

***Engaging Micro-, Small-, and Medium-Sized Enterprises in Cross-Border Trade:***  
**Evidence From China, Mongolia and Viet Nam**

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\* The views expressed in this presentation are those of the presenters and do not necessarily reflect the views or policies of the Asian Development Bank or its Board of Governors or staff or the governments they represent

# ***Outline***

- Context and Background
- Data and Methodology
- Hypotheses and Some Results
- Policy Directions
- Conclusions

## ***Context and Background***

- ADB Regional Technical Assistance Project – *Enhancing Border Trade Services and Rules for SMEs (2009-2013)*
- Primary Data Collection – partly involving academic institutions in China and Viet Nam
- Data Set Archiving – repository in Mongolia and accessibility by the other countries

## ***Data and Methodology***

- Two surveys – enterprises by size of assets (Border Trade Survey) and services institutions (government, private) survey (Limited Scope Survey)
- BTS data predominantly category variables and LSS data predominantly perception indicators
- Project required knowledge and information on how to enhance border trade services not rigorous analysis

**Number of Enterprises by Kind**  
(Number of enterprises and percent share)

	<b>PRC</b>	<b>Mongolia</b>	<b>Viet Nam</b>
<b>Trader</b>	68 (20.6)	32 (20.0)	31 (17.2)
<b>Small Enterprise</b>	162 (49.0)	80 (50.0)	102 (56.7)
<b>Medium Enterprise</b>	100 (30.3)	48 (30.0)	47 (26.1)
<b>Total</b>	330	160	180

Stakeholders		PRC	Mongolia	Viet Nam	<i>Total</i>
General	Specific				
Financial Institutions	Formal	36	16	14	66
	Informal	13	13	7	33
	<i>Total</i>	49	29	21	99
Logistics Services Providers	Agent	35	13	16	64
	Carrier	24	5	7	36
	<i>Total</i>	59	18	23	100
Business Services Providers	Private	30	19	5	54
	Public	9	6	7	22
	<i>Total</i>	39	25	12	76
Government Agencies	Border Agencies	31	5	15	51
	Other Ministries	20	10	30	60
	<i>Total</i>	51	15	45	111
Customs		9	4	3	16
	<i>Total</i>	9	4	3	16
<b><i>Total</i></b>		<b><i>207</i></b>	<b><i>91</i></b>	<b><i>104</i></b>	<b><i>402</i></b>



## ***Hypotheses and Some Results***

- There are barriers along a supply chain that MSMEs must overcome not only to engage in cross-border trade but of being efficient in that direction;
- The stronger determinant of (identifying) MSME is the number of workers it employs rather than (value of) its assets yielding more meaningful insights;
- Engagement in cross-border trade influences location of production unless there are severe location constraints;

- Size of MSME determines the degree of use of informal and formal sources of (i) information across a range of needs and (ii) financing of production and trade;
- Size of MSME also drives the informal and formal use of transportation services to deliver goods from location of production to border sites;
- Infrastructure constraints are more neutral in MSME effects i.e. they affect all sizes of MSMEs and overall conditions of the country may be more determining;
- The success of MSME in engaging in cross-border trade is driven more by border conditions – the friendlier they are the more the MSME will engage in cross-border trade.



<i><b>Chain</b></i>	<i><b>Behavior</b></i>	<i><b>Support</b></i>	<i><b>Public-Private Sources</b></i>
<b><i>Before and On the Way to The Border</i></b>	Production	Organization	Private decision
	Location	In, out-of border	Public, private
	Information	Formal, informal	Public, private
	Financing	Financial Svc	Public, private
	Market Access	Procedures	Public, private
	Business Svc	Legal, tax, actg.	Public, private
<b><i>At The Border</i></b>			
	Infrastructure	Physical, social	Public
	Transport	Land, sea, air	Public, private
	Telecom	Devices, Internet	Public, private
	Logistics	Delivery Svc	Private
	Customs	Declaration processes	Public
<b><i>Across The Border</i></b>			
	Dispute resolution	Customs Procedures	Public
	Cooperation	Single window	Public
	Information Exchange	Joint border Committees	Public

## Number of Enterprises by Number of Workers

Number of Workers	Enterprise By Size of Assets											
	PRC				Mongolia				Viet Nam			
	BT	S	M	Total	BT	S	M	Total	BT	S	M	Total
2-10 workers	46	113	30	199	32	45	7	84	28	58	6	92
<i>Percent Share</i>	<i>(82.3)</i>	<i>(69.7)</i>	<i>(30.0)</i>	<i>(60.3)</i>	<i>(100)</i>	<i>(56.2)</i>	<i>(14.6)</i>	<i>(52.5)</i>	<i>(90.3)</i>	<i>(56.9)</i>	<i>(12.8)</i>	<i>(51.1)</i>
11-49 workers	12	42	52	106	0	31	22	53	2	37	21	60
<i>Percent Share</i>	<i>(17.6)</i>	<i>(25.9)</i>	<i>(52.0)</i>	<i>(32.1)</i>	<i>(0.0)</i>	<i>(38.7)</i>	<i>(45.8)</i>	<i>(33.1)</i>	<i>(6.4)</i>	<i>(36.3)</i>	<i>(44.7)</i>	<i>(33.3)</i>
Total Number	68	162	100	330	32	80	48	160	31	102	47	180

