

## Policy Options to Remove Export Barriers Encountered by Indonesian SMEs

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### Abstract

Indonesian SMEs are less able to take advantage of free trade and globalization than their large counterparts, contributing only a small share of non-oil and gas exports. This study investigates the export barriers faced by SMEs. Primary data was obtained from survey questionnaires to SMEs in seven provinces in Java, Madura and Bali regions and central government agencies whose policies are related to SMEs and/or international trade. The survey yielded 533 usable responses, including 271 exporting SMEs, 226 non-exporting SMEs and 36 central government agencies. The findings show that the effectiveness of export assistance programs vary across types of assistance and levels of government. Further, policymakers and SMEs had different perceptions on the severities of each type of export barrier. The practical implications of the findings are provided.

**Keywords:** SMEs; internationalization; export barriers; export assistance; Indonesia

**JEL Classification:** F23; L25; M13; M16; O17

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## 1. Introduction

In the midst of latest developments in trade liberalization, local companies are compelled to contend with comparatively better imported products and the multinationals (Awuah & Amal, 2011; Knight, 2000; Ruzzier et al., 2006). However, greater participation in international business activities has been apparent in recent centuries (Welch & Luostarinen, 1999), i.e. enhanced export, import, foreign exchange, leasing, as well as cross-border collaboration (Calof & Beamish, 1995; Ruzzier et al., 2006). Vivid examples include the facts that world merchandise export value has more than tripled in 2001-2014 (ITC, 2016a), global services exports experiencing a similar 3.5-fold increase (ITC, 2016b), world foreign direct investment (FDI) outward stock increase by more than 3.3 times (UNCTAD, 2014, 2015), along with the increased trade openness contributing for the sustainability of businesses' growth and productivity (OECD, 2012) – all despite the global economy being hampered by the 2007-08 global financial crisis.

While the benefits of the phenomenon have been well documented, it may be difficult to argue that such gains have been reaped equally among countries and enterprises. Such inequality can be observed across two levels, with the first being observed at cross-country level. As reported by ITC (2016a), 56 to 60 percent of the global merchandise export value was attributed to the 34 OECD member states. As the fact raises several questions on the ventures of the developing countries in utilizing the opportunities provided by the liberalization, another pressing discrepancy is also observable at the business level. Numerous studies have pointed out that SMEs' contributions in the internationalization are modest at best (Adlung & Soprana, 2013; Dalli, 1995; Kogut & Chang, 1996), and are less likely to engage in outward FDI and/or service exporting activities (Adlung & Soprana, 2013; Breinlich & Criscuolo, 2011; Hollenstein, 2005; OECD, 2012). For instance, in the mid-2000s SMEs in the US, the Netherlands, China, Japan, Switzerland, and the United Kingdom only contributed 30 to 38 percent of their respective national exports (Hammer & Stamps, 2010).

Such occurrences do not elude the developing countries. In fact, the figures are worse – SMEs only accounted for 23 percent of the total value of export in ASEAN member states (Wignaraja, 2012).<sup>1</sup> As such, this study focuses on Indonesia, one of the above-mentioned developing countries. In particular, we aim to analyze the internationalization of Indonesian Small and Medium-sized Enterprises (SMEs). The text discusses three aspects relating to the country's direct export activities. First, we are exploring the export barriers encountered by such enterprises. Second, we would describe the pertinent policymakers' perspectives on such barriers. Third, we formulate appropriate policy recommendations that

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<sup>1</sup>The Association of Southeast Asian Nations (ASEAN) is a regional economic and political cooperation organisation among Southeast Asian countries. ASEAN was founded in 1967 and currently comprises ten member states namely Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Viet Nam, Lao PDR, Myanmar, and Cambodia.

we consider necessary to promote the export given that SMEs and policymakers' identification of the main export barriers are likely to differ.

