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Trends in Southeast Asia

ACCIDENTAL AND INTENTIONAL
EXPORTERS: COMPARING INDONESIAN
AND MALAYSIAN MSMEs

THAM SIEW YEAN AND TULUS TAMBUNAN

ISEAS YUSOF ISHAK
INSTITUTE

Trends in Southeast Asia



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FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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Accidental and Intentional Exporters: Comparing Indonesian and Malaysian MSMEs

By Tham Siew Yean and Tulus Tambunan

EXECUTIVE SUMMARY

- Regardless of the size of the domestic economy, there are ample reasons for firms to extend their markets beyond home shores. These include increasing sales, improving profits, diversifying risks, reaping economies of scale, matching the moves of competitors, enhancing competitiveness or accessing government incentives.
- Both Indonesia and Malaysia seek to enhance the competitiveness of their micro, small and medium enterprises (MSMEs) by including internationalization goals in their respective national development plans for these enterprises.
- Findings from fourteen case studies in the two countries indicate that exporting may be a serendipitous discovery, as few of these cases were born global in intent. Shifting to intentional exporting will require entrepreneurs to tap into government and/or private networks and thus connect with international buyers.
- Indonesian MSMEs are more inclined to depend more on government than private networks as they perceive the former to be more credible. Malaysian cases indicate some firms prefer private to government networks. This is attributed to the differences in the political economy of the two countries.
- Going forward, both countries need to consolidate their government-run programmes and reduce the fiscal burden. MSMEs should tap more into private networks to bridge the information gap that hinders their access to external markets.
- ASEAN can facilitate the entry of MSMEs into the ASEAN market by implementing resolutely current plans to reduce technical barriers to trade.

Accidental and Intentional Exporters: Comparing Indonesian and Malaysian MSMEs

By Tham Siew Yean and Tulus Tambunan¹

INTRODUCTION

Small and medium enterprises, including micro enterprises (or MSMEs), play an important role in Southeast Asia as they contribute between 88.8 per cent and 99.9 per cent of total establishments in all sectors in the region and between 51.7 per cent and 97.2 per cent of total employment in the region. Approximately 30–53 per cent of the region’s Gross Domestic Product (GDP) and 10–30 per cent of its total exports are accounted for by them as well.² There are, however, considerable differences in the performance of MSMEs in the region. For example, Thailand’s MSMEs contribute about 25.5 per cent of Thailand’s total exports, while those in Indonesia and Malaysia contribute about 19 per cent and 15.7 per cent, respectively, to the total exports in these two economies.³ Likewise the policy environment for nurturing MSMEs in each of these countries differ substantially from each other, as indicated by the SME Policy Index developed by Economic Research for ASEAN

¹ Tham Siew Yean is Senior Fellow at ISEAS – Yusof Ishak Institute, Singapore. Tulus Tambunan is Professor of Economics and Director of Center for Industry, SME and Business Competition Studies, Trisakti University, Indonesia.

² ASEAN Secretariat, “SME Developments in ASEAN” (n.d.) <<http://asean.org/asean-economic-community/sectoral-bodies-under-the-purview-of-aem/small-and-medium-enterprises/overview/>> (accessed 24 November 2017).

³ Titik Anas, Carlos Mangunsong and Nur Afni Panjaitan, “Indonesian SME participation in ASEAN Economic Integration”, *Journal of Southeast Asian Economies* 34, no. 1 (2017): 77–117.

and East Asia (ERIA) in 2014.⁴ The results reveal that Singapore's score is the highest, followed by Malaysia, with Indonesia and Thailand tying in third position with the same score, and lastly the Philippines for the ASEAN-5. The rest of ASEAN's member countries score at or below the ASEAN average score.

The ASEAN Economic Community (AEC), established in 2015, aims to create a highly integrated and cohesive economy that provides an expanded market for its ten member countries. In principle, this initiative should create opportunities for MSMEs in the region to grow regionally before entering the global market. However, studies have shown that MSMEs are in general not aware of the AEC and the opportunities accorded by the AEC initiatives. They remain inward-looking, as indicated by their relatively low share of total exports in their respective countries.

Most research projects focus on the challenges faced by the MSMEs, including the problems encountered in internationalizing their operations, particularly in finance, research and innovation. Thus the questions asked frequently pertain to the factors that determine MSMEs' exports or the drivers of their internationalization, be it at the firm or country level. The proliferation of Free Trade Agreements (FTAs) has also spurred research interest in another dimension, namely, the participation of MSMEs in regional integration.⁵

In contrast, there is less focus on *how* MSMEs overcome existing challenges to extend their reach into foreign markets, be it in ASEAN and beyond. Specifically, how do MSMEs penetrate the external market,

⁴ This is an index constructed by ERIA to assess eight policy dimensions for SMEs in ASEAN countries. For further explanation, see ERIA, *ASEAN Policy Index 2014: Towards Competitive and Innovative ASEAN SMEs*, 2014 <<https://www.oecd.org/globalrelations/regionalapproaches/ASEAN%20SME%20Policy%20Index%202014.pdf>> (accessed 24 November 2017).

⁵ See, for example, C. Lee, D. Narjoko and S. Oum, "Southeast Asian SMEs and Regional Economic Integration", *Journal of Southeast Asian Economies* 34, no. 1 (2017): 1–3.

including the ASEAN market? What are the policies and institutions that have been enabling their internationalization attempts? While this present study acknowledges the importance of financial constraints, its focus is on the less-studied non-financial constraints in the internationalization efforts of MSMEs.

This study uses an analytical framework that combines the stages,⁶ network⁷ and international new ventures theory⁸ as well as policy and institutional support, to investigate several case studies in Indonesia and Malaysia. The approach provides richer and deeper insights into the internationalization journey of these MSMEs. Semi-structured interviews based on the same analytical framework are used in all cases. The cases are chosen from a list of exporting SMEs provided by the relevant government agencies in each country, and are also based on the companies' willingness to be interviewed. Malaysian cases were supplementarily obtained through word-of-mouth recommendations following a high rejection rate from companies on the list.

This paper is organized as follows. A brief overview of the SMEs in Indonesia and Malaysia is provided in section 2, after the introduction. The findings are presented in section 3, followed by a discussion of the findings. The conclusion summarizes the main findings and provides some policy suggestions relevant at the country and ASEAN level.

