



**Asia-Pacific  
Economic Cooperation**

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## **Free Trade Agreement Use by SMEs: Evidence from Asia**

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# FTA Use by SMEs: Evidence from Asia

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APEC Workshop

“Increasing FTA Utilization by SMEs”

Tokyo

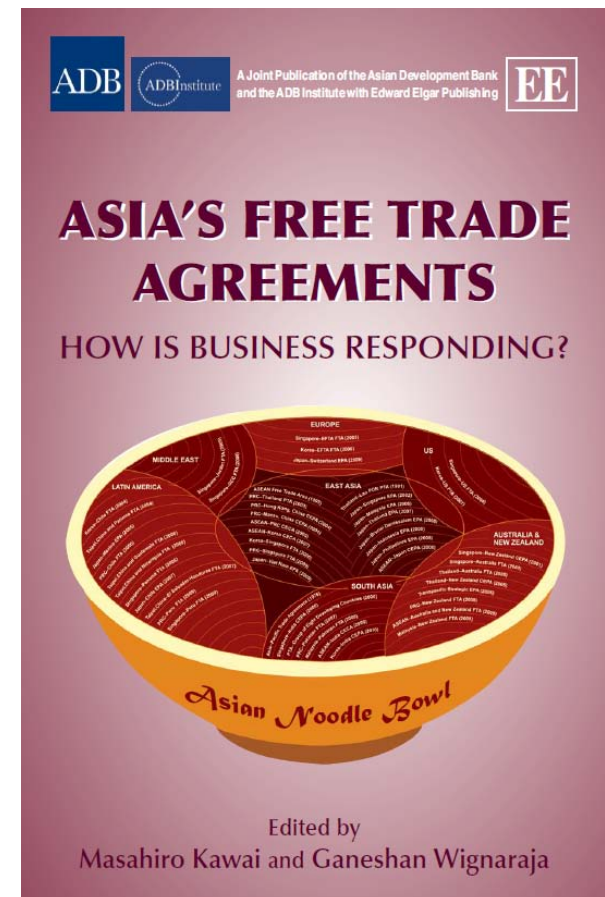
07 August 2012

# Messages

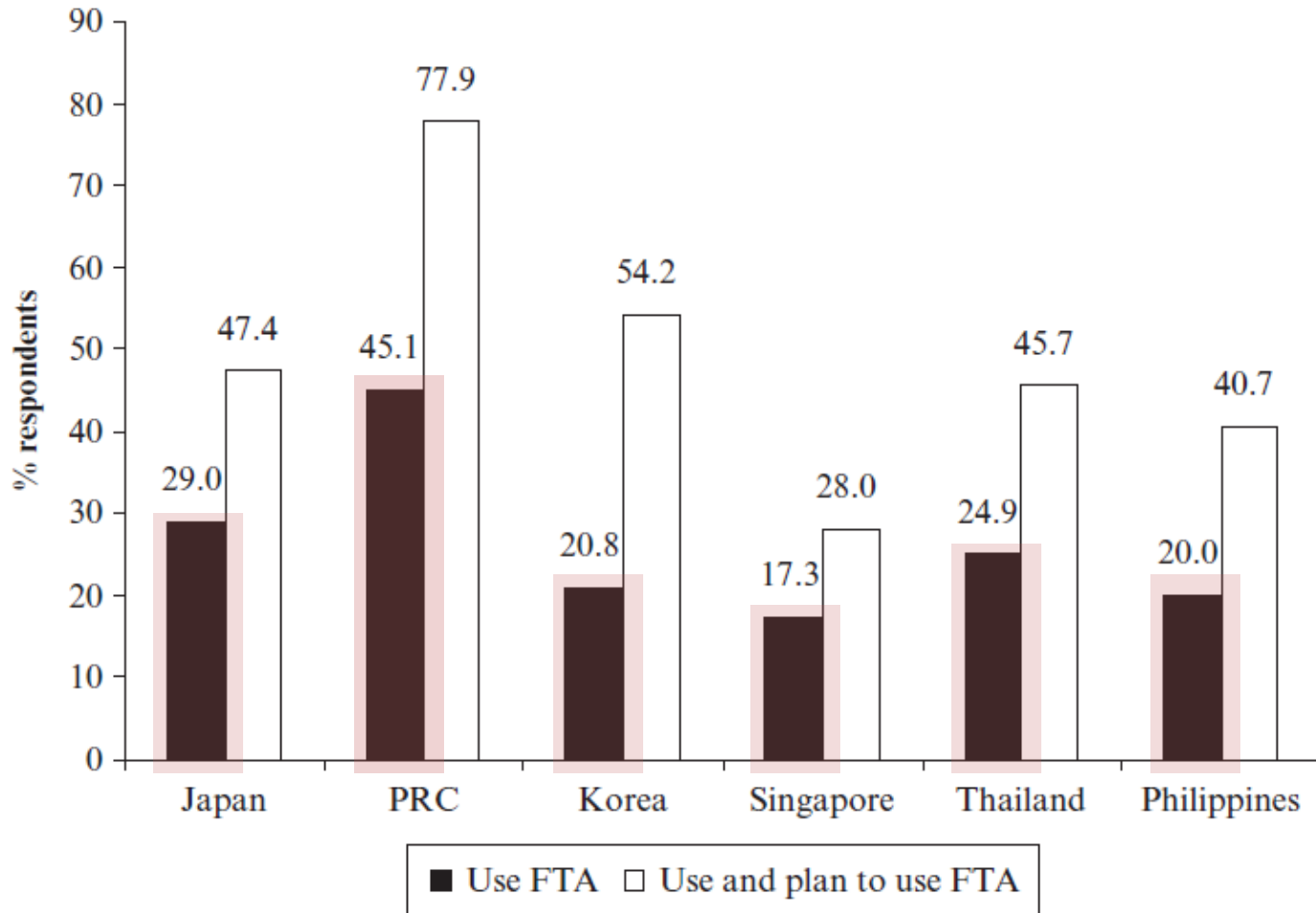
- SMEs are the backbone of development in Asian economies but play a limited role in international trade and FTAs
- Key impediments to SME FTA use
  - internal (e.g. scale economies, fixed costs, strategy)
  - external (e.g. information, margins of preference, red tape, NTMs etc)
- Big demand for support to raise SME FTA usage
- APEC can play a valuable role in raising awareness and providing best practices

