs clearance. The Government of the Republic of Korea has pursued an e-trade framework since the late 1980s, which has expanded nationwide to cover ICT facilitation in customs clearance. As a result of the project, the use of ICT has enabled SMEs to export through a simplified procedure utilizing an electronic network open

to international traders seeking to use ICT for all stages involved in exports, from negotiating between firms to logistic and customs procedures (Yang, 2009).

Given the prospects of ICT applications for the SME community, such as increased access to new markets by reducing transaction costs and an accelerated communication speed, the promotion of ICT policies catering to the needs of SMEs is of unquestionable importance. Acknowledging the significance of SMEs in Asia and the Pacific, the Asian and Pacific Training Centre for Information and Communication Technology for Development (APCICT) has proposed three key recommendations for policymakers:

- (a) Raise awareness of the benefits of ICT;
- (b) Strengthen ICT literacy and build capacity in the alignment of business and ICT strategies; and
- (c) Create enabling environments for the adoption and growth of ICT firms.

One effective policy is that governments themselves use ICT through e-government and e-procurement, as they are often important service providers to SMEs as well as buyers of goods and services of SMEs. This policy can provide an important incentive for SMEs to begin using e-commerce (UNDP Asia-Pacific Development Information Programme, 2007).

¹¹⁹ For more details, see www.gobizkorea.com/.

Box VIII.3. Internet marketing: Republic of Korea

The term "Internet marketing" refers to the use of the Internet for e-mail-based aspects of a marketing campaign. It usually incorporates banner advertisements, e-mail marketing, search engine optimization, e-commerce and other related tools (AMA, 2011). There were nearly 2 billion global Internet users in 2010 – facilitating the growth of Internet marketing with a huge customer base (World Bank, 2010b). Internet marketing has been labelled as highly efficient, with much lower costs, compared with traditional marketing strategies. SMEs are one of the groups that stand to benefit from this booming expansion (Mathews, Healy and Ali, 2006).

One example in the Republic of Korea is Neo Buzz Demolition Tool Co., Ltd. Since its founding in 1989, the company has become one of the country's leading manufacturers of hydraulic breaks, hydraulic attachments and construction equipment

(Neo Buzz, undated). Neo Buzz, which originally targeted to the domestic market, now exports to China, Egypt, Iraq, Israel, Italy, Japan, Taiwan Province of China, the United States and Viet Nam – increasing its annual sales revenue by more than 30 per cent in the past three years.

This has largely been the result of the company's online marketing strategy. In 2009, Neo Buzz became a member of one of the leading B2B trade groups, after which inquiries from potential global customers increased tremendously. Buyers visiting Neo Buzz's webpage are able to see the full range of its products with detailed descriptions and features. Customers also have the option to decide whether to meet with company representatives or to negotiate online. This ensures that flexibility, reliability and efficiency of business transactions is cost-effective, making it a great choice for SME exporters.

Box VIII.4. East-West Economic Corridor business database

The Mekong Institute, an intergovernmental organization of the countries of the Greater Mekong Subregion, – which comprises Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam and the Yunnan Province and Guangxi Autonomous Region of China, with support from the Japan Asean Integration Fund – developed a comprehensive database for business networking and information sharing in the East-West Economic Corridor (EWEC). The objective is to provide a compatible database for SME-related information that is accurate, reliable and timely across the 11 provinces of the EWEC and to promote trade and investment through networking and information sharing.

The database consists of two components: (a) provincial business profiles; and (b) company profiles. The provincial business profiles include provincial-level business information on economic indicators, leading sectors, exports and imports, business-related support infrastructure, incentives and the cost of doing business. The company profiles provide members of the chambers of commerce, industry professionals and business associations along the EWEC with products/services details, production turnover, export and import items, certifications and awards and contact details. Some 1,700 companies were listed in the database at the end of 2011 and can be viewed at www.ewecbiz.com.

Source: EWEC, undated.

G. Trade finance

According to the International Trade Centre (ITC) (2009), trade finance “refers to a wide range of tools that determine how cash, credit, investments and other assets can be used for trade”. In this sense, the primary objective of trade finance is no different from SME financing, which is discussed in chapter V.

One of the barriers to exporting that SMEs face is the difficulty of coordinating and receiving payment for their goods and services from their foreign customers. Even if they are capable of identifying overseas customers, they may lack the expertise to transact business smoothly or to ascertain creditworthiness. On the other hand, foreign buyers cannot discern how reliable an SME may be as a supplier. The uncertainty on both sides can discourage international trade from occurring. Another barrier is the additional expense of international trade. Those costs include international marketing, cross-border transportation, customs and duties, transport costs and communications. International trade usually requires a longer business cycle (i.e., marketing, sales, production, delivery and payment) due to the physical distance between sellers and buyers and for processing paperwork and handling exporting and importing procedures. International trade creates extra financing requirements, especially on the exporters’ side, for both pre-shipment and post-shipment periods (ESCAP, 2005b). Effective trade finance helps to mitigate the risks inherent in the uncertainty, extra costs and financing needs.¹²⁰ Trade finance is also important not just for exports but also for access to raw materials.

¹²⁰ However, globalization has reduced the risks significantly. For example, the Internet facilitates review of buyers’ credit worthiness and international transactions by exporters, while advanced international logistic systems reduce the lead time of exporting and importing.

SMEs generally experience difficulties in accessing adequate trade finance. First, there is commonly a lack of efficient and effective banking and payment systems, particularly in developing countries of the region. In particular, financial constraints such as high costs of finance and a lack of access to finance restrict growth opportunities of SMEs (ITC, 2009). Second, there are challenges in accessing timely, accurate and affordable trade and credit information. SMEs normally operate on tight budgets, and while information may be available it may be unaffordable.

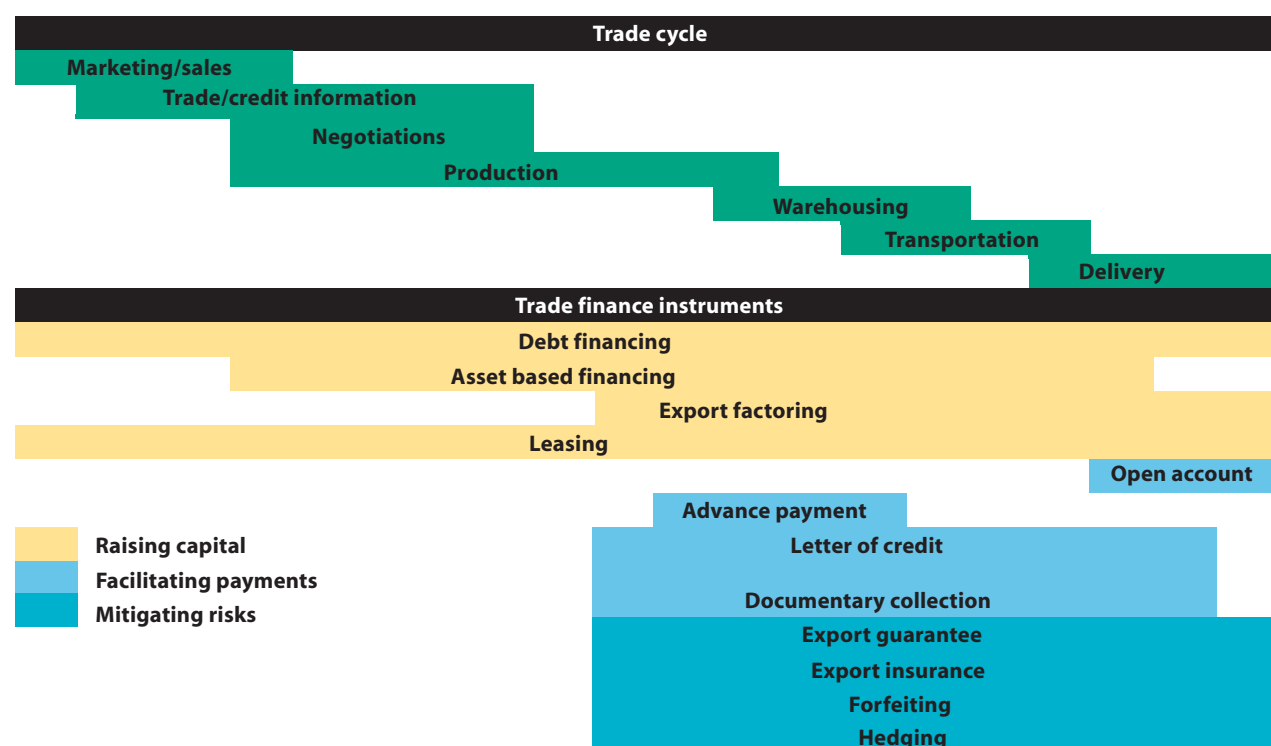
1. Forms of trade finance

Trade finance comprises different financial services. They are broadly aimed at three aspects that, depending on the situation, can be used in different combinations (ITC, 2009):

- Raising capital and increasing liquidity;
- Facilitating payments, regulating terms and conditions; and
- Mitigating risks and uncertainties.

