

Chapter 1

Overview: Integrating Small and Medium Enterprises (SMEs) into the More Integrated East Asia

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1. Background and Research Objective

At the Summit in December 1997, the ASEAN Leaders decided to adopt the ASEAN 2020 Vision, aiming at transforming ASEAN into a stable, prosperous, and highly competitive region with equitable economic development, and reduced poverty and socio-economic disparities. The Vision was re-affirmed at the ASEAN Summits in 2007. The ASEAN Leaders expressed their commitment to accelerate the establishment of an ASEAN Economic Community (AEC) by 2015 as a single market and production base. In line with this, the ASEAN Economic Ministers Meeting (AEM) in August 2006 agreed to develop “*a single and coherent blueprint for advancing the AEC by identifying the characteristics and elements of the AEC...*” .

In this framework, ASEAN adopted the Policy Blueprint in 2004-2014 that outlines the framework for SME development as a key measure for equitable economic development in ASEAN region. Specifically, its objectives are to: (i) accelerate the pace of SME development, optimizing on the diversities of ASEAN Member countries; (ii) enhance the competitiveness and dynamism of ASEAN SMEs by facilitating their access to information, market, human resource development and skills, finance as well as technology; (iii) strengthen the resilience of ASEAN SMEs to better withstand adverse macroeconomic and financial difficulties, as well as the challenges of a more liberalized trading environment; *and* (iv) increase the contribution of SMEs to the overall economic growth and development of ASEAN as a region.

Among the actions is the promotion of SME networking and their participation in the regional production and distribution networks. From theoretical points of view, the role of SMEs in a cross-country production network is related to the idea of a “flagship”. A flagship provides strategic and organizational leadership beyond resources that lie directly under management’s control (Rugman 1997), and therefore a strategy of a flagship company governs the position and role of participating firms in the network. These include SMEs, for the reason that a flagship company retains in-house much of its activities in that the company has some comparative advantage on and it outsources the rest.

Production networks models postulate that there are at least two-tiers of suppliers that provide a flagship company, or assemblers of final goods with intermediate inputs. SMEs are usually part of firms in the lower-tiers. The main competitive value of firms in these tiers come from the low cost structure and high degree of flexibility. However, a significant proportion of SMEs are also at risk because of the more liberalized and fiercer competitive environment – as a general consensus, growth of production networks, particular those in East Asia, was significantly contributed by trade and investment liberalization during the 1980s and 1990s. There is a survival threat because SMEs are located in the weakest link in a production network; they are typically used as price breakers and capacity buffers, and therefore, can be dropped from the network at short notice (Ernst 2004). This threat needs to be addressed, via improvements in specialization, productivity and linkages, all of which need skilled human resources and a strong base for knowledge dissemination, as well as strong international linkages for facilitating all of these (Ernst 2004).

In East Asia, international production networks in manufacturing, particularly machinery industries, have developed over the last two decades with drastic increase in intra-industry trade and vertical back-and-forth transactions of parts and components. In the production networks the role of SMEs can not be neglected.

The ERIA has completed a research project examining SMEs policies within the framework of globalization and production networks with particular emphases on 4 areas: innovativeness, market expansion, competitiveness, and networking for ten countries in the region. This is consistent with the objectives of ERIA, two of which are to facilitate AEC buildings and to support ASEAN's role as the driver of wider economic integration. The findings from the research reveal that the challenges faced by SMEs to embrace these four areas are heterogeneous depending on stages of industrialization and business environment of each participating countries. The findings seem to conclude that internal barriers such as poor access to finance, lack of human resources, inadequate infrastructure, lack of legal and regulation framework, and poor investment and business climate appear to be dominant in most developing Asian countries (Lim 2009). General policy recommendations have been laid out to address these challenges.

The ERIA SMEs research in Fiscal Year 2009 aims at improving our understanding on how to effectively increase SMEs participation in the East Asian production networks and what their issues and challenges are. The research does not only contribute to filling the theory-practice gap, but also lay down a good foundation for designing national arrangements as well as a regional institutional framework for supporting SMEs.

In the attempt to achieve the objective, the study put forward two interrelated and general questions: (1) what are the constraints of SME growth, both in general and according to the status of SME participation in production networks?, and (2) which firm characteristics determine SME participation and performance in production networks? Answering these questions extend the previous research by an attempt to create an integrated understanding about the situation at regional level.