# Methodology

- Surveyed **841 firms** in six East Asian countries
- **Randomly selected** from public and private directories
- Broadly **reflects breakdown** of manufactured exports in each country




















# Proportion of FTA Users



Source: Kawai and Wignaraja (2011)

# Firm Characteristics of FTA Users

	Japan	China	Singapore	Thailand	Philippines
Larger					
Older					
Foreign					
FTA Detailed Knowledge					
Business Response to FTAs					

Source: Kawai and Wignaraja (2011)

# Impediments to FTA Use

Table 2.2 *Impediments to using FTAs (number of respondents, % respondents)*

Impediment	Japan	PRC	Korea	Singapore	Thailand	Philippines <sup>a</sup>
Lack of information	5 (33.3)	102 (45.1)	41 (34.2)	5 (25.0)	–	94 (70.1)
Use of EPZ schemes or ITA	–	20 (8.8)	–	–	–	36 (26.9)
Delays and administrative costs <sup>b</sup>	8 (53.3)	24 (10.6)	13 (10.8)	12 (60.0)	8 (22.2)	41 (30.6)
Small preference margins	5 (33.3)	32 (14.2)	43 (35.8)	12 (60.0)	6 (16.7)	18 (13.4)
Too many exclusions	–	10 (4.4)	–	–	9 (25.0)	20 (14.9)
Rent-seeking NTMs in FTA partners	–	12 (5.3)	–	–	–	31 (23.1)
Confidentiality of information required <sup>b</sup>	–	14 (6.2)	5 (4.2)	–	13 (36.1)	12 (9.0)
Number of respondents <sup>c</sup>	4 (26.7)	24 (10.6)	–	6 (30.0)	–	17 (12.7)
	15 (100.0)	226 (100.0)	120 (100.0)	20 (100.0)	36 (100.0)	134 (100.0)

Source: Kawai and Wignaraja (2011)

# Benefits and Costs of FTA Use

Table 2.3 *Benefits and costs of FTAs (number of respondents)*

Benefits and Costs of FTAs	AFTA	ASEAN– PRC CECA	Japan– Thailand EPA	Thailand– Australia FTA
<b>Benefits of FTAs</b>				
Market access	36	111	24	5
Preferential tariffs	32	59	11	3
Concentration of production	16	33	13	6
New business opportunities	14	62	9	2
<b>Costs of FTAs</b>				
Increased competition	13	46	5	3
Documentation relating to FTA use	11	45	5	1
Competitive disadvantage	7	28	4	0
Relocation of production	10	12	1	1