⁶ The stage theory of internationalization postulates that internationalization is an evolutionary process whereby a firm increases its market knowledge and commitment incrementally over time as its cognitive learning and competency develops through experience.

⁷ The network theory postulates that firms acquire knowledge of external market through a web of formal and informal relationships which uses complementary competitive advantages between firms to benefit each other and to position itself in foreign markets.

⁸ The international new ventures theory (NIVs) defines an international new venture as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and outputs in multiple countries. Such firms known otherwise as "born global" firms, use a proactive international strategy from the very beginning. It is assumed that firms are driven by growth rather than mere survival, with internationalization as a strategic choice for growth.

OVERVIEW OF MSMEs IN INDONESIA AND MALAYSIA

It should be noted at the outset that there are definitional differences for MSMEs in the two countries (Table 1). Both countries include micro enterprises in their definition. Indonesia uses one definition for all sectors while Malaysia differentiates between the manufacturing and services sectors. In terms of number of employees, Malaysia's small and medium enterprises (SMEs) are larger than those in Indonesia across all sectors. In terms of sectors, MSMEs are more prevalently in services (including trade) in both countries. The next most important sector for MSMEs in Indonesia is the agricultural sector, while it is manufacturing for Malaysia, which is not surprising given the latter's relatively small agricultural sector. In Indonesia, more micro and small enterprises than medium enterprises are found in trade and agriculture, while medium enterprises are more involved in manufacturing activities.

The data in Table 2 indicates that Malaysia spends more on the development of MSMEs compared to Indonesia, but it should be noted that the Indonesian data should be considered as a proxy because many other ministries also have their own programmes for supporting MSMEs in their respective sectors, which are financed by their allocated state budget. Moreover, many government-sponsored programmes such as poverty alleviation programmes with special budgets have also MSME promotion/support elements which are not under the responsibility of the Ministry of Cooperatives and SMEs (MoCSME).

The contribution of MSMEs to GDP and employment in Indonesia is higher than that for Malaysia, though the contribution of these enterprises to direct exports is marginally lower.

Government Support

Both countries have several institutions that are tasked with the development of MSMEs. In Indonesia, the MoCSME is responsible for policy formulation and implementation (Table 3). It works together with the Ministry of Trade and the Ministry of Industry to encourage local MSMEs to export and to support those that are already exporting

Table 1: Definitions of SMEs in Indonesia and Malaysia

Country	Definition (US\$)	Key Sectors
Indonesia	<ul style="list-style-type: none"> • Micro: assets ($\leq 3,703.70$); sales ($\leq 22,222.22$); workers (<5); • Small: assets ($>3,703.70-37,037.04$); sales ($>22,222.22-185,185.19$); workers ($5-19$); • Medium: assets ($>37,037.04-740,740.74$); sales ($185,185.19-3,703,703.70$); workers ($20-99$) 	<ol style="list-style-type: none"> 1. Trade and services 2. Agriculture 3. Manufacturing
Malaysia (Manufacturing)	<ul style="list-style-type: none"> • Micro: sales (72,289); workers (<5 workers); • Small: sales (72,289 – <3.6 million); workers (5–74); • Medium: sales (3.6 million – 12 million); workers (75–200) 	<ol style="list-style-type: none"> 1. Services 2. Manufacturing 3. Agriculture
Malaysia (Services)	<ul style="list-style-type: none"> • Micro: sales (72,289); workers (<5 workers); • Small: sales (72,289 – $<722,892$); workers (5–29); • Medium: sales (722,892–4.8 million); workers (30–75) 	

Notes: US\$1 = Rp13,500 for Indonesia; and RM1 = US\$4.15 for Malaysia.

Source: Indonesia: State Ministry of Cooperative and SME www.dekop.go.id.

Malaysia: SME Corp., Malaysia <http://www.smecorp.gov.my/index.php/en/policies/2015-12-21-09-09-49/sme-definition>.

Table 2: Government Funding and MSMEs' Contribution to GDP, Employment and Exports

Year	Government funding (%) (RM billion)	Contribution to GDP	Contribution to employment (%)	Contribution to exports
<i>Indonesia</i>				
2011	0.23	57.61	97.24	16.4
2012	0.22	59.08	97.16	14.1
2013	0.31	60.34	97.08	15.7
2014	0.25	n.a.	n.a.	n.a.
2015	0.21	n.a.	n.a.	n.a.
2016	0.16	n.a.	n.a.	n.a.
2017	0.12	n.a.	n.a.	n.a.
<i>Malaysia</i>				
2011	4.7	32.5	57.3	16.9
2012	7.1	32.7	57.4	17.5
2013	7.0	33.5	57.5	17.8
2014 ^a	5.1	35.9	65.0	17.8
2015	4.4	36.3	65.5	17.6
2020 target	—	41.0	65.0	

Notes: n.a.: not available.

a. Definition of SME was revised for Malaysia in that year.

Sources: Indonesia, compiled by authors; Malaysia, *Sunday Star*, 16 October 2016 and Annual Report of SMEs.

(Table 3).⁹ These ministries are aided by the National Agency for Export Development (NAFED), which supports export development through policy formulation, as well as the provision of information, technical advisory services, export promotion, and expansion of export products and markets. Regional Export Training and Promotion Center (RETPC) are also established in collaboration with the Japan International Cooperation Agency (JICA), to enhance the competencies of MSMEs in international markets through training and trade promotion. However, almost all government agencies and ministries in Indonesia are also supporting MSME development, either directly or indirectly, by formulating policies or issuing regulations, with the more important ones listed in Table 3. The evidence on the effectiveness of government support and policies are, however, mixed and dated.¹⁰

In 1996, the Small and Medium Industry Corporation (SMIDEC) was established in Malaysia to facilitate the development of globally competitive SMEs (Table 3). It was renamed SME Corp. in 2009 and functions as the central coordinating agency for formulating and overseeing the implementation of overall policies and strategies for the development of SMEs. It also serves as the Secretariat to the National SME Development Council (NSDC), the highest policy making body for SMEs in the country. Malaysia also has a specific export promotion agency, namely, the Malaysia External Trade Development Corporation (MATRADE), which interestingly does not focus only on SMEs alone. Both agencies are under the jurisdiction of the Ministry of International Trade and Industry (MITI).