## Location by Enterprise Category: PRC, Mongolia, Viet Nam

Enterprise Category	Enterprise Location	PRC			Mongolia			Viet Nam		
		No.	Sub-Total	Share to Sub-Total (%)	No.	Sub-Total	Share to Sub-Total (%)	No.	Sub-Total	Share to Sub-Total (%)
Trader	<i>In border (town)</i>	66		97	21		65.6	17		54.8
	<i>Outside border</i>	2		3	11		34.4	14		45.2
	Sub-Total		68			32			31	
Small Enterprise	<i>In border (town)</i>	146		90.1	14		17.5	74		72.5
	<i>Outside border</i>	16		9.9	66		82.5	28		27.4
	Sub-Total		162			80			102	
Medium Enterprise	<i>In border (town)</i>	79		79	5		10.4	38		80.8
	<i>Outside border</i>	21		21	43		89.6	9		19.2
	Sub-Total		100			48			47	
Total Number of Respondents		330			160			180		

### Percent of Cases by Source of Information by Type of Enterprise\*

Source of Information	Enterprise by Size of Assets								
	PRC			Mongolia			Viet Nam		
	BT	SE	ME	BT	SE	ME	BT	SE	ME
Chambers of Commerce	20.0	44.0	36.0	4.5	40.9	54.5	10.8	62.2	27.0
Trade Association	17.1	54.3	28.6	0	100.0	0	0	85.7	14.3
Customs	18.2	49.3	32.4	3.9	52.9	43.1	15.8	59.6	24.6
Government Trade Office	15.5	51.7	32.7	0	50.0	50.0	2.3	75.0	22.7
Other Government Agencies	14.0	52.0	34.0	0	36.3	63.6	14.3	64.3	21.4
Internet	23.1	47.0	23.9	12.5	47.9	39.6	12.6	55.2	32.2
"People I know.../ Friends/Family"	23.9	51.3	24.8	22.2	54.6	23.1	21.7	58.0	20.3

\*Percentages to 100 Across Countries by Type of Enterprise  
Multiple Answers

## Percentage of Cases by Type of Payment Transaction by Type of Enterprise\*

Type of Payment Transaction	Countries								
	PRC			Mongolia			Viet Nam		
	BT	SE	ME	BT	SE	ME	BT	SE	ME
Cash	21.5	52.7	25.7	31.7	50.5	17.8	27.3	50.9	21.7
Wire Transfer	16.3	54.2	29.5	0	54.5	45.4	7.9	63.1	28.9
Inter-bank Transfer	21.3	46.1	32.5	0	47.2	52.8	11.1	48.9	25.9
Internet-based Payment	9.7	45.2	45.2	0	66.7	33.3	14.3	71.4	14.3
Other	12.5	50.0	37.5	0	50.0	50.0	14.3	60.7	25.0

\*Percentages to 100 Across Countries by Type of Enterprise  
Multiple Answers



### Percent of Cases by Source of Information by Type of Enterprise\*

Source of Information	Enterprise by Size of Assets								
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	BT	SE	ME	BT	SE	ME	BT	SE	ME
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Internet	23.1	47.0	23.9	12.5	47.9	39.6	12.6	55.2	32.2
"People I know.../ Friends/Family"	23.9	51.3	24.8	22.2	54.6	23.1	21.7	58.0	20.3

\*Percentages to 100 Across Countries by Type of Enterprise  
Multiple Answers

## ***Policy Directions***

- The evidence we have of the 3 countries in this study shows **that** MSMEs are characterized by significant informality in sources of information, finance, and transport facilities before and on the way to the border, at the border, and across the border i.e. along the whole supply chain;
- To the extent that policy can re-direct or shift these informal sources of information, finance, and transport facilities to more formal sources that are reliable, systematic, stable, and complete, then their impact would be towards more engagement by MSMEs in cross-border trade;

- This means that policy aims at constructing an information system that acts as portal for MSMEs in the supply chain;
- A second priority is provision of necessary infrastructure especially in Mongolia but also true for PRC and Viet Nam as well though perhaps well-targeted to other borders;
- A final priority is cooperation at the border level to make it MSME-friendly. Cooperation needs to be clearly defined such as information exchange of goods crossing borders to provide a basis for risk profiling and management especially for frequent traders; common standards especially where there are windows at the local government levels to misinterpret or widen their meanings; informal and formal meetings between border agencies to set-up rules and procedures to follow for goods crossing borders; jointly formulate ways to settle disputes related to valuation, classification, documentation; organize or nurture joint border committees or commissions; and explore border-to-border mechanisms to efficient movement of goods within accepted norms such as the Revised Kyoto Convention (e.g. common control areas, joint control). Many of these can be carried out directly at the border level and may not need a formal trade agreement or free-trade-area.

# ***Conclusions***

- Evidence from PRC, Mongolia, and Viet Nam regarding the barriers MSMEs face or must overcome in order to engage in cross-border trade turns out to be analogous to what SMEs also face even in developed countries with far better environment and systems in place let alone FTAs;
- Policies suggested in 3 main areas of formal information system, infrastructure, and border cooperation. They do not preclude specific policies from being pursued independently. But it remains clear that because of the heavy informalities associated with MSMEs, pointing them towards more formal sources for their engagement in cross-border trade eventually gets them to trade more efficiently, expand their business and contribute to the country's expanded trade, inclusive growth and poverty alleviation



***Thank you...***