The relevance of the study may not be understated. SMEs' inability to exploit the gains from free trade may indicate that such enterprises face different challenges and even greater impediments compared to their larger, more mature counterparts. Paying attention on these SMEs is crucial (Hollenstein, 2005; Hymer, 1976; Onkelinx & Sleuwaegen, 2008), as the smaller firms have particular characteristics, i.e. their small size and limited resources, which might prove to be detrimental on their internationalization exploits (Laghzaoui, 2007; Ruzzier et al., 2006). Moreover, the greater degree of difficulty faced in internationalization by SMEs from emerging nations could not be disregarded. This particular study of Indonesian SMEs, in turn, would probably contribute to our understanding of SME internationalization in emerging countries in the face of increased involvement in various Free Trade Agreements (FTAs).<sup>2</sup>

Further delving into the Indonesian context, it is important to note that during 2005–13 SMEs accounted for an immense 99.99 percent of the country's business entities, providing more than 97 percent of job opportunities and 56 to 59 percent of GDP (Ministry of Cooperatives and SMEs Republic of Indonesia, 2009b, 2010a, 2010b, 2013, 2014a, 2015). Such important role<sup>3</sup>, however, was juxtaposed with the miniscule contribution of the SMEs. In 2005-07, the enterprises' share in Indonesia's non-oil and gas exports was reportedly 18.5 percent, while the next couple of three years period saw a decrease to 16.9 percent and 15.4 percent respectively.<sup>4</sup> Above-mentioned facts suggest that SMEs in the country are less able to take advantage of export opportunities than larger companies (Wengel & Rodriguez, 2006). Furthermore, surveys indicate that such SMEs fared worse than most other ASEAN nations (Wignaraja, 2012) and, trivial, developed countries (Hammer & Stamps, 2010). These issues continued amid the government's multiple strategy initiatives such as overall aid (e.g. loan entry, technical and management preparation) and export-related aid (e.g. trade recognition, company pairing, among others).

Since SMEs face complicated export challenges, the efficacy of policies and assistance related to exports needs a thorough understanding of the export operations of SMEs. As for Indonesia, while comprehensive research has been carried out on the small and medium-sized enterprises of the country, only few

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<sup>2</sup>In August 2016, Indonesia had eight FTAs in effect, including ASEAN (1993), ASEAN-China (2010), ASEAN-Australia and New Zealand (2010), ASEAN-India (2010), ASEAN-Japan (2008), ASEAN-Korea (2007), Indonesia-Japan (2008), Indonesia-Pakistan (2013). Indonesia also has ongoing negotiations with several other regional and bilateral FTAs.

<sup>3</sup>Prior to the implementation of the Law No. 20 (2008) on Micro, Small and Medium-Sized Enterprise, the "Small-sized Enterprise" term generally included small and micro-enterprises.

<sup>4</sup>If oil and gas exports are included, SMEs' and micro-enterprises' contribution might be even lower since oil and gas exports are performed by large state-owned enterprises. Hence, this figure supports Wignaraja (2012) that Indonesian SMEs' contribution to total exports was actually 9.3 percent.

shed light on their internationalization, especially their export activities. Of these few research, a rather comprehensive study was made by Revindo (2017) who looked at the stimuli, barriers, strategy, process, determinants dan impact of SMEs internationalization. Other studies only addressed particular and isolated internationalization problems, for instance, the role of human capital (Sari et al., 2008), export stimuli (Revindo & Gan, 2016), export performance (Wengel & Rodriguez, 2006), the impact of trade facilitation programs (Tambunan, 2009b) the impact of sector clustering on exports (Tambunan, 2009a), export barriers typology (Revindo, 2018) and export strategy (Revindo et al., 2017).

Moreover, most of the extant literature has partially looked at SMEs in certain regions, sectors or industries in Indonesia. For instance, Sari (2011) examined the internationalization of manufacturing companies while Jane (2013), Zubadi and Nugroho (2012) and Roida and Sunarjanto (2012) examined the case of firm internationalization in Bandung City, Magelang Regency, and East Java Province, respectively.

We argue that there are several distinctions that contribute to the particular topic between this paper and its predecessors. First, this study delves deep into the existing policies by examining the export assistance programs for SMEs provided by central, provincial and municipal government agencies. Second, to the best of our knowledge, this study is the first attempt to systematically identify the potential mismatches of perceived export barriers between the government as policymakers and the SMEs that may lead to the ineffectiveness of the export supporting programs. Third, we propose that – in combined with the previous coverage – the depth of assessment can greatly benefit policymakers in formulating general strategy and policy measures and managerial stakeholders in understanding the procedures, policies and challenges of internationalization.