The current SME development policy in Indonesia is part of the National Medium Term Development Plans (RPJMN) 2015–19, which

⁹ Tulus Tambunan, “Facilitating Small and Medium Enterprises in International Trade (Export): The Case of Indonesia”, paper presented at the panel for “Trade-led Growth in Times of Crisis”, Asia-Pacific Trade Economists’ Conference, Bangkok, 2–3 November 2009.

¹⁰ Tulus Tambunan, “Development of SMEs in a Developing Country: The Indonesian Story”, *Journal of Business and Entrepreneurship* 19, no. 2 (2007): 60–78.

Table 3: Institutional Support in Indonesia and Malaysia

Indonesia	Malaysia	
Ministry of Cooperatives and SMEs (MoCSME)	Ministry of International Trade and Industry	
Ministry of Trade	Supported by:	
Ministry of Industry	SME Corp.	
Ministry of Agriculture		
Ministry of Finance		
Investment Coordination Agency (BKPM)		
Ministry of Education and Culture		
Ministry of Transportation		
Ministry of Labour		
Bank Indonesia		
Ministry of National Development Planning (Bappenas)		MATRADE
Coordinating Ministry of Economic Affairs		
Ministry of Research & Technology		
Ministry of Women Empowerment		
Ministry of Creative Industry		

Source: Compiled by authors.

is based on the RPJPN 2005–25 that serves as a framework for the four medium-term development plans. The RPJMN aims to improve the quality of human life and addresses disparity and inequality. The main focus of the Indonesian MSME development policy 2015–19 is to improve the global competitiveness of Indonesian MSMEs so that these can develop sustainably and support the independence of the national economy. To achieve this objective, under the coordination of the MoCSME and the Coordinating Ministry of Economic Affairs, five strategies have been

adopted, which includes market expansion to the export market through technology, innovation, standardization/certification, and trading houses.

Malaysia launched its SME Master Plan for 2012–20 in May 2012, with four main thrusts, namely increasing business formation, expanding the number of high-growth and innovative firms, raising productivity and intensifying formalization.¹¹ This is followed up with an action plan focussing on six key areas, namely innovation and technology adoption, human capital development, access to financing, market access, legal and regulatory environment, and infrastructure. Internationalizing MSMEs is one of the initiatives under market access, with a specific programme designed to assist first-time exporters or existing exporters venturing into new products or new markets. Although many programmes have been launched for assisting MSMEs in Malaysia, evaluation of their effectiveness is rare. The only reported comprehensive study conducted by the World Bank showed mixed results.¹²

The two governments' plans show that both are keen to encourage their MSMEs to venture into the export market

FINDINGS FROM THE CASE STUDIES

Interviews for the case studies were conducted between May and November in 2016. A brief introduction to the fourteen case companies is provided in Table 4. Although all started out quite small, with the exception of MF and MWF in Malaysia, they have all expanded over time, with a more apparent increase in employment in the Malaysian cases. The Indonesian cases are found mainly in light manufacturing activities such as food, textiles, handicraft, furniture and footwear, which are final consumption goods, while the Malaysian cases are spread over a broader range of manufacturing activities to include inputs in manufacturing

¹¹ SME Corp, *SME Master Plan, 2012–2020: Catalysing Growth and Income* (Kuala Lumpur: SME Corp., 2012).

¹² Hong Tan, "Impact Evaluation of SME Programs in Chile and Malaysia", Powerpoint presentation at Turkey Workshop, 2011 <<http://slideplayer.com/slide/6496745/>> (accessed 24 January 2018).

Table 4: Profile of Case Companies

Name of Company	Products	Year of establishment	Fixed assets (US\$)*/Paid up capital*** 2016	Type of company	No. of full time employees (person)	
					At first year	As at 2016
<i>Indonesia</i>						
IFn1	Furniture	1999	land: 10,000 m ² and factory: 2,000 m ² ***	Family-owned and managed by owner	3	30
IT	Textile (painted fabric)	2012	297,701	Family-owned and managed	3	11
IF	Food	2012	148,854	Non-family owned and managed by professional	10	30
IFootwear	Footwear	2005	8,931	Family-owned and managed by owner and professional	15	25
IFn2	Furniture	2003	111,640	Non-family owned and managed by professional	15	30
IH	Handicraft	2009	52,099	Non-family owned and managed by owner	1	18
IWH	Weaving-based Handicraft	2010	223,282	Family-owned and managed by owner	2	15

<i>Malaysia</i>						
MF	Food	1991	300,602	Family-owned and managed	50	60
MH1	Health products	2008	602,410	Family-owned and managed	2	40
MH2 (Female CEO and Bumiputera owners)	Health products	2000	722,892	Non-family owned and managed by Malaysian shareholder	2	100
MWF	Wood Furniture	1979	361,446	Family-owned and managed	30	80
MM	Metal products	1995	897,349	Non-family owned and managed by one of the shareholders	5	130
MG (Bumiputera partners)	Geosynthetic fibres	1999	1,204,819	Non-family owned and managed by one of the shareholders	3	60
MC	Chemicals	2005	240,964	Non-family owned and managed by the shareholders	3	25

Note: * Value of fixed assets converted to U.S. dollar at the average 2016 exchange rate: Rp13,436.00 per US\$1; ** no value was given;

***paid up capital, converted at the average 2016 exchange rate of RM to US\$

- Companies did not want to be named

Source: Field interviews in both countries while secondary information from SSM (Companies Commission Malaysia) is also used for Malaysian cases.

activities such as chemical additives. In terms of ownership, there is a mix of family-owned and non-family-owned companies. Two of the Malaysian cases, namely MH2 and MC, have foreign shares in their ownership. There are also two Malaysian cases (namely MH2 and MG), with Bumiputera partners.¹³ In terms of management, some are family-managed while others are managed by shareholder/s and/or with professionals.

Export Journey

By and large, the export¹⁴ journey of the case studies in both countries conform to the stages theory as these companies moved progressively from the domestic to the external market over time (Table 5). However, there were four exceptions in Indonesia (IFn1, IT, IF, IWH) and two in Malaysia (MM and MC), which saw exports occurring within the first two years of their respective establishment, thereby suggesting that these may be “born global” companies.¹⁵

¹³ Bumiputera refers to Malays and indigenous people in Malaysia. The presence of Bumiputera ownership enables a company to access special incentives for developing Bumiputera companies, including SMEs, besides the usual incentives given to all SMEs. For additional information, see “Bumiputera Economic Transformation Roadmap 2.0” at <www.teraju.gov.my/reports/BETR2.pdf> (accessed 22 November 2017).