The capital requirements of SMEs largely arise from their need to finance marketing, manufacturing and distribution of their export products. This calls for the use of various forms of trade finance to raise working capital. Trade financial instruments secure buyers’ payments, thus influencing the competitiveness of SMEs in domestic and global markets. Mitigating risks such as payment delays or fluctuating exchange rates requires certain financial instruments in order to help avoid or prevent significant losses. Within this context, there are a number of finance methods and instruments available to SMEs, depending on their stage in the trade cycle and the particular financial needs of the firm. Figure VIII.6 illustrates some of these methods and instruments as well as the relevant stage in the trade cycle.

Figure VIII.6. Trade cycle and trade finance methods and instruments for SMEs



Source: Authors’ compilation, based on ESCAP, 2005b.

Some major forms of trade finance instruments are discussed in detail below according to the three categories (i.e., raising capital, facilitating payments and mitigating risks).¹²¹

(a) Trade finance methods and instruments aimed at raising capital¹²²

Raising working capital for SMEs' export operations necessitates short term credits and/or loans in various forms. Such debt financing is required for both the pre-shipment and the post-shipment periods. Pre-shipment finance should support activities before the actual export such as the payment of wages, materials and supplies. SMEs that are active in the export market are especially dependent on this type of trade finance as international trade cycles are generally longer than domestic ones and thus require additional working capital (ESCAP, 2002). Post-shipment finance on the other hand involves financing for working capital after shipment but before the end of the entire export process, i.e., buyers' payments (ESCAP, 2002). It includes short-term credits and/or loans as well as payment terms agreed upon with buyers.

The major financial methods and instruments for raising working capital for export include:

- (a) Debt financing – this method of trade finance is typically used to obtain working capital (liquidity) for exporting operations. As reviewed in chapter V, debt financing can be obtained in various forms (e.g., overdrafts, line of credits, term loans etc.). In developing countries, commercial banks and state-supported development banks need more coaching and support to help SMEs access term loans. Such loans could be a stable financial instrument for SMEs' export growth;
- (b) Asset-based financing – this is a loan that is often secured through the inventories of goods to be exported. These inventories include raw materials, work-in-process and/or finished products;
- (c) Export factoring – a complete financial package that combines working capital financing, credit protection, foreign accounts receivable, bookkeeping and collection services. Export factoring is offered under an agreement between the factor and exporter. The factor is usually a bank or a specialized financial firm. Factors purchase the exporter's short-term foreign accounts receivable (or sometimes mere invoices and trade documents) for cash at a discount from the face value (as low as 50 per cent), normally without recourse, and assume the risk on the ability of the foreign buyer to pay (United States Department of Commerce, 2008); and
- (d) Leasing – medium- to long-term financing of payments that need to be made for the use of assets, such as equipment, property or machinery, for export operations. It allows firms to avoid high one-time investments and increase working

capital for export operations, by paying the leasing bank or company for the use of assets through monthly rental fees.

(b) Trade finance instruments aimed at facilitating payments

According to ITC (2009), the most important trade finance instruments in this category are cash-in-advance, letters of credit (L/Cs), documentary collection and open accounts, although many SME exporters are conducting export business based on either payment after delivery or open accounts:

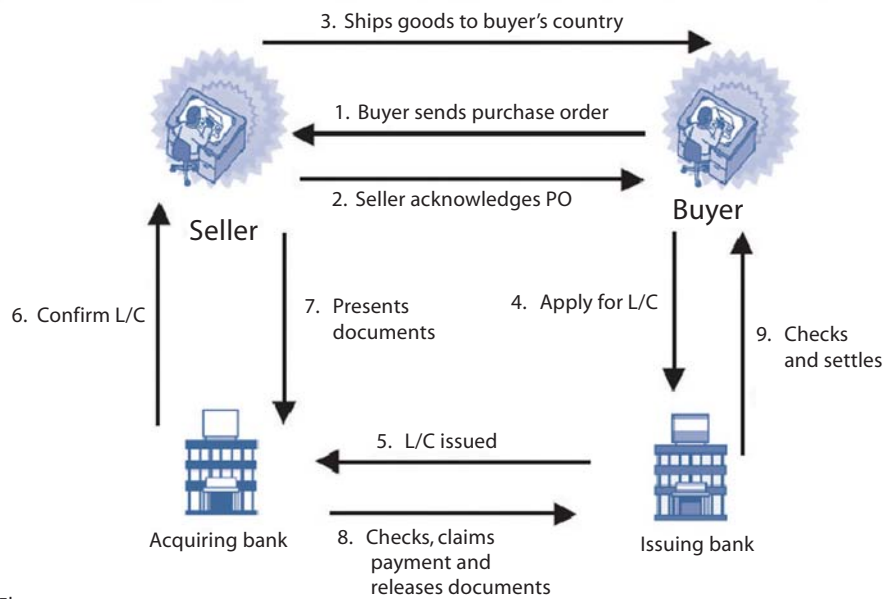
- (a) Cash in advance – the full payment for products is made up-front, which eliminates the risk for the exporter. This is the most preferred option when the creditworthiness of the importer (buyer) is in doubt;
- (b) Letter of credit – an important financial instrument for securing the interests of both parties that is issued by the importer's bank for the exporter's bank. The importer's bank commits to pay as soon as the agreed terms and conditions have been met by the exporter, which is generally verified through the reception of required trade documents (United States Department of Commerce, 2007). This method of payment involves third parties, generally commercial banks, as mediators and thus reduces the risks for both the exporter and the importer. It is preferably used for new trade relations (ITC, 2009). Figure VIII.7 explains the transaction process of an L/C. The primary act is to issue an L/C to the exporter, guaranteeing payment on receipt of documents verifying shipment and transfer of title to the importer. Such documents usually include a draft, also known as a bill of exchange, which is the exporter's formal request for payment, as well as a bill of lading, which specifies the goods shipped and the transfer of title to the importer on payment;
- (c) Documentary collections – although similar to L/Cs, documentary collections are, however, specifically shipping and collection documents that are sent from the exporter's bank to the importer's bank in exchange for the payment. Documentary collections can be differentiated between documents against payment – the payment takes place at sight – and documents against acceptance – the payment is made at a later date as specified (ITC, 2009); and
- (d) Open accounts – these are the best method of payment for importers, as they usually grant importers a payment period of 30 days to 90 days after the shipment of goods.

One key issue, in addition to the uncertainty of export account receivables, is a divergence in preferred terms of payment that satisfy the interests of the exporter and the importer. As figure VIII.8 shows, a comparison between levels of payment in particular shows the differences in preferred terms of payment. Typically, exporters seek to reduce their risks by letting the importer pay up-front for goods. Importers, in contrast, prefer credits such as open accounts, and they may also require exporters (sellers) to document the shipping process and products (ESCAP, 2005b).

¹²¹ For further details, including specialized financial instruments for commodity trade (e.g., warehouse receipt), please see ITC modules on *How to Access Trade Finance*. (www.intracen.org/exporters/obtaining-export-credits) and ESCAP (2005), *Trade Finance Infrastructure Development Handbook for Economies in Transition*.