2. Methodology

This study adopts a uniform questionnaire survey to accommodate the integrative nature of the study. The advantage of using this method is the ability to produce comparative statistics and analysis across the countries participated in the research. The questionnaire has two parts. The first part asks SMEs about their perception on the importance of some barriers of SME growth identified by earlier studies, while the second part collects information about the characteristics of the SMEs. Given the topic of this study, the questionnaire obviously asks several questions that try to identify the position of the respondents in the network of production.

The survey was conducted over the two or three last months of 2009 and adopts a one-to-one approach to minimize reporting errors (i.e., the researchers pay one or two visits to the respondents in order to complete the information needed by the questionnaire). As a result, the study managed to gather slightly more than 900

respondents covering eight ASEAN member countries (i.e., Cambodia, Lao PDR, Vietnam, Thailand, Malaysia, Indonesia, and the Philippine) only in a limited time.¹

3. Structure of the Report and Key Findings

Chapter 2 provides a context for the analysis and discussion in the subsequent chapters, contributed by Charles Harvie. In particular, it reviews the role and significance of the SME sector in the economic development of East Asia, discusses the potential opportunities and challenges facing SMEs from participation in production networks, and highlights key areas for capacity building if SMEs are to achieve their full potential from this participation.

In Chapter 3, Charles Harvie develops and presents a framework for analysis of the characteristics required to enhance the capability of SMEs participating in regional production networks. The framework provides the basis for the empirical analysis, hypotheses testing and profiling developed in subsequent chapters, aimed at highlighting the key characteristics of SMEs that participate in production networks and, in particular, the characteristics of those SMEs that participate in high quality parts of a production network. The discussion in the framework emphasizes the importance of resource factors, psychological factors and external environment factors in impacting upon the barriers and capability of an SME, and that this determines the business strategy adopted by the SME. One of these involves the decision to participate in a production network.

The authors of the previous chapter continue their work by empirically investigate SME participation and performance in production networks. This is done in Chapter 4. The investigation gauges the constraints of SME growth and firm characteristics determinants, building on the framework developed earlier and based on the *ERIA Survey on SME Participation in Production Networks*.

¹ The study for Japan in this Working Group does not have the survey component, owing to limited resources. The Japanese country study utilizes the data of Japanese firms who have small and medium affiliates in other countries in the Asian region.

The results of perception survey indicate differences in the constraints facing SMEs that operate in production networks, compared to those that do not operate in the networks. SMEs in production networks consider distribution-logistics and business environment barriers more importantly than those out of the networks. The descriptive and econometric results suggest that productivity, foreign ownership, financial characteristics, innovation efforts, and managerial/entrepreneurial attitude are the important firm characteristics that determine SME participation in production networks.

This chapter extends the analyses by considering the issue of SMEs and moving up to higher-quality tiers in production networks. For those operating in lower-quality tiers of production network, internal constraints are critical, and this is in contrast to external constraints faced by those in higher-quality tiers of the network. Meanwhile, the econometric analysis reveals similar characteristic determinants as those for the SME participation in production network. The difference is that, now size becomes an important determinant while effort to innovate and managerial attitude become less important determinants.

In Chapter 5, Chheang Vannarith, Oum Sothea, and Leng Thearith emphasize a significant role of SMEs in Cambodian economic development, especially in the context of the global economic crisis. Regional integration in Southeast and East Asia has created both opportunities and challenges for Cambodia's SMEs. Their limited capacity for business expansion and integration in production networks restrain Cambodia SMEs from making use of regional integration. There are certain different characteristics for those SMEs that participate in production networks from those which do not, such as their higher productivity, business capability and innovation. Most surveyed SMEs are operating under severe internal constraints. For those that are not in the production networks, the majority of the constraints are in their Functional Barriers (management, finance capability) and ability to compete (Product and Price barriers), and "Information" appear to be their main hindrances. For SMEs that are in production networks, both the detailed and main category ranking of constraints is consistently high on "Functional Barriers" and "Product and Price Barriers". Though SMEs receive some assistance, they still need support in the fields of "Business linkages and networking" and "Financing". Since access to financing is consistently viewed as one of the biggest constraints faced by SMEs, specialized SME banks, which are very common in the

region, should be established, or a loan or mortgage guarantee from the government as practiced in Indonesia should be considered. An SME Development Fund and SME Business Development Services (BDS) could be another option to iron out these constraints.