¹⁴ In the case of Indonesia, exports are direct exports. Malaysian cases may include indirect exports as in the case of H2 and WF1.

¹⁵ “Born global” exporting firms are initially taken to mean firms that have the intention to export immediately upon inception. The duration taken to export for the first time, for firms to be considered “born global” can be up to two years. See A. Bader and T. Mazzarol, “Defining the Born Global Firm’. A Review of the Literature”, in *23rd ANZAM Conference 2009: Sustainability Management and Marketing*, edited by N. Beaumont (Melbourne edn., vol. CDROM), Australian and New Zealand Academy of Management, Melbourne, 1 January 2009 <[http://research-repository.uwa.edu.au/en/publications/defining-the-born-global-firm-a-review-of-the-literature\(b99a62d4-3cab-4978-99d2-3547431222b8\)/export.html](http://research-repository.uwa.edu.au/en/publications/defining-the-born-global-firm-a-review-of-the-literature(b99a62d4-3cab-4978-99d2-3547431222b8)/export.html)> (accessed 8 November 2017).

Table 5: Export Journey

Company	Year of establishment	First year of export	Export Share (%)		First export destination	No. of Export Destinations	Investment at export destination/s
			At first year of export	2016			
<i>Indonesia</i>							
IFn1	1999	1999	100	50	Spain	4 countries	Yes, Malaysia
IT	2012	2012	<30	30	Singapore Malaysia	Many countries	Yes, Singapore, Malaysia, Canada
IF	2012	2014	10	25	Malaysia	Malaysia	No
IFootwear	2005	2014	30	45	France, Uzbekistan	3 countries	Yes, Malaysia
IFn2	2003	2007	20	40	Malaysia	2 countries	No
IH	2009	2012	5	5	Singapore	2 countries	No
IWH	2010	2012	1	10	Japan, Singapore	4 countries	No
<i>Malaysia</i>							
MF	1991	1999	<5	30–40	Singapore	12 countries	Yes, in Singapore, and Taiwan
MH1	2008	2012	20	20	Hong Kong	Dubai, Kuwait, China; Cambodia	No, not yet, but planning to

continued on next page

Table 5 — cont'd

Company	Year of establishment	First year of export	Export Share (%)		First export destination	No. of Export Destinations	Investment at export destination/s
			At first year of export	2016			
<i>Malaysia</i>							
MH2	2000	2008	35	70	ASEAN (Indonesia, Thailand, Singapore), Japan	China, HK, Middle East	Yes, Egypt
MWF	1979	1990	20	60	China	Korea, Australia, Japan, USA	No, prefer contract manufacturing
MM	1995	1997	10	80	Germany	Holland, Turkey,	Yes, Turkey as joint-venture
MG	1999	2003	5	75	Singapore	China, 15 countries	No.
MC	2005	2005	40	80	Korea, Japan	Worldwide, including Singapore, Philippines, and Thailand.	Yes, China

Source: Interviews.

The export share in total sales revenue of the cases presented has also increased gradually over time in both countries, with three exceptions. IFn1 in Indonesia has a sharp drop in its export share due to the fact that the company was formed after obtaining its first export order, with no domestic sales at that time. The expansion into domestic sales after the establishment of the company therefore reduced the export share of the company. The export share of IH in Indonesia and MH1 in Malaysia has not changed over time, indicating their focus on the domestic market.

Likewise, the number of export destinations has also increased over time in line with the increase in export share in the pertinent cases. Moreover, ASEAN countries are not necessarily the only export destinations. Table 5 also indicates that there need not be investment at the export destinations, conforming to WTO (2016)'s observation that while trade is usually observed to be the first step for SMEs to engage in internationalization, other forms such as FDI, may or may not occur as it entails fixed costs that may be difficult to reverse.¹⁶

Standards, Certificates and Awards

Compliance with international standards is considered to be important for developing countries, especially when they are competing with exporters from developed countries with longer exporting histories and a better reputation in export markets.¹⁷ Although attaining these standards can be costly, firm-level evidence from developing countries indicate that there is a positive correlation between quality standards and the

¹⁶ WTO, "World Trade Report 2016: Levelling the trading field for SMEs", 2016 <https://www.wto.org/english/res_e/booksp_e/world_trade_report16_e.pdf> (accessed 8 November 2017).

¹⁷ See Tsunehiro Otsuki, "Effect of ISO Standards on Exports of Firms in Eastern Europe and Central Asia: An Application of the Control Function Approach", Osaka School of International Policy Discussion Paper (OSIPP), DP-2011-E-005, 2011 <<http://www.osipp.osaka-u.ac.jp/archives/DP/2011/DP2011E005.pdf>> (accessed 8 November 2017).

average export volumes of firms.¹⁸ Imported products, especially for developed countries, are usually subject to product testing and cannot be sold in the importing country without certification of compliance with prescribed standards. These include technical regulations (or mandatory standards) and non-mandatory voluntary standards, and certifications are used to determine compliance with prescribed standards in the importing country. In particular, compliance with health and safety requirements, especially for food-related products can be crucial for penetrating export markets.

Since the Indonesian cases involve mainly the export of textiles, furniture, handicrafts and footwear, there appears to be less emphasis on standards and certificates compared to the Malaysian cases where these are obtained for all the cases, especially in the food and food-related products such as MF, MH1 and MH2 (Table 6). The food exporter from Indonesia, IF, which exports food snacks (cassava chips) to Malaysia, did not appear to have been constrained by the lack of certification because its snacks are sold through “informal channels” rather than through big trading companies, and target the Indonesian community and Indonesian workers in Malaysia. Significantly, certification is also absent for the Malaysian case of a furniture exporter (MWF) as the firm serves as an original equipment manufacturer (OEM), and specifications are matters handled by the buyer.