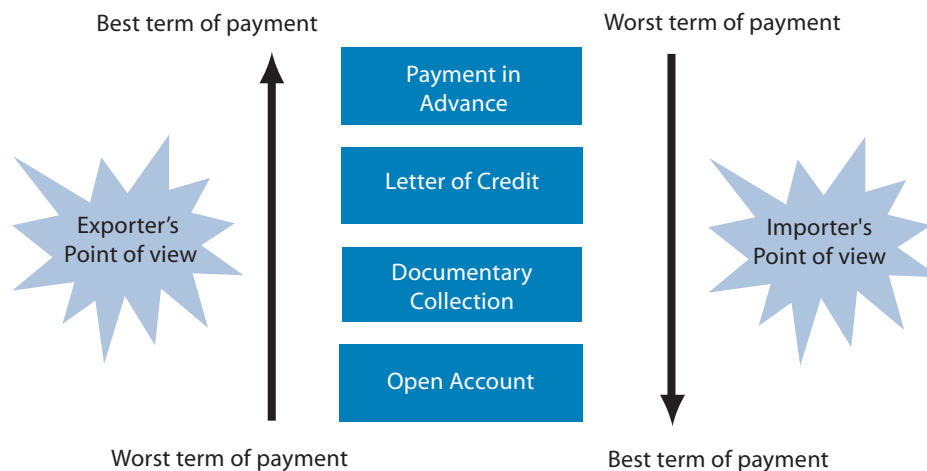
¹²² See also chapter V for a more detailed discussion.

Figure VIII.7. Letter of credit transaction process



Source: ESCAP, 2005b.

Figure VIII.8. Comparison between terms of payment



Source: ESCAP, 2005b.

Box VIII.5. Terms of trade payment: Thailand

Importing and exporting enterprises in Thailand use different methods of payment, depending on their size (table VIII.7). SMEs in Thailand are mostly required to make advance payments when importing; larger firms, however, are primarily able to enjoy the benefits of open accounts, and advance payments are seldom required. For both groups, letters of credit are the second-most used payment method, and documentary collections are the least common.

When it comes to exporting, the situation is reversed. A majority of SMEs offer open accounts to buyers, whereas larger enterprises require advance payment or open accounts. Advance payments and documentary collection only play a minor role in payment processes for Thai exporting SMEs.

Thus, SMEs are generally more subject to insecure or unfavourable terms of payment than large companies. Due to their size, higher liquidity requirements as well as increased risks are imposed on them.

Table VIII.7. Methods of payment for importing and exporting enterprises, by size, in Thailand

Method of payment	Importers		Exporters	
	Large enterprises (per cent)	Small and medium-sized traders (per cent)	Large enterprises (per cent)	Small and medium-sized traders (per cent)
Letter of credit	23	29	17	23
Bill of collection	4	5	5	7
Advance payment	10	40	38	10
Open account	63	26	40	60

Source: Duval and Liu, 2009.

(c) Trade finance instruments aimed at mitigating risks and uncertainties

SME exporters face various risks and uncertainties, which can be broadly classified into four groups: (a) commercial risks (e.g., payment default); (b) exchange rate risks (e.g., sudden large floating); (c) transport risks (e.g., damage); and (d) political risks (e.g., restrictions) (ESCAP, 2005b). Some of the major trade finance instruments that reduce the risks are described below:

- (a) Export credit guarantee – this is a protection mechanism for banks that are financing exports, which is generally provided by public agencies. It facilitates the access of exporters to finance by offering banks protection from possible losses in the form of financial guarantees. SMEs can profit from an export credit guarantee as it makes acquiring finance from commercial banks easier (ESCAP, 2005b). It is important for public agencies providing an export credit guarantee to weigh the risks involved in supporting firms that are taking up credit under such a scheme;
- (b) Export credit insurance – private insurance companies and/or governmental export credit agencies offer this coverage to business entities to insure their export accounts receivable from loss due to the non-payment of valid debt by their debtors (Jones, 2009). Some of the benefits of trade credit insurance are: (i) protection from bankruptcy or insolvency of a customer, and thus a loss on accounts receivable; (ii) favourable financing from an SME's lender, either via favourable eligibility of receivables or the inclusion of accounts in the borrowing formula that are not eligible without credit insurance; (iii) sales expansion; and (iv) reduction of bad-debt reserves and accounts receivable risk concentration (William Gallagher Associates, 2009). In general, the potential risks faced by exporters in international trade are more complex; private insurance companies may not be able to provide enough coverage for the risks. As a consequence, government agencies are commonly established to operate export credit insurance. Specific examples include, among others, Israel's Foreign Trade Risk Insurance Corporation Ltd. and India's Export Credit Guarantee Corporation, both of which provide guarantees to cover trade and export transactions;
- (c) Forfeiting – this is a method of trade financing that enables exporters who sell capital goods, commodities or large projects to obtain cash, at a discount, against their longer-term foreign account receivables on a non-recourse basis. In this method, receivables are normally guaranteed by the importer's bank, and exporters typically work with a forfeiter that is either a specialized finance firm or a department in a bank that performs non-recourse export financing to eliminate the risk of non-payment (International Trade Administration, 2007); and

- (d) Hedging – this is a technique used to reduce the risk of fluctuations in exchange rates and to protect expected profitability in the domestic currency. Hedging involves offsetting one currency position with another (ITC, 2009). The two most common methods are forward and futures contracts. Forward contracts are agreements with a fixed date and exchange rate at the point of delivery of goods. It can be arranged with a bank that agrees to exchange the foreign currency, which will be received from the firm at a previously-fixed exchange rate. Futures contracts are similar to forward contracts but they are generally organized on standardized terms through futures exchanges. The losses and gains are updated every day and the holder must provide enough cash to cover any losses. In developing countries, commodity futures exchanges exist such as the agricultural futures exchange of Thailand (ESCAP, 2005b). In business, forward contracts are used more often than futures because their terms are more flexible and convenient. Although both forward contracts and futures are useful tools to reduce foreign exchange risks, SMEs may need to develop their internal expertise to utilize them or they may seek technical assistance from external financial experts.

(d) Actors facilitating trade finance

Banks play an important role in providing support and security in trade finance. A bank acts as a trusted third party to guarantee delivery from the exporter and payment by the importer. In addition to alleviating credit risk, this arrangement also mitigates foreign exchange risk, as banks are more knowledgeable about foreign currency markets and can help their clients hedge against sudden fluctuations of foreign exchange. Typically, the exporter and importer interact with their local banks, which then coordinate the flow of documents and money (ITC, 2009).

Export credit agencies (ECAs), which are often state-owned (or controlled) development financial institutions, are also major actors in international trade and investment. They generally provide government-backed loans, guarantees and insurance to corporations, including SMEs, seeking to do business in foreign countries with the mandate to promote their own countries' exports and foreign investments (Center for International Environmental Law, 2003). The trade financing instruments most commonly used by ECAs are export credits or loans provided to buyers or suppliers of export goods, and import credits or loans provided to overseas purchasers of domestic goods and services. These are often offered on more favourable terms than those provided by private commercial banks (IPCC, 2000). ECAs consist of bilateral organizations such as export/import banks or investment promotion agencies. Most advanced industrialized countries have national ECAs that are committed to enhancing their economic and business interests overseas (IPCC, 2000). Examples include:

- (a) Nippon Export and Investment Insurance (2011) of Japan is an incorporated administrative agency

that was created in 2001 as a 100 per cent state-owned agency to manage trade and investment insurance programmes;

- (b) The Export-Import Bank of Korea (Korea Eximbank, 2011) is an official export credit agency established in 1976 in the Republic of Korea. It provides comprehensive export credit and guarantee programmes to support Korean enterprises in conducting overseas business. It is also responsible for the operation of some government funds; and
- (c) The Export Finance and Insurance Corporation (undated) in Australia is the Government's export credit agency that helps successful businesses to finance and protect export trade or overseas investments when their banks are unable to provide all the support they need.

Unlike commercial banks that aim for a market return on their loans or insurance, ECAs usually only seek to recover their operating and financing costs. They are either official or quasi-official branches of the national government and are a part of a broader government policy framework focused on trade and investment promotion (FERN, undated¹²³). Despite this option, SMEs tend to rely more on commercial banks and make only limited use of development banks, or ECAs, for export financing (ITC, 1997). ESCAP and ITC (1997), based on survey data and field experience, found that 33 per cent of the SMEs surveyed turned to commercial banks for support in export activities, whereas only 10 per cent considered development banks to be helpful in this area. Commercial banks were consulted three times more often on export-related issues than development banks.