The rest of the research is arranged as follows. After introducing the significance of the study in the continuing first section, our second chapter contains a review of the literature in question. We describe detailed overview of the methodologies used in this research in the third chapter. In the fourth, the findings of the research followed by the appropriate implications and policies debates will be presented, while the fifth will conclude.

## **2. Literature Review**

This section focuses on the existing export barriers literature and their relationships with SMEs internationalization. Before further delving, we shall provide definitions about the terms used in the study. Export barriers can be defined as multiple barriers that impede the efforts of a firm to initiate, sustain or develop export activities (Leonidou, 1995, 2004). Among companies, the perception of such obstacles may dissuade internationalization, especially in the case of small and medium-sized businesses. Non-exporting companies may be unwilling to begin exporting because of such obstacles, while neophyte exporters may be prompted to withdraw from their early forays overseas. In addition, business

sustainment and expansion of established exporters may also be halted. Minimizing obstacles, if not removing them, is therefore considered essential in pushing for business internationalization.

In effectively overcoming the barriers, such afflictions need to be meticulously identified, their level of intensity, as well as the severity (Leonidou, 1995, 2004). In this way, appropriate stakeholders at the managerial level can be more anticipative, thus decreasing the impact of these barriers on export activities. These countermeasures may prove to be important, especially for the more trivial problems that are easier to be coped with given appropriate preparations. Such excellent understanding may also help governmental agencies – appropriate policies and/or assistance can be eluded from ill-preparation.

The views in the existing literature on conceptualizing the export barriers are rather mixed. One research stream paid significant attention to identifying such barriers in the various export phases (see, for example, Bilkey & Tesar, 1977; Leonidou, 2004; OECD-APEC, 2006). It was argued that barrier kinds and severity may vary across various export phases. The barriers at the pre-export point are usually based on the businesses' a priori, subjective perception and opinion rather than actual business experiences in the market. Most of these barriers are related to internal capacities and market opportunity identification. The companies are accumulating hands-on experience from daily foreign market ventures, moving on to the export level. For example, while one company may be more worried about the hostile business setting overseas, such opinions may change to relationship management with overseas distributors and clients as the firm becomes more experienced in trade activities.

The typology of export barriers is emphasized by a different stream of inquiries in this area. Examples include a wide range of export barriers related to internal and external export barriers (Leonidou, 1995, 2004). While the internal barriers comprise the export barriers deemed to be internal to companies (mostly related to the capability and availability of resources and production), the external barriers include those from the domestic and target market environment. An alternative approach is classified the barriers by national and foreign typology (Leonidou, 1995). Included in the domestic barriers are the lack of government support, underdevelopment of industries, and resource shortages. As for foreign barriers, there are stringent regulations, separate demands from customers, and distribution problems. There is also a combination of the two typologies (typologies internal-external and domestic-foreign). Such a combination includes internal-domestic (e.g. barriers to human resources), external-domestic (e.g. domestic company environments beyond the control of the company), internal-foreign (e.g. marketing strategy of the company in target markets) and external-foreign (e.g. foreign country regulations) (Leonidou, 1995). Table 1 below presents the most extensive typologies per Leonidou (2004) and OECD (2012) offer.

**Table 1: Typology of Export Barriers**

Leonidou (1995)	Leonidou (2004)	OECD (2012)
Internal Barriers	Informational Barriers Functional Barriers  Marketing Barriers	Informational Barriers Human Resource Barriers Financial Barriers Product and Price Barriers Distribution, Logistics and Promotion Barriers
External Barriers	Procedural Barriers Governmental Barriers Task Barriers  Environmental Barriers	Procedural Barriers Governmental Barriers Customer and Foreign Competitor Barriers Business Environment Barriers Tariff and Non-Tariff Barriers