Several of the cases obtained awards/grants in recognition of their contributions as entrepreneurs. These awards can also serve as a signal of soundness, and are more meaningful for the domestic rather than the external market. In Indonesia, there are various awards for successful entrepreneurs or SMEs granted by various organizations and ministries. For instance, the Indonesian “Best Entrepreneur Award”

¹⁸ See Maggie Xiaoyang Chen, John S. Wilson and Tsunehiro Otsuki, “Standards and export decisions: Firm-level evidence from developing countries”, *Journal of International Trade & Economic Development: An International and Comparative Review* 17, no. 4 (2008): 501–23 <<https://doi.org/10.1080/09638190802250027>>.

Table 6: Standards, Certificates and Awards

Companies	First Certificate: Year & Name	Other Types of Certifications	Awards/Grants
<i>Indonesia</i>			
IFn1	No	No	3 awards
IT	2016: Grade "A" Ready to Export	No	2 awards
IF	No	No	No
IFootwear	2014: ISO 9001, 9002.	Yes, Indonesian National Standard (SNI), 2015	4 awards
IFn2	No	No	No
IH	Pendidikan dan Pelatihan Ekspor Indonesia (PPEI) (or Education and Training for Indonesian exports) Certificate, 2013	BFI Coaching Professional Certificate 2013 Vanaya Business & Executive Certificate, 2015	5 awards
IWH	No	No	2 awards

continued on next page

Table 6 — cont'd

Companies	First Certificate: Year & Name	Other Types of Certifications	Awards/Grants
<i>Malaysia</i>			
MF	Halal, 1996; Good Manufacturing Practice (GMP) in 1997	No	No
MH1	Halal; 2012; Certified organic in 2012	Hazard analysis and critical control points certificate (HACCP); ISO22000	Yes, I-InnoCert
MH2	2004: Halal	ISO 9001:2008 and Good Manufacturing Practice (GMP) certified manufacturing and commercialization company and has a wide range of halal certified (MS 1500:2004); HACCP	Yes, many
MWF	No	No	No
MM	No	Australian Standard (AS3566.2), International Standards (ISO 12683:2004) and ASTM B695-04	No
MG	IECA (International Erosion Control Association) - 2002	Nine more, including Green Tag	Many
CM	No	Complies with local registration and regulations	No

Source: Interviews.

from Citra Prestasi Anak Bangsa (CPAB), an independent and non-profit organization partnered with the government for the improvement of the quality of human resource, including entrepreneurship; “Pangan Award” from the MoT for successful MSMEs in the food sector, and “Paramakarya Award” for the best MSME with respect to quality and productivity, given by the President.

In Malaysia, SME Corp. created the National Mark of Malaysian Brand in 2009 to depict the quality, excellence and distinction of the product awarded with this certification, such as attained by MG. The 1-InnoCERT (see MH1 in Table 6) certification is also awarded by SME Corp. for identified and verified innovative companies. These awards may come with incentives such as fast-track access when applying for incentives offered by the government.

Networks

As can be seen in Table 7, having networks with relevant government departments/ministries are considered very important by all Indonesian cases. In fact, it is considered to be even more important than private networks, such as business associations. This is because the Ministry of Trade (MoT) and the MoCSME provide MSMEs with various services such as export training, up-to-date information on foreign market opportunities and import regulations in export countries of destination, business matching, and in some cases, financial support to participate in domestic or international trade exhibitions. As a corollary to Indonesia, Malaysia’s MATRADE and SME Corp. also conduct training and provide market information.

In contrast, the importance of government networks varies from case to case for Malaysia. Companies that are less dependent on government networks tend to lean more heavily on private networks. Notably, the two Malaysian cases (MM and MC) that indicated a relative unimportance of government networks, also have the strongest external networks, based on the multinational background of the CEOs.

For private networks, business associations are deemed to be important for five out of the seven cases in both Indonesia and Malaysia. This supports findings in the literature — these associations can provide

Table 7: Networks

IT	Government Network	Government Assistance	Business Associations	Professional Associations	Trade Fairs & Exhibitions
<i>Indonesia</i>					
IFn1	Very important: MoT MoCSME	Training, Information, Financing	No	No	Important
IT	Very important: MoT	Training, Information, Business matching	Indonesian Chamber of Commerce & Industry	No	Important
IF	Very Important MoT MoCSME	Training	No	No	Important
IFootwear	Very Important MoT MoCSME	Information, Business matching and Facilitation	IAFP	No	Important
IFn2	Very Important; Local government (Pemda); MoI MoT MoCSME	Facilitation, Information, Training	ASMINDO	No	Important

IH	Very Important; MoT MoCSME	Facilitation, Information, Training, Business matching	BEDO ASEPHI VANAYA	No	Important
IWH	Very Important; MoI MoT MoTM CEA	Information	City Bank	No	Important
<i>Malaysia</i>					
MF	Yes, but less important. MATRADE	Only for trade fair	Yes, important	No	Yes, very important; international fairs
MH1	Yes. MATRADE, SME Corp	Yes, grant	Yes, less important	No; customer network important	Yes, important
MH2	Yes. MATRADE, SME Corp	Yes, grant and matchmaking	Yes, less important	Yes	Yes, important
MWF	Yes. MATRADE, SME Corp	Yes, matchmaking	Yes, very important	No	Very important; domestic trade fairs
MM	Less important	No	Yes, very important	No	Yes, very important for first 5 years
MG	Yes. MATRADE, SME Corp	Yes, grant	Yes, important	Yes, very important	Yes, important
MC	Not important	No, none at all	Yes, important	Yes, very important	Yes, important

Notes: CEA: Creative Economic Agency; IAFP: Indonesian Association of Footwear Producers; ASMINDO: Indonesian Association of Furniture Producers; BEDO: Bali Export Development Organization; ASEPHI: Indonesian Association of Handicraft Exporter and Producer; VANAYA: Investment and Business Training Institute.

Source: Interviews.

context-specific information needed by MSMEs.¹⁹ However, MH1 in Malaysia, for example, has built a large customer base through direct sales in its shop and online sales, which anchors its network. It does not rely much on networks built through business associations. The lack of importance of professional associations in Indonesia, compared to its importance for MG and MC in the Malaysian cases can be attributed to the nature of the products produced. MG and MC both produce very niche products (geosynthetic fibres and chemical additives) which require specialized knowledge that necessitate their CEOs to connect with the professional associations in their respective fields, to enhance their knowledge, and to get to know and be known among their peers. Indonesian networks include informal channels through the Indonesian community living in export destinations for connecting with more buyers in the country.