Box VIII.6. Thai EXIM bank

The Government of Thailand created the Export-Import Bank of Thailand to foster trade as well as support SMEs in expanding into international markets. Established in 1993, it offers a range of financial services. Over the years, these services have been expanded to include not only trade finance instruments such as export credit insurance, but also others such as a credit facility for business expansion, foreign investment advisory services and an SME financial service centre. The Thai EXIM Bank also provides other services to SMEs, such as risk assessment and training for entrepreneurs in trade finance.

With such measures, the bank has reacted effectively to global and regional changes and has continued to emphasize its role as a development bank. It became more proactive in the facilitation and promotion of trade among developing countries in the region. One recent example of its engagement are the measures implemented due to the 2007 financial crisis and the resulting drop in trade finance. The bank increased its export insurance provision by \$ 140 million. It also funded an \$ 85 million investment in the Small Business Credit Guarantee Corporation to strengthen SMEs and provide capital for loans.

Source: Duval and Liu, 2009.

(e) Consideration for effective trade finance

In order to increase the trade volume of SMEs, it is necessary to help them enter international or export markets more easily. One of the most important factors for SMEs looking to export is the availability and access to trade finance. Some key considerations are explained below:

- (a) The costs for SMEs to enter the export market or to increase their trade volume needs to be reduced by providing them with adequate information on trade finance issues. As with other issues that have an impact on SMEs, small businesses are often unaware of the existing options or providers, and do not have the adequate resources or time available to investigate. The public sector has an important role to play in this regard;
- (b) There is a need for an adequate policy framework and properly functioning banking systems in the domestic environment. Efficient and effective financial structures are required to ensure optimal SME participation in trade;
- (c) Public agencies should provide various trade finance strategies for SMEs that are aimed at providing capital, support services and favourable laws and regulations to increase trade activity. They should also support, directly or indirectly, the establishment of training centres or reformation of curricula in order to increase small business entrepreneur knowledge about trade finance issues; and
- (d) Policymakers should also facilitate trade finance by connecting SMEs with local banks, export-import banks and development financial institutions. Government officials need to communicate with both the banking sector and the SME sector to specify expectations and procedures.

H. Special economic zones

Special economic zones (SEZs), also known as free trade zones, are "a part of the territory of a contracting party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the customs territory" (World Customs Organization, 1999). SEZs are a useful tool for SME development through supply-side capacity-building and greater market access; they increase industrial output and attract FDI. They also allow host governments to develop and diversify exports while maintaining protective barriers, creating employment and incorporating new policies. According to the Foreign Investment Advisory Service (FIAS) (2008), the principles incorporated in the basic concept of the special economic zone include: (a) a geographically delimited area (usually physically secured); (b) a single administration; (c) eligibility for benefits based upon physical location within the zone and a separate customs area (duty-free benefits); and (d) streamlined procedures. The phenomenon of SEZs has been successfully utilized to modernize economies in recent years due to the ability to customize of SEZs to fit specific needs. Table VIII.8 summarizes the different variations of SEZs in existence throughout the world.

¹²³ See also the FERN website at www.fern.org/campaign/trade-and-investment/export-credit-agencies.

Table VIII.8. Types of special economic zones

Type of Zone	Development Objective	Physical Configuration	Typical Location	Eligible Activities	Markets	Examples
Free Trade Zone (Commercial Free Zone)	Support trade	Size <50 hectares	Parts of entry	Entrepôt and trade-related activities	Domestic re-export	Colon Free Zone, Panama
Traditional EPZ	Export manufacturing	Size <100 hectares: total area is designated as an EPZ	None	Manufacturing, other processing	Mostly export	Karachi EPZ, Pakistan
Hybrid EPZ	Export manufacturing	Size <100 hectares: only part of the area is designated as an EPZ	None	Manufacturing, other processing	Export and domestic market	Lat Krabang Industrial Estate Thailand
Freeport	Integrated development	Size >100 km ²	None	Multi-use	Domestic internal and export markets	Aqaba Special Economic Zone, Jordan
Enterprise Zone, Empowerment, Urban Free Zones	Urban revitalization	Size <50 hectares	Distressed urban or rural areas	Multi-use	Domestic	Empowerment Zone, Chicago
Single Factory EPZ	Export manufacturing	Designation for individual enterprises	Countrywide	Manufacturing other processing	Export market	Mauritius Mexico Madagascar

Source: FIAS, 2008.

The rationale for the development of an SEZ depends on the home economy's state of development. Developing economies follow infrastructural and policy guidelines for the development of these zones with a typical SEZ policy package including import and export duty exemptions, streamlined customs and administrative controls and procedures, liberal foreign exchange policies and tax incentives.¹²⁴ All these policies are aimed at boosting investments and competitiveness as well as at reducing business entry and operating costs (FIAS, 2008). The advantages of SEZ development can be observed both as static and dynamic. Table VIII.9 outlines the generic benefits of developing an SEZ, which can contribute to SME capacity-building as well as allow for greater market access.

Table VIII.9. Advantages of special economic zones

Static advantages	Dynamic advantages
Direct employment creation and income generation	Technology transfer
Export growth and export diversification	Skills upgrading
Increase in foreign direct investment	Local development
Increase in foreign exchange earnings	Empowerment of women
Government revenue	Indirect employment creation

Source: FIAS, 2008.

¹²⁴ Major tax incentives include tax holidays during the initial years of set up, reduced tax rates after a company starts making a profit and no customs duties on imports and exports (FIAS, 2008).

SEZs offer affordable features that many firms, including SMEs, can exploit. With the facilities provided by SEZs, these zones can act as incubators for SME growth. There are also initial tax incentives, infrastructure support and duty-free trade to help gain a foothold in the competitive export market. Other advantages include:

- Market access – SEZs can provide useful networks for SMEs with foreign buyers and investors, providing market access opportunities to SMEs;
- Capacity-building – SMEs can gain market intelligence, new knowledge and advance technology from neighbouring companies and investors as well as SEZs;
- Avoidance of the informal economy – if an SME is part of an SEZ, there must be a proper registration, dissuading participation in the informal sector; and
- Social responsibility compliance – SEZs establish standards regarding waste management, green sustainability, female empowerment, child labour, minimum wages and other worker health and safety issues. Firms operating in the zone must comply.

I. Foreign direct investment and SMEs' increased market access

Since the end of the 1980s, TNCs have invested in the Asia-Pacific region to build value chains, built on national export-oriented development strategies, combined with trade and investment liberalization, low-cost logistics systems and

Box VIII.7. Transnational corporations and SMEs

Collaboration and linkages between TNCs and SMEs can play an important role in providing SMEs with a stable source of capital and technology transfer. This can help to increase SME competitiveness in global markets as the capacity, network and knowledge of TNCs can help SMEs to increase their productivity and profits.

Recently, more complex forms of linkages between TNCs and SMEs, such as outsourcing of side-products, have largely replaced the traditional models of production. This provides SMEs with greater independence and new opportunities while also increasing the pressure for them to compete with many other suppliers.

In the Philippines, the manufacturing group, Metalcast, operates as a supplier to TNCs and produces parts for the automotive, motorcycle and electronics industries. It has link with export markets in Germany, Japan and the United States, and collaborates with TNCs such as Ford, Honda and Sharp. Initially, Metalcast decided to approach TNCs because domestic demand, and thus growth opportunities, were limited. A reorientation towards the export market was necessary in order for the group to expand its business and profit from economies-of-scale.

Together with the support of TNCs, Metalcast improved production processes, adopted new technologies and adjusted its company structure. This enhanced the ability of Metalcast to compete on a global scale and to increase its profits.

Source: UNCTAD, 2005c.

Box VIII.8. SMEs' foreign market access through trading companies

SME exporters have, in many cases, been supported by trading houses developed by large manufacturing enterprises. Several large manufacturing groups in Brazil, India and Turkey have established their own trading houses to manage their exporting and importing businesses. The priority of those trading houses is to manage trade for products of the parent firms, but they also act as the marketing channel for a large number of SMEs. In Japan, trading houses have been active in a similar way for more than 100 years (e.g., Mitsubishi and Mitsui). They are generally not involved in production but work as intermediaries between SMEs and international markets. Some governments have encouraged the links between trading houses and SMEs by offering financial incentives such as tax breaks.