Phouphet Kyophilavong, for his Chapter 6 on Laos, examines the barriers confronting Lao SMEs and to identify factors enabling successful participation in production networks. The results show that recently Lao SMEs have performed quite well, but they are still facing various issues; financial constraints are the biggest challenge for Lao SMEs. In terms of internal barriers, a shortage of working capital is top ranked, followed by the difficulty of matching competitors' prices. In terms of external barriers, lack of government assistance/incentives and poor economic conditions in home market are top ranked. Production and price barriers are ranked as the most important barriers. The characteristics of SMEs in production networks are strong business capacities, a high share of foreign investors, and the ability to access financial sources. Therefore, the government has given high priority to solve these issues and to promoting membership by Lao SMEs of business networks in ASEAN. In order to promote production networks, it is especially important to address is the shortage of working capital, as well as to improve SMEs to meet international standards.

Tran Tien Cuong, Bui Van Dung, Nguyen Thanh Tam, Trinh Duc Chieu, takes up in Chapter 7, the case of Vietnam. The Chapter indicates that during the process of entering production networks, Vietnamese SMEs are confronted with many obstacles. These obstacles are the result of businesses internal factors, such as limitations in capital, technology, and human resource, as well as a lack of market information about. External difficulties and challenges arise from the pressure of meeting the requirements of foreign manufacturers or importers in the production networks, and limitations of macro-economic policies such as tariffs, technical barriers and the general business environment. As for the solutions, the authors argues that the Government should diversify sources of information, such as enhancing the function and effectiveness of Vietnamese trade missions abroad, establishing an integrated information system, improving in the government's trade promotion programs, technology transfer, raise the quality of human resource by improving professional training systems, solving the

problem of shortages of working capital to finance new business plans by promoting a national credit guarantee program for SMEs, and improving establishing and maintaining a transparent and favorable business environment. For SMEs part, the authors suggest that SMEs should, first, offer competitive prices to customers by cutting unnecessary costs, and improving the quality of products and by-products. SMEs must also take the initiative in accessing sources of information and invest more in these long-term activities such as research and development (R&D). Better treatment and working environments to attract and retain excellent and skilled workforce.

In Chapter 8, Chaoyuth Punyasavatsut examines barriers facing Thai SMEs, and identifies success factors for better participation in production networks. Overall, SMEs in Thailand perceived external barriers - business environment and tax, tariff and nontariff- as the most significant barriers. Key barriers for SMEs in the networks are difficulties in meeting product quality and standards, and in matching competitors' prices, and lack of personnel for market expansion. Salient characteristics among SMEs participating actively in networks are their strong technological capabilities and proximity to ports or location within industrial estates. As for policy recommendation, the author proposed that, first of all, Thailand urgently needs to improve its investment climate. At the moment, a stable and secure investment in Thailand requires political stability and clarification of regulations and enforcement. Second, Thailand needs to strengthen the absorptive capacities of SMEs with special attention given to technological capability development, and dissemination to SMEs. Third, Thailand will also need to keep raising the size and quality of its science and technology workforce. Fourth, Thailand needs proactive support for networking between large enterprises and SMEs. Previous supporting activities were mainly limited to awareness-building and matching SMEs with MNEs. Future policies for strengthening business linkages and the absorptive capacities of domestic SMEs will need to be exercised in a better-coordinated manner.

In Chapter 9, Rajah Rasiah, Mohd Rosli, and Puvanesvaran Sanjivee assess the impact of production networks on productivity, exports and technological upgrading of SMEs in the Malaysian electric-electronics, textiles-garments, automotive, and wood industries. They find that whereas more integrated firms were showing higher production linkages domestically, less integrated firms showed higher export intensities.

Among the technological variables that were significant, less integrated firms showed higher intensities than more integrated firms. More integrated firms reported higher incidence of barriers and potential solutions than less integrated firms among the statistically significant differences in the means. Although more integrated SMEs appear to face more serious financial problems than less integrated firms, it is largely because of the latter being smaller than the former. The policy solution for Malaysian SMEs here then should be targeted at examining, in greater detail, the sources of finance accessed by the smaller SMEs. Given the positive results of domestic production networks, the Malaysian government should include the ex-ante vetting, monitoring and ex-post appraisal of SME conduct and performance using domestic production network framework to better support them. In doing so it is also important to give greater weight to the specificity of each of the industries as the nature of influence exerted by production networks tends to be different in each of them. It will also help governments in Southeast Asia to carefully examine the nexus between suppliers, buyers, and economic performance so as to stimulate inter-firm production synergies to capture greater performance by the firms. Connecting in value chains is the starting point. Efforts must then be taken to stimulate their movement atop the value chain.