All the Indonesian and Malaysian cases acknowledge the importance of trade fairs and exhibitions for forging networks, be it for suppliers or orders. An exception is MM in Malaysia, which produces a specialized but standardized product. According to the CEO of MM, the role of these fairs and exhibitions are less important after five years, as he taps more effectively on his own network for new markets.

Finding Export Opportunities, Contacts and Getting Burnt

How and where do these companies meet their buyers from other countries? In general, export opportunities are created, either serendipitously or deliberately through networks, both with the government as well as the private sector.

Besides training and market information, there are also business matchmaking opportunities provided by government networks, which help some of the cases in Indonesia and Malaysia, (namely IT, IF,

¹⁹ See, for example, R.J. Bennett and M. Ramsden, “The contribution of business associations to SMEs: Strategy, bundling or reassurance?”, *International Small Business Journal* 25 (2007): 49–76.

IFootwear, IH from Indonesia, MH2, and MWF from Malaysia) (Table 8). To be sure, private networks, including informal channels, do also play an important role.

Since direct exporting may incur high start-up costs, companies may choose to expand into exports through the indirect channel, by serving as OEM or contract manufacturing for multinational companies as in the case of MWF and MH2 for Malaysia. This less risky option provides the necessary experience for these companies to learn to meet the standards of export goods.

The most common place for MSMEs from both countries to meet their importers is via trade fairs and exhibitions for both Indonesia and Malaysia. This is the primary place for accessing information on market demand, assessing competitors, meeting and connecting with potential business partners, suppliers and buyers from domestic and other markets. This is similar to the motivations identified by the International Trade Center in its guide for organizing trade fairs for developing countries.²⁰

Business associations form another important source of information about export opportunities. Establishing distribution channels in targeted countries enables compliance with the importing countries' regulations, something that is particularly important for food and health related products, as reported by MF, MH1 and MH2. Owners visiting export destinations may sometimes find partners or appoint local agents, as in the case of IT and IFootwear. Indonesia's IWH and IF also use the Indonesian community found in the importing country to introduce buyers such as shops and traders to them. Word of mouth (WOM) recommendations play an important role for the Malaysian cases.

Although five out of the Indonesian cases and all of the Malaysian cases have their own websites, the Internet is not a commonly used channel for soliciting exports, although MH1 in Malaysia does sell its health food products through the Internet for repeat customers.

²⁰ See ITC, "Basics for organizing trade fairs: A guide for developing countries", 2012 <www.intracen.org/Basics-for-organizing-trade-fairs> (accessed 22 November 2017).

Table 8: Finding Export Opportunities, Contacts, Getting Burnt

Companies	Government Matchmaking	Contacts	Getting Burnt
<i>Indonesia</i>			
IFn1	No	Buyers visited owners' gallery; Met buyers in trade fairs/exhibition; Local partner in export destination country	No
IT	Yes	Buyers visited owners' gallery and galleries owned by others where their products are exhibited; Met buyers in Trade fairs/exhibition; Business matching; Local partner in export destination countries	No
IF	Yes	Met buyers in trade fairs/exhibition; Business matching; Assisted by Indonesian community in the export destination country	No
IFootwear	Yes	Business matching; Met buyers in trade fairs/exhibition; Local agents in destination countries, which the owners met when visiting country	No
IFn2	No	ASMINDO (information on potential foreign buyers); via Internet (its website)	No

IH	Yes	Business matching; Met buyers in trade fairs	No	
IWH	No	Met Indonesian community and importers/ trading agencies in trade fairs in the destination country; via Internet; Chambers of commerce and business association in the export destination country	No	
<i>Malaysia</i>				
MF	No	Distributed through supermarkets from old contact when he was managing a supermarket		Mentioned that he learnt by doing and from mistakes along the way
MH1	No	From own shop and long-term customer base		No, but guided by father as he is second generation in the business
MH2	Yes. Dubai partner was from MATRADE business matching	From network; distributors to meet regulations of importing country and word of mouth recommendations		No
MWF	Yes. From MATRADE business matching	From associations and word of mouth recommendations		No, but guided by father as he is second generation in the business
MM	No	From old MNC contact; word of mouth recommendations		China, disagreement with partner; Thailand, wrong partner as not from the same business
MG	No	From network; word of mouth recommendations		China and Sri Lanka — overstretched
MC	No	From old MNC contact, distributorship from professional associations' directories		China, copy cats

Source: Interviews.

Out of the seven cases in Malaysia, the CEOs of four of these companies shared that they learnt from doing, either from prior businesses (MF and MG) or from mistakes made in the current business (MM, MG and MC). These experiences contribute towards the resilience and perseverance of these entrepreneurs. Two of the seven Malaysian cases are second-generation owners and are guided by their respective parents (MH1 and MWF). In the Indonesian cases, their current businesses represent the owners' first own business ventures. Although these owners may not have had prior experience running a business, they did have significant learning lessons from their previous employment before becoming entrepreneurs in their own right.

Importance of ASEAN

In the Indonesian case studies, exporting to ASEAN countries faces serious competition from producers of similar products from other ASEAN member countries (Table 9). The situation is completely different for Malaysian cases. Those companies are either producing niche products or aiming for non-ASEAN markets. ASEAN countries are considered to be difficult export destinations because of the bureaucracy (IFootwear and MH2), lack of common standards (MF and MH2) and language problems (MH1 and MM). Tariff reduction under the ASEAN Free Trade Agreement (AFTA) is better utilized in Malaysia than Indonesia. Indonesian cases seem unsure about the utilization of tariff reduction, which imply that the owners are not familiar with AFTA's privileges.

Most of the cases in both Indonesia and Malaysia, however, do include ASEAN in their future expansion plans, with a few exceptions. IFn2 from Indonesia consider non-ASEAN markets to be more promising due to the hard competition they face from producers of similar products in Malaysia, Vietnam and Thailand. MG in Malaysia, according to its CEO, prefers to sell to developed countries that prioritize his company's green products, which ASEAN members do not. MC from Malaysia, which already has a presence in several ASEAN countries, aims for a global market. Interestingly, MM, while considering Thailand to be a potential export destination per se, also thinks of it as an entry point for the Greater Mekong region. Its regional focus is not on ASEAN as a whole.