Source: ITC, 1999.

advanced ICT applications (ESCAP, 2009b). Increased regional FDI flows during the 1990s and 2000s have accelerated the development of global supply chains in Asia and the Pacific.

This upsurge in FDI flows has several explanations. The economic success of the countries in Asia and the Pacific owes much to foreign direct investment and export growth. Most of the countries started their growth through foreign investment in labour-intensive SME sectors, such as garments and apparel manufacturing, where the flexibility of SMEs was

fully utilized. Labour-intensive activities were subcontracted to the SMEs, forging links between export growth and the growth of SMEs.¹²⁵ Their greater flexibility, low-skilled technology, adaptability to local economic conditions and capacity to serve small communities make SMEs more suited to the conditions of most developing countries than their large, multinational counterparts.

The rapid increase of FDI flows has major implications for two aspects of the SME sector (ESCAP, 2007b and 2009b). First, FDI enables SMEs in domestic markets to act as suppliers of parts and components or basic services, largely on a subcontracting basis, to foreign investors. Second, as SMEs become a part of a global supply chain, they gain skills and knowledge about conducting business across borders. SMEs in Asia and the Pacific have gradually started to become foreign investors themselves or are recipients of foreign investment, usually in the form of joint ventures (e.g., the automotive parts industry in Thailand). These issues are further discussed in the next section.

J. Participation of SMEs in global supply chains

As briefly reviewed in the previous section, one significant development in the Asia-Pacific business community has been the emergence of global and regional supply or value chains.¹²⁶ A global supply chain (GSC) refers to the full range of cross-border, value-added business activities that are required to bring a product or service from the conception, design, sourcing raw materials and intermediate inputs stages, to production, marketing, distribution and supplying the final consumer (ESCAP, 2007b). A number of SMEs participate in global supply chains and provide services based on their expertise as suppliers, distributors and business service providers (e.g., third-party logistic providers, financial institutions and market research firms) (see figure VIII.9).

There are two basic types of GSCs (ESCAP, 2007b):

- (a) Producer-driven chains or networks, where the lead firm (such as automobile and consumer electric appliance assemblers) plays a central role in exercising control over the network of subsidiaries, affiliates and suppliers;
- (b) Buyer-driven chains or networks, where large retailers, marketers and brand manufacturers (such as Levi's in the apparel industry) source from the decentralized network of suppliers.

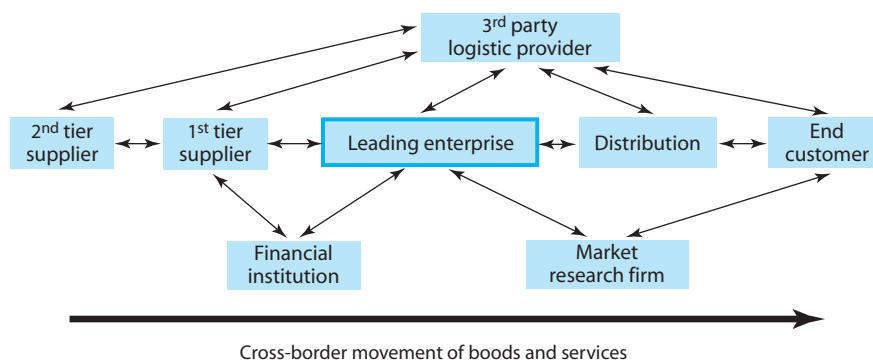
The basic characteristics of GSCs are:

- (a) Policy decisions – the lead firm decides the items/products to be outsourced, the quality/quantity, timing of supplies and pricing;
- (b) Capacity-building of suppliers – the lead firm typically demands and helps SMEs to implement improvements in the quality of their products/

¹²⁵ While these arrangements spurred fantastic development, the rights of workers were often ignored (e.g., the garments/apparel sector in various developing countries in Asia and the Pacific) (Locke, Qin and Brause, 2006).

¹²⁶ For further details see ESCAP, 2009a, ESCAP, 2009b, and ESCAP, 2007b, all of which are available at www.unescap.org/tid/publication/publicat.asp.

Figure VIII.9. A simplified global or regional supply chain



Source: ESCAP, 2007b.

- services, their productivity and the upgrading of their human resources;
- (c) Product standardization – lead firms ensure consistency and reliability of supplies; and
- (d) Global supplier status – an SME can become a global supplier by becoming a vital GSC player.

The development of GSCs in Asia and the Pacific provides business opportunities for export-oriented SMEs and supporting industry SMEs (ESCAP, 2009a). Global supply chains are expected to provide an efficient network by establishing links with large enterprises or even with other efficient SMEs. They help to boost the value-added activities of affiliated SMEs in international trade by providing an established market.

However, SMEs currently play a limited role due to low value-addition and lack of proper networking. SMEs are generally at a disadvantage due to their small scale and lack of knowledge necessary to penetrate regional and global markets (ESCAP, 2007a). SMEs in the Asia-Pacific developing countries typically lack the environment to improve their capacity, including a proper policy and regulatory framework, supporting infrastructure, access to finance, a strong entrepreneurship culture, technology incubation and business development services (ESCAP, 2009b).

In order to participate effectively in GSCs, SMEs must break high entry barriers by meeting a wide range of increasingly

stringent global standards with regard to quality, price, timely delivery and flexibility. SMEs that seek to establish partnerships in GSCs should understand the governance of the specific value chain process and structures. As international trade is mostly undertaken by large enterprises of global repute, and since leading firms in GSCs are the key decision makers in managing global production systems and trade, they would be the ones influencing the participation of smaller firms in such chains. It is important that the structure

Box VIII.10. Subcontracting

SMEs in developing countries can participate in GSCs by entering into subcontracting arrangements with larger enterprises or TNCs. By linking export products through suitable global supply chains with large-scale exporting units, SMEs can build new capabilities. Supplying larger industrial units according to customers' needs/specifications will necessarily lead to improvements in the SMEs' own production efficiency. SMEs with advanced capabilities can become ancillary units to larger units, thus garnering recognition and building their own brand. Outsourcing production to SMEs also increases the profitability of TNCs as they can allocate their resources to their core competencies and higher value-added activities.

Subcontracting may also lead to improvements in technology and proper planning of SMEs' resources. Technology transfer from the lead firm to a subcontractor is determined primarily by the similarity of activity between them, and the degree of technological sophistication involved in the manufacture of the bought-out components and sub-assemblies. These linkages generally comprise the sharing of technical knowhow or the transfer of skills and, sometimes, equipment. The information on production specifications, drawings and designs is the most vital technological linkage, as the supplier must provide goods and services on a made-to-order basis.

Programmes that link SMEs as subcontractors to larger enterprises have been introduced in the Republic of Korea, Singapore and Taiwan Province of China. The programmes help to increase the capacity of SMEs and thus make them more attractive to TNCs as suppliers. Part of the success is that all three economies have strong coordinating agencies to provide support, i.e., the Investment Development Bureau in Taiwan Province of China, the Ministry of International Trade and Industries in the Republic of Korea and the Economic Development Board in Singapore.

Sources: UNCTAD, 2005c; and ITC, 1999.

Box VIII.9. Vietnamese SMEs in IBM's global supply chain

The world partner programme of IBM is an example of a TNC's success in investing in local SMEs and incorporating them into GSCs. The programme was designed to help SMEs strengthen their relationship with IBM while, at the same time, gaining competitive advantages in the marketplace. Programme-eligible companies can become a supplier to IBM and receive several forms of assistance – such as having access to IBM's marketing, sales, technical and training programmes. IBM provides skills-building courses and technical assistance to support the development of these SMEs. In addition, being qualified as a partner of IBM also requires SMEs to meet high international product and process standards, which will improve their quality and production – ultimately bringing them more business opportunities.

Source: UNCTAD, 2010c.

