



Ongoing trade facilitation improvement: Its impact on export-oriented small and medium-sized enterprises in Indonesia



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Abstract: Trade facilitation refers to all measures that can be taken to facilitate cross-border trade flows, but there is no standard formal definition of trade facilitation. This paper examines whether export-oriented MSMEs have access to trade facilitation and how helpful trade facilitation is in supporting exports by MSMEs. Data shows only a small proportion of MSMEs export their products, and the paper makes recommendations on encouraging export activities through increasing awareness and training of MSMEs regarding trade facilitation information, and promotion of information communications technology.

JEL Classification: F13

Key words: Development, Indonesia, SME, Trade, Trade Facilitation

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Introduction

The study described in this chapter examines the effect of trade facilitation measures on export-oriented micro, small and medium-sized enterprises (MSMEs) in Indonesia.

¹ While trade facilitation frequently refers to all measures that can be taken to facilitate cross-border trade flows, there is no standard formal definition of trade facilitation. In a broader sense of the term, as stated in Damuri (2006), trade facilitation can be defined as any action that is intended to reduce transaction costs that affect the international movement of goods, services, investments and people. Trade facilitation also refers to policies and measures aimed at easing trade costs by improving efficiency at each stage of the international trade chain (e.g., Moisé and others, 2011). The coverage of trade facilitation may include aspects such as trade procedures, trade finance, market information, customs, regulatory bodies, provisions for official control procedures applicable to import, export and transit provisions related to transport and transport equipment, provisions related to the use of information and communication technologies, logistics and infrastructure, among others. The study poses two main research questions:

(a) Do export-oriented MSMEs have access to trade facilitation?

(b) How helpful is trade facilitation in supporting exports by MSMEs?

Availability of good trade facilitation and full access to the benefits of trade facilitation measures are considered very important for MSMEs, which, in turn, generate employment, produce basic goods for middle- and low-income households and contribute significantly to the country's gross domestic product (GDP). Data from the National Statistics Agency (BPS) on MSMEs indicate that almost all of them (about 51 million units in total) are micro enterprises (MIEs) (mainly self-employment) and small enterprises (SEs), and that the owners and workers engaged in these largely family owned-enterprises are from the low-income group (BPS, 2010). Due to their lack of capital, technology, access to wider markets and skilled manpower, on average these labour-intensive enterprises have low levels of productivity and income.

Improvement in MSME performance (e.g., productivity and export growth), especially MIEs and SEs, may strongly contribute to poverty alleviation, as they often involve poor farming communities or landless farm households. Empowerment of MIEs has indeed been generally accepted as an important strategy for poverty alleviation (Harvie, 2003; Suryahadi

¹ It uses the National Statistics Agency definition of MSMEs: (a) micro enterprises as production units/firms – 0 to 4 workers; small enterprises – 5 to 20 workers; medium enterprises – 21-99 workers; and large enterprises – 100 or more workers.

and others, 2010). One way to empower these enterprises is to support them through exporting, as many MIEs are also involved directly or indirectly in export activities, mainly in the handicrafts industry (BPS, 2010).

The study is based on:

- (a) Desk research – academic literature on MSMEs, especially with regard to their export performance and access to trade facilitation in Indonesia and other Asian developing countries,² reports from the Government and various non-governmental organizations (NGOs), and other publications on trade facilitation and MSMEs' access to trade facilitation in Indonesia;
- (b) Secondary data analysis on MSMEs in Indonesia focusing on export-oriented enterprises;
- (c) Key informant/in-depth interviews (e.g., related local government officials, NGOs assisting MSMEs in exporting);
- (d) Field surveys in two clusters of export-oriented MSMEs with 30 producers in Solo and 52 producers D. I. Yogyakarta as respondents. Both regions are located in central Java. The respondents were selected randomly, based on the lists of members provided by the local Chamber of Commerce (Kadinda). They were interviewed face-to-face, using a semi-structured questionnaire comprising a list of questions covering broad areas related to trade facilitation (see annex). MSMEs as well as large enterprises (LEs) are considered in order to gain a comparative picture regarding the research questions stated above.

² Mainly through the World Bank and Asian Development Bank databases, and studies carried out, for example, in India and Sri Lanka for ARTNeT.

1. Development of Indonesian MSMEs

Historically, Indonesian MSMEs have always been the main players in domestic economic activities, accounting for more than 99 per cent of all existing firms across sectors (table 1) and providing employment for more than 90 per cent of the country's total workforce (table 2), comprising mostly women and youths. The majority of MSMEs are micro- and small-sized enterprises (MSEs), and within the MSEs the dominant enterprises in terms of number are MIEs, or about 99 per cent of total MSEs. Many MIEs are established by poor households or individuals who could not find better job opportunities elsewhere, as either their primary or secondary (supplementary) source of income. If not all, at least the majority of MIEs are operating in the informal sector (which means that the majority of MSMEs in Indonesia are operating in the informal sector). Their presence in rural as well as urban areas in Indonesia is often considered to be a result of current unemployment or poverty problems, and not a reflection of entrepreneurship spirit (Tambunan, 2006, 2008, 2009(a) and 2009(b)).³

Table 1. Total enterprises by size category in all economic sectors in Indonesia, 2000-2009
(Unit: '000 enterprises)

Size category	2000	2001	2003	2004	2005	2006	2007	2008	2009
MSEs	39 705	39 883.1	43 372.9	44 684.4	47 006.9	48 822.9	47 720.3	52 327.9	52 723.5
MEs	78.8	80.97	87.4	93.04	95.9	106.7	120.3	39.7	41.1
LEs	5.7	5.9	6.5	6.7	6.8	7.2	4.5	4.4	4.7
Total	39 789.7	39 969.9	43 466.8	44 784.1	47 109.6	48 936.8	49 845.0	52 262.0	52.769.3

Sources: State Ministry for Cooperatives and SMEs (available at www.depkop.go.id) and the Indonesian Central Bureau of Statistics (BPS) (available at www.bps.go.id).

During 2000-2009, the total number of MSEs increased by some 32.7 per cent, while MEs and LEs both dropped by 47.8 per cent and 17.5 per cent, respectively. While most MEs and especially LEs are more integrated with the regional or global economies, MSEs are more local-market oriented (particularly MIEs), so they are more isolated or naturally protected

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