In Chapter 10, T.M Zakir Machmud and Rizki N Siregar identify and examine key characteristics and constraints faced by Indonesian SMEs, in general and according to their status in production networks, as well as to draw some policy implications. The survey reveals that there are significant differences between the characteristics and perceptions of the production network group and those of the out-of-production network group. These variations in perceptions result from differences in group characteristics and the circumstances these two groups face. Therefore, different policy approaches are recommended. The study utilizes a survey of selected manufacturing industries that was recently conducted in three provinces in Java. The key characteristics findings are as follows: overall, the majority of SMEs surveyed are domestically owned, traditionally organized and still domestic-oriented. On average, they have been established for more than 15 years, employ up to 50 workers, of whom a large proportion are males with high school-level education or less, they still rely on their own money to finance their business, and they sell their product primarily to local final assemblers and wholesalers/retailers. The SMEs surveyed also mainly acquire raw

materials from local suppliers. While the characteristics of out-of-production network SMEs have a lot in common with the overall sample, the characteristics of production network SMEs vary greatly. Although only a small number were included in the survey, production network SMEs are on average bigger in size, conduct their businesses using modern methods, and are more open internationally. The significant variation in characteristics between the two groups is also reflected in the groups' perceived barriers to SME growth and development, as well as in the effectiveness of assistance received. While out-of-production network SMEs are more concerned about internal barriers, those working within production networks focus more on external barriers. Taking into account these differences in characteristics and perceptions, separate policy measures should be addressed for each group.

Rafaelita Aldaba, Erlinda Medalla, Fatima del Prado and Donald Yasay, for Chapter 11 on the Philippines, examine the characteristics and factors that constrain the growth of SMEs operating both within and outside production networks. Based on a survey of 101 firms, the analysis shows that SMEs are not homogeneous. While they share certain characteristics such as age, Filipino ownership, and foreign equity share; they differ in terms of performance, export intensity, interest rates on borrowings, major sources of finance, and other economic indicators. The results also show that participation in international production networks (IPNs) benefits SMEs, particularly parts and components makers in the electronics and auto industries. In terms of performance, IPN firms have higher mean growth rates and mean labor productivity than non-IPN firms. In terms of barriers to growth, IPN firms are primarily concerned with product and price barriers and difficulties in establishing and maintaining trust with business partners while non-IPN firms' major concerns are tax, tariff and non-tariff barriers and the country's deteriorating business environment. Two themes dominate SMEs' concerns about the type of assistance needed. For IPN firms, financing assistance is crucial while for non-IPN firms, technology development is the most important.

Sun Xuegong, Liu Xueyan, in Chapter 12, in their study on SMEs in China concludes that small and medium enterprises (SMEs) play an important role in China's economy, contributing a significant share of GDP, employment and tax. They argue that as China has been increasingly integrating with the world and regional economy,

SMEs have been presented with opportunities to be part of international production networks. However, their lack of access to external financing, weak business capabilities, less competitive prices and quality of products, and a deficiency of market information have proved to be major barriers for their integration into networks, as suggested by this survey conducted in Tianjin city, China. The survey also shows that other significant factors inhibiting integration include the location of an SME, measured both by distance to a major sea or air port, and by whether or not it is situated in a development zone, the education attainment of its employees, the size of the SME and the industry in which it operates. As for policy recommendation, China needs to address both the barriers to integration and the most needed assistance, as perceived by the SME. Based on the survey, China should improve the access of SMEs to financing by adjusting the financial structure and market, strengthen the business capability of SMEs by better public service, modernize the information service to SMEs, and improve the use of development zones so as to boost integration.