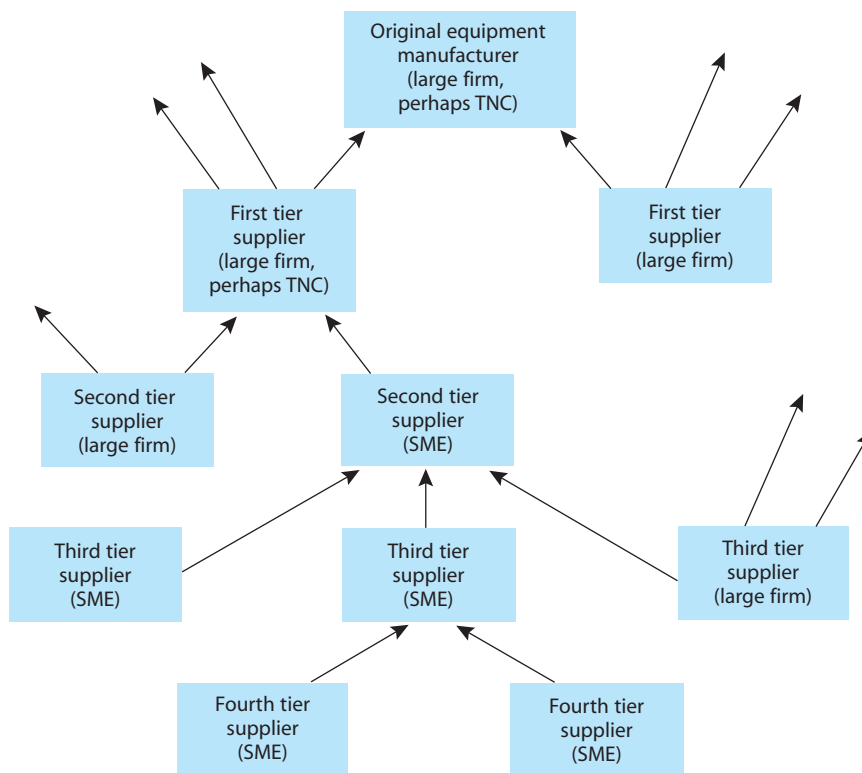
of a specific value chain and the specific characteristics of the lead firms are fully understood. Policymakers can assist in educating SMEs about these nuances.

The lead firm is supported by numerous smaller enterprises, which are categorized in higher- and lower-tier suppliers of inputs (figure VIII.10). The higher the tier, the greater the value that is added by the supplying enterprises; thus, the supplier in the lower-tier category contributes simple outputs and adds less value (ESCAP, 2007a). Ideally, SMEs would access the GSC in the capacity of a higher-tier supplier, as the lower tiers are generally characterized by unstable conditions and one SME could be easily replaced by another. Alternatively, if direct access to a higher tier is not possible, it would be important for SMEs to have the chance to move up in the GSC and become a provider of higher value (ESCAP, 2007a).

Within this context, the participating SMEs must adhere to stringent operating guidelines, as the price of entry into a global supply chain is high, and these guidelines have the effect of honing the competencies of the SMEs. The lead firm often offers pro bono consulting to its suppliers in order to increase efficiency throughout the chain, but policymakers can also help these efforts by reducing red tape, developing infrastructure and improving both business and general education.

These and other challenges for SMEs can best be understood within the context of specific industry value chains that have particular relevance for regional economies. Three sectoral value chains of actual and potential relevance to SMEs in Asia and the Pacific – agribusiness, garments and apparel and automotive parts – have been selected to illustrate the challenges (box VIII.11).

Figure VIII.10. How SMEs fit into global supply chains



Source: UNIDO, 2001.

Box VIII.11. Challenges in global supply chains: Three case studies

A. Agribusiness¹²⁷

The agribusiness sector has been one of the most vibrant growth sectors internationally, with many of its products sourced from developing economies in Asia and the Pacific. The evolution of agribusiness GSCs, coupled with the dominance of large retailers/supermarkets that control the agro-product brands as well as access to regional and global markets for agro-products imported from developing economies, threatens the exclusion of suppliers unable to meet the new requirements.

However, it also offers significant opportunities for those suppliers who can do so. For example, the trend towards product differentiation such as organic produce, driven both by the tastes of global consumers and the strategies of retailers for higher revenue, is producing significant opportunities for qualified Asia-Pacific SMEs to serve niche markets that are regional or even global in nature. Furthermore, outsourcing by global retailers of technically sophisticated activities, such as bar coding, labelling and the preparation of ready-to-eat food, provide important opportunities for upgrading within the agribusiness GSCs in Asia and the Pacific.

¹²⁷ Particularly useful sources for this case study include Humphrey, 2005, and Dolan, Humphrey and Harris-Pascal, 2000.

Box VIII.11. (continued)

B. Garments and apparel¹²⁸

The garment and apparel industry, which is one of the oldest and largest export sectors, and a classic “starter” industry for export-oriented industrialization, has played a key role in Asia-Pacific’s development. It represents a typical buyer-driven value chain/network, with a highly competitive and widely dispersed global industry structure, including regional and local competitors. Entry barriers are relatively lower in the garment manufacturing as opposed to textile manufacturing stage with particular processes like bleaching and dyeing having especially high barriers to entry.

Two key factors shape the structure and dynamics of the apparel global supply chains: (a) pressure to meet stringent international standards (e.g., labour and environmental); and (b) demands from global buyers for cheaper products, higher quality and shorter lead times.

The increasing concentration of production in economies with the capability for “full package production”, particularly in China and India, are also expected to have a significant “demand side” effect. It is expected that large retailers will demand further price cuts as well as reductions in the number of their suppliers. This will place significant pressure on those exporting countries without primary textile industries, such as Bangladesh and Cambodia, and on SME producers whose present capabilities to upgrade within GSCs are limited.

C. Automotive parts¹²⁹

The automotive parts industry comprises a complex mixture of firms of very different sizes, types and geographic scope, which produce an enormous variety of products ranging from very simple parts to technologically complex systems. The potential for local sourcing is particularly high because of the large number, size and weight of components and materials required by the sector. For those SMEs able to participate even at the lowest tiers of production, the automotive parts industry can offer significant opportunities to access regional and global markets.

While the benefits are significant, there are also a number of key risks that SMEs face, including:

- (a) Fluctuations in the cost of production, especially raw materials like steel, aluminium, and polymers;
- (b) Poor negotiation powers due to the fragmented nature of the industry, which in turn limits their pricing power;
- (c) Dependence on traders and agents to access overseas markets, which threatens competitiveness; and
- (d) Product substitutes due to fast-changing technology.

In Asia and the Pacific, cost competitiveness of the automotive parts industry is often based less on productivity and more on low factor input costs, which are now rising in many countries (e.g., the cost of labour and land). The key challenge for automotive parts suppliers in the region is to improve productivity and lower costs in order to maintain or improve their competitive performance within a GSC. In this context, a coordinated strategy of production relocation and integration within the region could provide opportunities for neighbouring, less-developed, lower-cost economies to become lower-tier suppliers of selected components for the existing automotive parts cluster. Such cross-border production linkages could provide an entry point to the automotive parts GSC as well as exposure to its significant developmental benefits while at the same time strengthening the competitive performance of local SME suppliers.

Several governments (e.g., China, India, Indonesia, Malaysia and Thailand) have initiated cluster-based development in the automotive parts industry, with geographical concentration of SMEs and large enterprises having similar lines of business. Clusters create external economies and favour the emergence of specialized technical, administrative and financial services. This form of networking for SMEs is a means of achieving economies-of-scale. To extend these initiatives further, governments may encourage banks to adopt a cluster-based lending approach to increase availability of funds to SMEs.

Box VIII.12. Four advantages of the global supply chain approach for SMEs

The transformation of regional businesses by the emergence of GSC signals potentially new and important directions for SME development in Asia and the Pacific. The global supply chain approach, in particular, provides the following four advantages for SME development at the national and regional levels:

- (a) In recognition of the diversity of developing countries in the region, in terms of economic status and condition as well as natural endowment, the sector-specific value chain-based approach could identify development issues more precisely, while the “one size fits all” tailored approach may not be applicable in all participating countries;
- (b) The approach covers a number of essential issues for SME development, as reviewed throughout this publication;
- (c) The value chain approach will force policymakers to adopt a programme for regional cooperation that moves the development assistance paradigm beyond national borders; and
- (d) The value chain approach is closely linked to the attraction of appropriate FDI, which plays an important role in the development of value chains and therefore helps in promoting intraregional FDI.