Table 9: Importance of ASEAN

Company	Challenges of ASEAN	Using tariff reduction	Plans to expand to other ASEAN countries
<i>Indonesia</i>			
IFn1	To compete with Malaysia and other ASEAN countries which also produce similar products	Probably Yes	Yes, especially Thailand and Singapore
IT	Competition with other exporting countries to Singapore and Malaysia	Do not know (export indirectly)	Yes, especially to Thailand and Vietnam
IF	Competition with other countries and Malaysia to export to ASEAN	No/Not aware	Yes, especially to Singapore, Thailand and Vietnam.
IFootwear	Still many documents required by the country of destination (Malaysia); though less of a problem than in other ASEAN destination countries; Competition	No/Not aware	Yes
IFn2	Competition especially from Vietnam, Cambodia, and Myanmar.	No/Not aware	Not yet
IH	Competition from other ASEAN exporters	Probably yes/not sure	Yes, especially Malaysia and Thailand
IWH	Competition, especially from Malaysia, Thailand, Lao PDR, Cambodia, Myanmar and Vietnam	Probably yes	Yes

continued on next page

Table 9 — cont'd

Company	Challenges of ASEAN	Using tariff reduction	Plans to expand to other ASEAN countries
<i>Malaysia</i>			
MF	Not a single market because different requirements for each country, such as different food standards	Yes	Exploring Thailand
MH1	Language issue; worry about imitation	No export and import to ASEAN	Plan to explore Indonesia and Vietnam
MH2	ASEAN too complicated and not harmonized; Indonesia pricing not attractive	Yes	Yes, especially Muslim market
MWF	No	Not importing and exporting to ASEAN	Considering Thailand
MM	Language barrier; Prefer developed countries as there is less uncertainty	No	Thailand as gateway to Mekong
MG	Green is not a priority in ASEAN	Yes, using input from ASEAN	No, plans to expand to Japan, Australia, NZ and Europe
MC	In Malaysia, Singapore, Philippines and Thailand	Yes	No; global market is target

Source: Interviews.

DISCUSSIONS OF FINDINGS

A few key themes emerge from the cases discussed above. Export opportunities can be reactive rather than the result of a deliberate intent to penetrate external markets. Laurence (2014) reported that nearly half (48 per cent) of an international survey of more than 4,000 businesses carried out by the British Chambers of Commerce, were found to be reactive exporters supplying overseas customers based on unsolicited orders.²¹ This is the case for IFn1 and IT of Indonesia and MWF, the wood furniture exporter from Malaysia. IFn1 obtained its first international order after participating in the International Exhibition in 1998 in Jakarta, where the owner had various sofa sets on display. Likewise, IT started its first export just a few months after its establishment, when some buyers from Singapore, Malaysia and some non-ASEAN countries visited the owner's gallery and workshop. Similarly, MWF obtained his first export order from China at an international exhibition in Singapore. This was how the buyer found the seller in these cases.

Moreover, even though IFn1 and IT were able to export within the first year of their establishment, they are not representative of "born global" firms as they did not have a global focus from the very beginning of their establishment.²² In other words, these two firms are not new ventures that are international by design and not by emergence.²³ Nor

²¹ Natalie Laurence, "Accidental exporters: the businesses that fell into selling overseas", *The Guardian*, 14 October 2014 <<https://www.theguardian.com/small-business-network/2014/oct/14/accidental-exporters-businesses-selling-overseas> (accessed 9 November 2017).

²² See AMD Law Group, "What is the definition of a 'born global' firm? International Business Law – Case Study #2", 2017 <<http://www.amdlawgroup.com/what-is-the-definition-of-a-born-global-firm-international-business-law-case-study-2/>> (accessed 9 November 2017).

²³ S. Tanev, "Global from the Start: The Characteristics of Born Global Firms in the Technology Sector", *Technology Innovation Management Review*, March 2012, pp. 5–8 <http://www.timreview.ca/sites/default/files/article_PDF/Tanev_TIMReview_March2012_0.pdf> (accessed 9 November 2017).

are they “accidental internationalists” as asserted by Hennart,²⁴ as they were not pushed into the international market due to size constraints in the domestic market even though the facilitating factors identified by Hennart, such as a niche focus and strong product differentiation, are present. Instead, they are reactive exporters who were presented with an export opportunity. Similarly, although IF and IWH exported within the first two years of establishment, they are nevertheless accidental exporters, rather than global in intent.²⁵

By contrast, MC in Malaysia is a “born global” company established to export, with a niche product and strong product differentiation, despite operating in a relatively small domestic market. Similarly, MM in Malaysia is also “born global” as it was also established with export intentions, with the same push and facilitating factors as MC. However, it failed to export in the first year of its establishment as the potential German client thought the factory of the new company too small and saw that the machines utilized were used machines and limited in number. MM was thus only able to export in its second year, after building a new factory with a loan from a commercial bank. Both these companies are partly owned and managed by entrepreneurs with an international orientation and the entrepreneurs were previously working for multinational companies. It is precisely the international entrepreneurial orientation that supported the global vision of these two companies.

There are also deliberate attempts to penetrate the export market after domestic expansion. This is especially apparent in the Malaysian cases. For example, in the case of MF, the food exporter, the emergence of domestic competition in the crowded domestic space was the main impetus for it to internationalize its operations. Singapore, by virtue of its geographical and cultural proximity was chosen as its first export

²⁴ J.F. Hennart, “The Accidental Internationalists: A Theory of Born Globals”, *Entrepreneurship Theory and Practice* 38 (2014): 117–35.

²⁵ It is commonly accepted that the duration for achieving export sales for a firm to be considered a “born global” can be up to two years. See Bader and Mazzarol, “Defining the Born Global Firm”. A Review of the Literature”.

destination. But all the Indonesian cases were initially only interested in the domestic market, given the large domestic population and significant growth of the country's middle class. Hence, none of the Indonesian cases serve foreign markets alone. Instead in general, they started to export only after being encouraged by friends or government officials or foreign visitors from trade exhibitions.