In Chapter 13, Mitsuyo Ando investigates the mechanisms and features of the development of international production/distribution networks in East Asia, focusing on the Japanese SMEs, from the viewpoint of one of the major players in the regional production networks. The analysis demonstrates that active FDI in vertical supply chains by SMEs, particularly in recent years, contributes to the formation of agglomeration and industrial clusters and further development of the networks in East Asia. Our analysis also demonstrates that competitive SMEs are likely to expand their operations both domestically and internationally, mainly in East Asia, by effectively being involved in the production/distribution networks in the region. To further develop international production networks and to deeply involve SMEs in the networks, various facilitation measures are important for both hosting and investing countries. On the host country side, besides reduction of tariffs on parts and final products, factors such as strengthening protection of IPRs, ensuring security and safety, and speedy procedures for trade and investment seem to be effective measures to help promote foreign market expansion and FDI for SMEs. Moreover, regardless of whether large firms or SMEs, the development of human capital and physical infrastructure, transparency in legal systems and their implementation, particularly of tax-related regulations, and improvement of labor-related issues are keys for hosting FDI. On the investing side,

providing various financing arrangements would help SMEs seeking investment to obtain financial resources. Furthermore, an assistance of investing firms, particularly investing SMEs, in gathering necessary local information is crucial to facilitate investment. All of these efforts from various different angles for both hosting and investing countries should encourage SMEs to be an essential part of East Asia's international production/distribution networks, and thereby assist in strengthening their competitiveness by effectively being involved in these networks.

4. Policy Implications

The findings from analysis of the constraints of SMEs development, especially from regional perspective create several important policy implications. *First*, they reconfirm the common understanding of most issues faced by the SMEs in region, such as poor access to finance, unfavorable business and investment environment (in broad view), and low internal capacity. Meanwhile, those superior characteristics of SMEs in production network over those not engaged in indicate that participation in production network strongly benefits SMEs and that the more developed the higher probability an SME participating in a production network. Therefore, a growth-oriented policy should focus on promoting SMEs to participate in production networks and in turn, it requires also the overall measures to develop SMEs.

Second, though the low-quality and better-quality SMEs that participate in production network share similar most serious constraints for development, there is a room for SMEs to upgrade their position, from lower to higher tiers, in production network. This is supported by the findings in chapter 4. Specifically, SMEs are suggested to have higher chance to upgrade to the higher-quality tiers of production networks if they are able to, among other, improve their productivity, have more of foreign ownership share, and have better access to financial support.

Third, an effective engagement of SMEs in production network is also outcome of the interaction between several domestic and external factors, which can significantly affect SMEs' international linkages and production cost, and their ability to have new

business and to expand production. This is particular the case of deeper regional integration and the institutional arrangements at regional level for supporting SMEs can play an important role.

Developing SMEs and promoting SMEs to engage in PN

The most serious barrier that impedes SMEs from developing and exploring their business opportunities is capital shortage. There are several factors conditioning SMEs to *access to formal finance*. First, SMEs often do not have assets that can be given to creditors as collateral. Second, a plenty of SMEs basically cannot meet the commercial bank standards though willing to take loans. Third, the survey also finds that retained earning and personal saving are the two main financial sources for SMEs in general and SMEs that do not participate. This implies that several SMEs may not be well exposed to various financial sources. In addition, they tend to be risk-averse in making decision to expand business using third parties' funds.

To address the above problems, a multi-pronged approach is needed. In order to help credit institutions to mitigate the risk associated with SME loans, credit reporting agencies should be established either privately or publicly. Various credit guarantee schemes can be developed for helping SMEs to access to finance. To minimize the moral hazard problem, it is preferable for private sector and business associations to be important players in these schemes. Direct financing for SMEs through stock market should also be realized. SMEs can also benefit from leasing activities in financing their medium and long term investment such as purchasing machineries and durable assets for their business. It is important to develop and strengthen various microfinance institutions that provide loans to SMEs.

As “the poor and deteriorating economic conditions” named the most impediment barrier for SMEs in the region to develop, there is a plenty of rooms for the governments to improve *business and investment environment* to help SMEs. This is particularly strongly recommended for the transition countries CLV. This includes simplifying administrative procedures, harmonizing legal frameworks for doing business, increasing policy transparency and accountability, improving infrastructure such as transportation network and logistic system, and expanding the capacity of providing public utilities. All these requirements are widely understood by all regional

countries. The only thing worth noting is that the improvement of overall business and investment environment is much more effective for supporting longer term development of SMES rather than financial and fiscal incentives, which could create distortions in resources allocation.

Insufficient quantity of and/or untrained personnel is one of the big constraint for SMEs in ASEAN countries, especially in CLV countries to compete effectively. *Capacity building* is an essential measure to strengthen SMES' managerial skills and capability. In particular, this helps SMES to meet the standard requirements (e.g. on project proposals, financial statements, accounting reports) for getting access to formal finance. Together with the improvement/reform of professional education and training system (in the long-run), several types of capacity building programs such as counseling and advice, business coaching, and short-run on-job training, could be run for SMEs. Training on modern management system or training on (simple) information and communication technology will help SMEs benefit much in terms of accessing to wider and more thorough market information.