Source: ESCAP, 2011a.

¹²⁸ Particularly useful sources for this case include Gerefi and Memedovic, 2003, ITC, UNCTAD and WTO, 2005, and Nadvi and Thoburn, 2003.

¹²⁹ Particularly useful sources for this case study included: Global Production Networks, 2003; Veloso and Kumar, 2002; and Sturgeon and Lester, 2001.

Box VIII.13. Implications of global supply chains for climate change

Despite the apparent impact of climate change and urgent need for adoption and implementation of climate-smart technologies and related initiatives, SMEs do not often consider climate change as an immediate business concern, mainly due to their limited resources. They do not typically have a low-carbon strategy unless they are in an energy-intensive business or have a stake in presenting a clean and green image. Their customers (such as TNCs and other large enterprises) as well as end-consumers (i.e., the public) have become increasingly aware of the impact of products and services on the environment in

general and on global warming in particular. As a result, these customers have begun to purchase products and services that are classified and labelled as low-carbon or climate-smart, and/or purchase them from firms actively engaged in clean and green practices. This would ultimately compel SMEs to align themselves with these demands, via the TNCs who are receiving customer feedback directly.

Source: Lee, Kim and Maliphol, 2011.

K. Suggested policies to enhance SME market access

SMEs can maximize their potential through applications of appropriate strategies, the implementation of their knowledge, commercialization of technology and access to regional and global networks. Table VIII.10 presents some policy recommendations for enhancing market access by service type.

In the context of the above recommendations, policymakers should also consider the following issues for designing policy packages to assist SMEs in accessing regional and global markets:

- (a) Transport and logistics infrastructure: These play a vital role in SMEs' integration, as they are the means of coordinating products, people and information around the world. Policymakers should also strive to connect SMEs to other players within GSCs, providing quality logistic infrastructure. ICT is also essential, and policymakers must do what they can to enhance connectivity and computerization;
- (b) Strategic alliances: SMEs need the technological and managerial knowhow of the more established players, while the larger firms are looking to save costs by outsourcing some of the lower value-added manufacturing processes. Broadly speaking, linkages between large firms and SMEs have not been developed to the fullest extent in many Asia-Pacific developing countries. Effective policy would further capitalize on the potential for cooperation between SMEs and large firms; and
- (c) Integration: Policymakers have three important tasks to fulfill in the area of global integration of SMEs. The first involves information dissemination. SMEs often do not know, or have not heard about the latest developments, e.g., WTO regulations or regional/bilateral free trade agreements. Policymakers must undertake the crucial task of communicating these updates to the SME sector. Second, policymakers must create business-friendly regulations, and pare back regulations that needlessly inhibit business operations. Within this context of global integration, policymakers can offer incentives and infrastructure, such as trade credit guarantees and export-processing zones, with which SMEs

can thrive. Third, most of the knowledge about how to exploit global markets resides with companies; however, policymakers serve an essential function in facilitating the connection between large firms and SMEs. While respective players are best positioned to choose their partners, policymakers can provide the forums for matchmaking.

Here are some additional considerations:

- (i) Quality/product standards and certificates;
- (ii) Trade facilitation/trade finance;
- (iii) Specific needs in different corporate life stages;
- (iv) Urban versus rural; and
- (v) Lack of M&E tools.

L. Summary

This chapter began with a discussion of market orientation and internationalization efforts as well as factors that have an impact on the ability of SMEs to access markets. Some relevant theories were reviewed and some data was provided regarding export trends for SMEs in the Asia-Pacific region. For the most part, SMEs serve foreign markets via exporting as opposed to via investment. The thrust of this chapter hence was concerned with market access via trade.

The influence of trade agreements on SMEs was examined in detail, including SMEs' export capacities, product identification, international quality standards and logistic systems. Of particular importance is the WTO trade regime, with its specific agreements regarding sanitary measures, technical barriers to trade, intellectual property rights, services and trade-related investment measures (see the annex to this chapter). A common issue across these topic areas is the need for policymakers to coach SMEs about what the regulations require and what rights SMEs have in the global trade environment.

The discussion then turned to the major challenges facing SMEs when they globalize, and the various trade promotion tools that policymakers might offer. Trade fairs are among the most popular ways of involving SMEs in international trade, but SMEs must have professional marketing materials, among other things, to be able to derive benefits from them. Other common promotions are buyer-seller meetings and trade missions, while the Internet has steadily gained popularity as a useful tool for market access. Next, examples of effective trade-promotion agencies from selected countries was provided (e.g., Japan, Malaysia, Singapore and Thailand).

Table VIII.10. Recommended policy interventions to enhance SMEs' market access

Type of service	Policy intervention
Business environment	Removal of unnecessary hurdles and obstacles, which are mostly of a legal and/or financial nature.
Export infrastructure	Export industrial estates, export processing zones and bonded production centres.
Training	Entrepreneurship development and managerial skills development, such as marketing, finance, operations, logistics, human resources etc.
Product/service development	Concept development, design, prototype development, modification; dies and moulds development, production, assembly etc.
Technical services	Identification of appropriate technologies, sources and costs, acquisition and information dissemination.
Marketing support	Market intelligence, marketing research, brand promotion, bid intervention, trade fairs and exhibitions, channels and distributions, buyer-seller matching, logistics systems, publicity literature, creditworthiness of importers and marketing outlet and consortia formation.
Information dissemination	A free flow of information on government policies and programmes, training opportunities and facilities, market intelligence and trade fairs and exhibitions.
Trade facilitation	Trade-facilitation processes (such as customs procedures and import and export regulations) as well as competitive support services, such as the transport and communications infrastructure, within the framework of integrated trans-border logistics systems.
Trade finance	Improved access to trade finance (for both exports and imports) and access to finance for small firms without collateral.
Credit guarantees	Public credit guarantee schemes, performance enhancement (default rate) and counter guarantees from credit guarantee companies and institutions.
Networking	Financial and other SME support institutions, R&D institutions, international agencies, foreign SME support organizations, TNCs, government departments, and business/industry associations and chambers of commerce.
FDI promotion	Formulation and implementation of policies and strategies to attract and promote FDI, with a view to strengthening the domestic SME sector.
Consultancy and counselling	Specialized services to address the specific issue(s)/needs (e.g., business development, marketing, finance and accounting, and legal).
Advocacy	Government departments and international organizations for creating policy conducive to SME start-ups, growth and survival

Source: Authors' compilation.

Trade finance is a significant theme in this chapter. Banks functioning as intermediaries between buyers and sellers enable greater international trade by bridging the gap in trust that exists between firms that are unfamiliar with one another. Here again, SMEs often do not know what financing options are available. Policymakers must facilitate the arrangement of trade financing and educate SMEs about it.

Macro-level efforts to involve SMEs in the global economy were then considered. The establishment of special economic zones, free trade zones and industrial parks are typical national policies to spur SMEs towards engaging in global trade. Such zones feature high levels of infrastructure, including ICT, specialized services, expedited regulatory compliance and tax and investment incentives.

Global supply chains are a critical way of exposing SMEs to foreign markets. There are a number of benefits for SMEs joining these chains, but the principal one is that GSCs increase SME competitiveness. The exactitude required in filling orders to the exacting specifications of TNCs prepares SMEs to compete effectively with global rivals. Policymakers need to help SMEs locate relevant global supply chains, assist them in marketing themselves and help to ameliorate the overall business environment, so that TNCs will want to include SMEs in these global supply chains. While these tasks are not easy, the examples of GSCs included in this chapter provide some guidance to government officials about the right steps to take. The chapter concluded with recommended policies for improving SME market access in table VIII.10.

Annex VIII.1

WTO-related agreements and rules

A. Sanitary and phytosanitary measures and technical barriers to trade

WTO has developed sanitary and phytosanitary (SPS) measures to ensure that food quality and safety standards are met, and that these standards are not used as an excuse to protect domestic producers from global competition. It allows countries to set their own SPS standards, but regulations require them to be based on science. Such regulations should be applied to the extent necessary to protect human, animal or plant life/health (WTO, 2011b). The more stringent standards imposed in the food processing sector create a formidable challenge for SMEs. Most Asia-Pacific developing countries view the food processing sector as an industry where they can compete. To meet these SPS standards, SMEs in this sector would have to initiate steps to conform to their requirements and thus incur higher production costs. These higher costs will consequently restrict the export volumes of food products from these developing Asian and Pacific nations; however, by ensuring that agricultural products are marketed only after substantial value addition takes place domestically, the food processing sector in developing countries can provide much needed opportunities for employment to offset the burdens incurred by the SPS measures.