Even though companies may be able to penetrate their first export market through accidental discoveries or deliberately via networks from previous work places, expansion beyond the first export market will require a more aggressive effort. The initially accidental exporters have now to actively seek out international buyers through their networks, rather than passively wait for buyers to find them. Proactive exporting activities require companies to get more knowledge about foreign markets, a managerial desire to export, unique products, and marketing and related knowledge.²⁶ Likewise, born global firms have to continuously cultivate new networks to reach new markets. The Indonesian cases tend to depend on the government for gathering information and connecting them to international buyers, while the Malaysian cases that actively seek out international buyers tend to use private networking through relevant business associations (MF, MM1 and MC). Indonesian cases, on the other hand, perceive government agencies have far greater competencies and capabilities for helping them compared to private networks, including non-governmental organizations (NGOs).

The significant difference between Indonesian and Malaysian cases may be attributed to the political economy in Malaysia where long years of affirmative action for the Bumiputera community have forced the non-Malay business community to be more reliant on themselves rather than on the government. However, this perception is also slowly changing as second-generation owners and managers as in the case of MH1 and MWF, are also learning to tap into government networks for their

²⁶ A. da Rocha, C.H. Christensen and C.E. da Cunha, "Aggressive and Passive Exporters: A Study in the Brazilian Furniture Industry", *International Marketing Review* 7, Issue 5 (1990) <<https://doi.org/10.1108/EUM000000001531>>.

respective internationalization efforts. It should be noted that the two Malaysian cases with Bumiputera equity in their respective companies, namely MH2 and MG, have strong networks with the government in Malaysia. To be sure, they do not in fact totally neglect private networks.

The role of the entrepreneur in making the shift towards active exporting is important. All the cases in both countries, with the exception of one Indonesian case,²⁷ consider the entrepreneur's vision as a very important factor for success. They all agree that it is the entrepreneur's vision that sustains exporting ventures beyond the first venture overseas. This is particularly important since the large domestic market is a disincentive for Indonesian entrepreneurs to internationalize their operations. The domestic market is also perceived to be a safe haven in times of economic crises especially during the Asian financial crisis in 1997 due to the shift in demand from imports to less expensive domestically produced goods.

Finally, the relative importance of ASEAN is divided between the Indonesian and Malaysian cases. While the Indonesian cases consider competition from other ASEAN countries a deterrent, this is not necessarily the case for the Malaysian companies interviewed, although they may nevertheless not be interested in the ASEAN market for reasons explained earlier. This can be attributed to the fact that the Malaysian cases believe that they have unique selling propositions in terms of their product offerings, especially those investing in R&D such as MH1, MH2, MG and MC.

CONCLUSION

Firms go international for a variety of reasons: typically, it is to increase sales, improve profits, diversify risks, reap economies of scale, match the moves of competitors, enhance their competitiveness, or obtain

²⁷ Although IH consider network to be relatively more important compared to an entrepreneur's vision, the latter is ranked a close second to the former.

government incentives.²⁸ Thus even when the domestic market is sizeable, there are still enough incentives to nudge firms towards the external market. The primary reasons for not venturing beyond home shores lie mainly in the lack of resources, be it financial, or non-financial such as technical or practical information, including the use of free trade agreements.

The cases in this study show that the intention to export is not necessarily there even when firms have started exporting. Nevertheless, as these entrepreneurs continue to grow their companies, be it at the national or global level, they tend to pursue for more exports. Hence, firms progressively learn to use both government and/or private networks to position themselves better to meet potential international buyers, thereby shifting from being accidental exporters to being intentional exporters. In this regard, the entrepreneurs' vision play a vital role in actively seeking out opportunities "to see and to be seen".²⁹

In the final analysis, the relatively small share of exports contributed by the MSMEs in Indonesia and Malaysia indicates that much more needs to be done to get more MSMEs on board the export journey. Since the lack of information and knowledge on exporting is a major constraint on a firm's ability to internationalize their operations, both government and non-government institutions need to play an important role in providing vital information on potential export market and buyers, including market rules and regulations.

While the Indonesian cases in particular highlight the important role of the government, the Malaysian cases show that private networks can help bridge the information gap for these firms. This is because both governments face fiscal constraints in helping the internationalization efforts of their MSMEs. Moreover, there are overlapping MSME programmes particularly in Indonesia, involving many government

²⁸ R.P. Biggs, "10 Reasons to go International", (n.d.) <http://choosewashingtonstate.com/wp-content/uploads/2013/06/10_Reasons_to_go_International.pdf> (accessed 6 December 2017).

²⁹ This is in the words of one of the entrepreneurs interviewed in Malaysia (G1).

ministries. Streamlining these programmes will reduce overlapping and facilitate a more efficient way of using limited financial resources to serve a very larger number of MSMEs. Likewise, there is a need to strengthen the role of private associations in Malaysia and expand the reach of government programmes through more broad-based initiatives such as in-depth country market reports from MATRADE's numerous international offices for MSMEs and diligent monitoring of performance outcomes from the generous grants and incentives awarded.

Associations can also disseminate information about the ASEAN market including the rules of origin (RoOs) and documentation required for accessing ASEAN tariff privileges. This is especially important for Indonesia. The Indonesian cases and findings from other studies³⁰ show that a majority of MSMEs in Indonesia are not aware of existing ASEAN-led free trade agreements (FTAs), and/or do not know how to use these agreements, including RoOs and the associated certificate of origin (CoO).

ASEAN has already come up with an ASEAN Standards and Conformance Strategic Plan 2016–2025,³¹ but it remains to be seen if this can eliminate technical barriers and facilitate intra-ASEAN trade. After all, it is the implementation gap that needs to be overcome for ASEAN to realize its ambitions for 2025.

³⁰ See, for example, Anas, Mangunsong and Panjaitan, “Indonesian SME Participation in ASEAN Economic Integration”; Tulus Tambunan, “Utilisation of Existing ASEAN-FTAs by Local Micro-, Small- and Medium-Sized Enterprises”, ARTNeT Policy Brief, No. 45, May 2015, Bangkok: ESCAP (UN); Tulus Tambunan and Alexander Chandra, “Utilisation Rate of Free Trade Agreements (FTAs) by Local Micro-, Small- and Medium-Sized Enterprises: A Story of ASEAN”, *Journal of International Business and Economics* 2, no. 2 (2014): 133–63.

³¹ See <http://asean.org/storage/2012/05/ENDORSED-ACCSQ-Strategic-Plan-2016-2025_for-External-Parties.pdf> (accessed 6 December 2017).

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