Last but not least, sharing lessons learnt by SMEs, especially by those participating in production network, would raise SMEs' awareness of balance between costs and benefits of being engaged in production network and hence, encourage their willingness to be a link of value chain in the production network.

Promoting SMEs to participate more effectively in production network

The participation in production network means that SMEs, especially those being in the lower-tier of production network, can have more chances to be upgraded by making improvements in specialization, productivity, and linkages (Hirschman 1958). The appropriate policies can play a role of catalyst for this process.

Both theory and our findings suggest that the connection of flagship firms with SMEs can be more effective as their activities concentrate in clusters. *Successful development of clusters* is complex issue, but at least requiring three interrelated conditions, namely, the presence of flagship firms, attractive infrastructure and low service-link cost, and reasonable cooperation between local authorities, firms, and training and R&D centers.

The foreign ownership can play an important role in promoting SMEs to have higher-quality participation in PN. Not only large foreign-invested enterprises as flagship firms, but foreign SMEs (especially those from advanced economies) can also have significant contribution for widening the value of regional PN. Attracting foreign direct investment, therefore, should emphasize equivalently on both large and small and medium firms. To do that, according to the study written by Mitsuyo Ando in this report, the host country side, while reducing tariffs on parts and final products, should strengthen protection of IPRs, ensure security and safety, and speed up procedures for trade and investment. Moreover, the development of human capital and physical infrastructure, transparency in legal systems and their implementation, particularly of tax-related regulations, and improvement of labor-related issues are the key for hosting FDI.

Firm technological an innovation capability is another determinant of the quality upgrading of SMEs in PN. This requires a good infrastructure for technological transfer, namely modern telecommunication network, widely covered internet, highly qualified educational institutions, and IPRs protection. These infrastructures provide a platform to help SMEs to upgrade their technology and products to meet international standards and at the end, to sharpen their competitiveness in the market.

Strengthening the regional institutional arrangements for supporting SMEs

Various *FTAs in East Asia*, being effective or in negotiations have been supporting the region to move from market-driven to a more institutionalized economic integration. They can have significant impacts on the involvement of SMEs in the regional PN. The FTAs' impacts could be very positive, but, depending on several factors, as shown by a number of studies. First, the FTAs should deepen the multilateral trade arrangements of East Asian economies and be harmonized in setting ROO, which usually make distortions in and higher costs for trade flows, especially those having SMEs' involvement. As establishment of the AEC is to have a single market and production base, harmonization of ROO within the AFTA framework with other FTAs of ASEAN+ is very demanding.

Second, the regional economic arrangements should go beyond the traditional FTAS. In that sense, the ASEAN is in right direction of having *comprehensive*

economic partnerships (ECPs) with the key partners, in and outside East Asia. The ECPs include also trade and investment facilitation as well as *various forms of cooperation*. This is very much related to development of “hard” and “soft” regional infrastructure and capacity building programs. The successful establishment of ASEAN “Single Window” can be a good example of how the customs procedures could be harmonized and simplified. Huge capital is required for infrastructure (such as regional high way) development. Funds set up or supported by more advanced countries in East Asia (China, Japan, Korea) and international financial institutions, together with appropriate PPP schemes for project implementation and master planning of development of industrial zones/towns along the economic corridor, can be a solution for efficient infrastructure development.

Moreover, all types of regional cooperation should have components for *capacity building and for SMEs’ development*. The case of IAI is exclusion. Though SMEs share several similarities in terms of challenges/issues facing them, they are heterogeneous. At regional level, it is reasonable for having both general as well as selective and more focus programs to support SMEs. Once again, the exchange of professional, scholars, and entrepreneurs across the regions should be encouraged. This not only promotes information flow, but more importantly also enhances the knowledge stock of all countries, including those relevant for SMEs.

Third, as product standards may act as NTBs, the *regional MRAs* could facilitate SMEs access to market and lower transaction costs by eliminating duplicative testing. Thus, the MRAs could also deepen SMEs participation regional production network. There has been progress in reaching some MRAs among ASEAN countries. But the way to go is still far from the destination. MRAs are needed for various goods produced in East Asia and as noted in Narjoko *et al.*, (2010), the MRAs must be carefully devised to ensure that the lowest quality does not become the standard.

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