Technical barriers to trade (TBT) refer to a specific international agreement that tries to ensure that regulations, standards, testing and certification procedures in international trade do not create unnecessary obstacles (WTO, 2011b). The agreement also expounds a code of good practice for governmental and non-governmental stakeholders to prepare and apply voluntary trade standards. In addition, the agreement discourages methods that give domestically-produced goods an unfair advantage.

These requirements can increase costs for SMEs as more burdensome certifications and procedures are required to engage in export activities.¹³⁰ SMEs must primarily deal with the increasing use of SPS measures and TBT measures on two counts. First, SMEs would have to initiate steps to conform to the requirements of the standards that have a justifiable basis. These standards would include those that are essential for protecting human, animal and plant life/health, or other such compelling reasons. SMEs need to upgrade their production systems to conform to these standards, and policymakers can provide technical and financial assistance.

A second set of initiatives is needed to challenge the SPS/TBT measures that constitute a disguised restriction on international trade. In other words, SMEs would have to improve their level of awareness about the SPS/TBT measures to help them challenge those measures that have been put in place merely for the purpose of restricting trade. Alone,

SMEs may not be able to confront these issues, so governments must create mechanisms that can advocate on their behalf. In this regard, the TBT committee is the major clearinghouse for members to share information, and the major forum for discussing concerns about the regulations and their implementation.

SMEs, especially those in manufacturing and exporting, could prepare themselves by keeping up-to-date on the technical standards and, if need be, seek appropriate advice from government agencies. SMEs can view this challenge as an opportunity to improve the quality of their products, their delivery of safe products to customers and their ability to emit less waste into the environment, all of which will have a positive impact on various stakeholders.

B. Agreement on trade-related aspects of intellectual property rights (TRIPS) and transfer of technology

In today's knowledge-driven global economy, production and protection of intellectual property assets is of immense importance (see chapter VII for an in-depth discussion of this subject). Although SMEs are key players within the innovation processes, they have often lacked the ability to protect what they have created or otherwise to leverage upon it to attain sustained profitability.

To protect intellectual property rights, WTO enacted the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) that sets minimum standards for many forms of intellectual property regulations – including copyright issues, industrial designs, patents, transfer and dissemination of technology etc. (WTO, 2011a). The strengthening of the regime of intellectual property protection has made access to technologies for enterprises in developing countries difficult now that the owners of technologies find themselves in a superior bargaining position. As such, the technology market imposes several constraints on the ability of SMEs to upgrade their production facilities and improve their competitiveness.

Policymakers must recognize this limitation and develop an environment where SMEs can effectively and properly utilize intellectual property rights. Governments of the Asia-Pacific developing economies would have to consider the flexibilities that exist in the WTO agreements, which can be used to develop an enabling environment for SME innovations. For example, while amending the patent law, a government would have to consider the possibility of using an effective compulsory licensing system that can provide SMEs with better access to frontier technologies.

C. Trade in services

The service sector, despite accounting for more than 60 per cent of global production and employment, represents no more than 20 per cent of total trade (WTO, 2011c). This

¹³⁰ Although these technical standards and regulations vary from country to country, WTO members must conform to "most-favoured-nation" treatment, which is an obligation not to discriminate between "like products" imported from different WTO members (WTO, 2011b).

percentage is likely to grow due to the introduction of new transmission technologies (e.g., electronic banking and the Internet), the liberalization of many long-protected monopolies to international competition (e.g., telecommunications and postal services) and regulatory reforms in highly regulated sectors (e.g., transport). When combined with changing consumer preferences, these technical and regulatory innovations have enhanced the “tradability” of services, and have created an opportunity that SMEs can exploit (WTO, 2011c).

Despite the growth and potential of international trade in services, several issues remain that concern SMEs. Foremost is transparency, characterized by the availability of clear, accurate and accessible information, which is a fundamental element in evaluating the opportunities and costs of operating in a given market. In the ongoing negotiations on services, WTO members have highlighted the lack of transparency as a significant barrier to trade in services, particularly for SMEs, since these enterprises have fewer resources to navigate opaque regulatory environments. The lack of transparency results in an inability to challenge trade barriers and other anti-competitive practices.

In this environment, policymakers in the Asia-Pacific region can educate SMEs on the WTO General Agreement on Trade in Services (GATS), which provides a credible and reliable system of international trade in services rules (WTO, 2011c). It ensures fair and equitable treatment of all participants, stimulation of economic activity through guaranteed policy bindings and promotion of trade and development through progressive liberalization. This will ensure that SMEs are aware of the stringent rules and regulations that they will have to navigate in international trade in services.

D. Trade-related investment measures (TRIMs)

While adopting policies that promote export-oriented FDI, many developing countries in Asia and the Pacific have tried to protect their domestic markets from imports and market-seeking investments. Some of these countries impose numerous restrictions on foreign investments in order to protect and foster domestic industries, and to prevent the outflow of foreign exchange reserves. These requirements undoubtedly restrict and/or deter foreign investments in local SMEs or markets, especially those in the export-manufacturing sector. Some of these policies include the adoption of sector-specific negative lists, setting equity limits, local content requirements in manufacturing, restrictions on land ownership and employment of foreign staff and requirements for local staff participation at the management level.

To combat these trade restrictions, WTO enacted TRIMs, which prohibits the use of inappropriate trade-related investment measures (WTO, 2011d).¹³¹ TRIMs is aimed at

attracting and regulating foreign investment, and comprises fiscal incentives, tax rebates, and the provision of land and other services on preferential terms. This agreement is aimed at removing trade-restrictive and distorting effects of restrictions and requirements. Although such restrictions and requirements have been relaxed as a result of TRIMs, bilateral investment treaties and liberalization policies, the basic regulatory structure for market-seeking FDI remains in place in the region (ESCAP, 2009a).

As foreign investment contributes to the economic growth of developing countries, many countries tend to establish a multilateral investment framework with mutual benefits for investors and host countries. Such a framework provides transparency and stability while also improving investment conditions, in order to capture opportunities from trade liberalization. With such a transparent environment, foreign investors would not be deterred from investing in export-manufacturing sectors of the Asia-Pacific economies and SMEs could be the recipients of spillover effects.

E. Rules of origin

Rules of origin (RoO) are a set of laws, regulations and administrative procedures that determine a product's country of origin. These rules vary from country to country, and the decision by customs authorities on origins is subject to all kinds of commercial policy measures, such as anti-dumping measures, quota limitations or tariff preferences (WTO, 2011e). Rules of origin are based on the principle of preferential and non-preferential origin – with preferential origin allowing certain goods traded between particular countries to enter at a reduced or zero rate of duty, while non-preferential rules of origin are included in the context of common law tariff regimes (European Commission, 2011).

In order for an importer in an FTA-partner country to enjoy a preferential tariff, exporters must certify that their goods meet the relevant RoO. Because of differences in trade policies of each country, subregional FTAs and the proliferation of bilateral treaties, multiple and overlapping RoO can exist. The required documents pertaining to the origin status, production, shipment and sales of the exported goods (together with the complicated administrative procedures to prove origin) are a real burden on firms, especially SMEs with their limited financial and labour resources (Lim and Kimura, 2010). For example, record-keeping and tracing of input materials arising from different FTA or non-FTA sources could increase costs and result in SMEs failing to claim preferential origin treatment.

As such, additional training and information could be provided to customs authorities and SMEs on RoO-related issues. The adoption of self-certification schemes in some countries may achieve the dual purpose of increasing the knowledge of the private sector on RoO and decreasing the workload of the customs authorities (Erlinda and Balboa, 2009). Thus, joint efforts are required for partner countries to help domestic exporters take advantage of FTAs and enjoy the benefits from international trade activities.

¹³¹ TRIMs only prohibit the use of trade related investment measures that are inconsistent with the basic provisions of the GATT 1994 (WTO, 2011d).