The empirical evidence of the export barriers listed in Table 1 has been extensively documented, including those related to SMEs. On the internal side, inadequate global market knowledge and information may be the first issue for SMEs in attempting to initiate export. SMEs are often reluctant to start exporting due to the lack of reliable market location and analysis information, international market data, business opportunities and customer contact (EFIC, 2010; Hashim, 2012; Leonidou, 2004; OECD, 2009). Another internal barrier may arise in the form of functional barriers, including issues linked to the constraints that SMEs face in their funding, department of human resources, and manufacturing capacities. Human resource barriers include organizational and time inadequacies, restricted export staff, and little innovation (Freeman et al., 2006; Hashim, 2012; Köcker & Buhl, 2007; Leonidou, 2004; OECD, 2008). Barriers to production include limited ability, unreliable input, and failure to develop fresh products (OECD, 2008; Tambunan, 2009a). Lack of working capital and limited access to finance for export activities are the financial barriers (EFIC, 2010; Freeman et al., 2006; Hashim, 2012; Köcker & Buhl, 2007; Leonidou, 2004; OECD, 2008; Tambunan, 2009a, 2009b). In addition, marketing functions of SMEs may also remain weak in terms of appropriate product arrangements, pricing, logistics, distribution and promotion (Leonidou, 2004; OECD, 2008; Tambunan, 2009a).

Meanwhile, there are also well-documented external barriers faced by SMEs. Procedural barriers are associated with the customers' operational elements, i.e. lack of familiarity with the appropriate processes, communication failures and slow collection of payments (Leonidou, 2004; OECD, 2008; Rahardhan et al., 2008). The actions of inaction by the home government are also crucial in the export activities of SMEs. The close and intensive facilitation by the home government may assist indigenous exporters, but such assistance is limited. Similarly, regulatory frameworks are often considered too sophisticated (Hashim, 2012; Leonidou, 2004; OECD, 2008; Wengel & Rodriguez, 2006). In addition, SMEs are entrusted with coping with task barriers as distinct areas may consist of distinct customer and competition behaviors and/or attitudes (Hashim, 2012; Köcker

& Buhl, 2007; Leonidou, 2004; OECD, 2008). Foreign market environments may also interfere with trade activities in the form of decreasing country economic conditions, fluctuating exchange rates, political instability, rigid regulations and (non) tariff barriers (EFIC, 2010; Hashim, 2012; Leonidou, 2004; OECD, 2008; Rahardhan et al., 2008). There is also problem of environmental obstacles, i.e. distinct socio-cultural characteristics, unfamiliar company procedures and language (Köcker & Buhl, 2007; Leonidou, 2004).

The study notes that the prior export barriers studies have concentrated more on developed countries instances. The lack of evidence from developing / emerging nations, especially Indonesia, leads the study to investigate these fronts. In addition, there was also a lack of export barrier research illustrating the possible differences in perceived export barriers between the business and the policymakers, leading to ineffective policy measures. Therefore, this study aims to help address the research gap.

### 3. Method

#### 3.1. Study Area and Data Collection

This study focuses on small and medium-sized enterprises (SMEs) and excludes micro and large enterprises.<sup>5</sup> Among the different definitions of SMEs, two definitions are widely used in Indonesia:

1. The Ministry of Cooperatives and SMEs defines SMEs as enterprises with assets valued at Rp50 million–Rp10 billion (equivalent to USD3,846.15–USD769, 230.77) or with an annual turnover of Rp300 million–Rp50 billion (equivalent to USD23,076.9–USD3,846,153.8) ("*Undang-undang No. 20 Tahun 2008 tentang Usaha Mikro Kecil dan Menengah* [Law on Micro, Small and Medium-Sized Enterprise Number 20 of 2008].", 2008).<sup>6</sup>
2. BPS-Statistics Indonesia defines SMEs as enterprises with 5–99 employees (BPS-Statistics Indonesia, 2014a).

During the pilot survey, we found that it was difficult, laborious and potentially inaccurate at the practical level to identify the assets and turnover value of SMEs. Asset valuation of SMEs needs a complicated assessment technique and turnover estimates of SMEs are not always accessible due to improper book-keeping. This study therefore refers to the definition of SMEs by number of employees (5 to 99) used by BPS-Statistics Indonesia. Despite its applicability, it is important to mention that there are also shortcomings in this concept. In particular, the SME definition by number of employees has potential bias towards capital-intensive industries. For instance, this concept possibly involves some

<sup>5</sup>Micro enterprises are excluded for two reasons. First, the micro enterprises database is unavailable in Indonesia as they are mostly in the form of individual businesses or home industries. Second, micro enterprises are less likely to engage in international business (Pendergast et al., 2008).