Source: Kawai and Wignaraja (2011)



# Demand for FTA Support

Types of services	PRC		Thailand		Philippines	
	% respondents (n = 225)	% SMEs (n = 41)	% respondents (n = 202)	% SMEs (n = 106)	% respondents (n = 155)	% SMEs (n = 64)
Awareness training on concluded FTAs	79.1	82.9	33.7	52.8	82.6	82.8
Information on implications of FTAs for business	83.1	85.4	49.0	58.5	65.2	65.6
Upgrading of technical standards and quality	27.1	24.4	44.6	50.0	52.3	56.3
Adoption of EDI to speed up and simplify procedures for ROO certification	57.8	65.9	25.7	35.8	53.5	56.3
Financial support for upgrading technology and skills	34.7	29.3	36.1	33.0	41.9	45.3
Enhanced consultations during FTA negotiations	39.6	34.1	27.7	32.1	42.6	40.6
Improved extension services for SMEs	40.9	56.1	21.8	26.4	46.5	45.3
Surveillance of NTMs in FTA partner country markets	42.7	41.5	19.3	29.2	38.1	42.2

Source: Kawai and Wignaraja (2011)

# Satisfaction with Initiatives for SMEs

Importance Rating	Government Initiatives	Satisfaction Rating						
		<i>Indonesia</i>	<i>Philippines</i>	<i>Thailand</i>	<i>Brunei</i>	<i>Singapore</i>	<i>Malaysia</i>	<i>Average</i>
<b>4.28</b>	<b>Financing</b>	<b>2.40</b>	<b>2.52</b>	<b>2.97</b>	<b>3.62</b>	<b>3.28</b>	<b>3.21</b>	<b>3.00</b>
4.01	Programmes for skills training	2.51	2.85	2.88	3.17	3.50	3.31	3.04
<b>3.99</b>	<b>Info on opportunities from ASEAN and ASEAN-plus FTAs</b>	<b>2.38</b>	<b>2.48</b>	<b>2.78</b>	<b>2.71</b>	<b>2.95</b>	<b>3.00</b>	<b>2.72</b>
<b>3.99</b>	<b>Info on opportunities in trade and investment in ASEAN</b>	<b>2.42</b>	<b>2.30</b>	<b>2.90</b>	<b>2.79</b>	<b>3.13</b>	<b>3.50</b>	<b>2.84</b>
<b>3.93</b>	<b>Programmes to develop entrepreneurship</b>	<b>2.54</b>	<b>2.67</b>	<b>2.71</b>	<b>3.44</b>	<b>3.33</b>	<b>3.23</b>	<b>2.99</b>
3.92	Platforms to promote networking in ASEAN	2.35	2.41	2.67	3.07	2.86	3.00	2.73
3.91	Assistance to participate in trade fairs and festivals in ASEAN	2.45	2.19	2.97	3.18	3.05	3.38	2.87
3.89	Promote SME participation in regional production networks	2.40	2.37	2.58	2.81	2.93	3.08	2.70
3.88	Info on FTA-related documents, templates and forms	2.29	2.41	2.68	2.76	2.98	3.00	2.69
3.85	Info on SME Service Centres	2.33	2.33	2.66	2.88	3.00	3.17	2.73
	Overall satisfaction level	<b>2.41</b>	<b>2.45</b>	<b>2.78</b>	<b>3.04</b>	<b>3.10</b>	<b>3.19</b>	<b>2.83</b>
	No. of respondents	<b>84</b>	<b>26</b>	<b>31</b>	<b>18</b>	<b>44</b>	<b>12</b>	<b>215</b>

Source: Wong and Wirjo (2012)

# What can APEC do?

- APEC has an FTA portal and conduct seminars. Can further expand APEC- and industry-specific initiatives to **assist SME use** of regional FTAs -- e.g. TPP
- Spread best practices in **support services for SMEs** to engage in international trade and FTAs -- e.g. financing, capacity building, market access, consulting and regional cooperation
- Accelerate completion of Single Window initiative to streamline custom procedures and **reduce bureaucracy**