<sup>6</sup>The exchange rate is assumed at Rp13,000/USD.

large-scale businesses in capital-intensive sectors that hire a tiny amount of staff, but excludes medium-sized businesses in labor-intensive sectors that hire big amounts of workers.

In Indonesia, the total number of SMEs was approximately 678,415 in 2012 (Ministry of Cooperatives and SMEs Republic of Indonesia, 2014b). However, SMEs in Indonesia are not fairly distributed across provinces/ regions. Approximately 60 percent of the country's SMEs are focused on only 3 islands; Java, Madura, and Bali (Kuncoro, 2009; Wiratno & Dhewanto, n.d.). This imbalanced allocation of SMEs mainly represents the trend of financial agglomeration in Indonesia, which leads financial development to be mainly focused on those three closely related island. The three islands consist of only seven provinces and constitute only 7.07 percent of the country's total land area but are inhabited by 57.5 percent of the country's total population and generate over 58 percent of the country's total GDP/value added (BPS-Statistics Indonesia, 2014b).

Our research focuses on SMEs located in Java, Bali and Madura Islands, taking into consideration these agglomeration models of financial and SME activity in Indonesia. The three islands also have stronger transportation and communication infrastructure than the remainder of the nation, enabling easier connections to study a large amount of SMEs that are distributed across the islands within moment and budget constraints. The aim population of this research is therefore the SMEs operating in seven provinces on the coasts of Java, Madura, and Bali.

To construct the sample frame, we merged four different databases into one list of SMEs from which the samples were picked. The first three databases were published by the Ministry of Cooperatives and SMEs including: (1) the Ministry of Cooperatives and SMEs' online trading board<sup>7</sup>; (2) SME and Cooperative Indonesia Catalogue (Ministry of Cooperatives and SMEs Republic of Indonesia, 2011, 2012)<sup>8</sup>; and (3) Exporting SMEs Directory book (Ministry of Cooperatives and SMEs Republic of Indonesia, 2009a)<sup>9</sup>. The fourth database is the Indonesian 2006 Economic Census provided by BPS-Statistics Indonesia.<sup>10</sup>

The calculated sample size is 384.<sup>11</sup> However, to anticipate insufficiency and incomplete responses, the sample size was increased by at least 20 percent (to

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<sup>7</sup>Online promotion at the website of the Ministry of Cooperatives ad SMEs, <http://www.indonesian-products.biz>.

<sup>8</sup>The catalogue provides SMEs' contacts and products description in four languages (English, Arabic, Japanese, and Indonesian). The catalogue is published annually as part of the ministry's promotion program.

<sup>9</sup>The directory books listed all SMEs that participated in international trade shows organised by the Ministry of Cooperatives and SMEs' during 2005–2009.

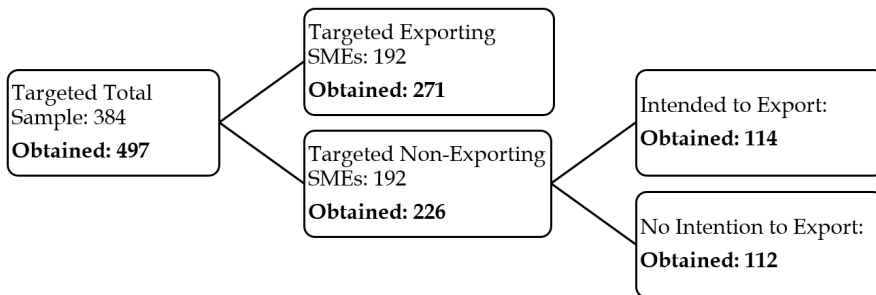
<sup>10</sup>The BPS-Statistics Indonesia (National Agency for Statistics) performs economic censuses every ten years. When the survey for this study was conducted in 2014, the most recent census was the 2006 national census while the next census will be conducted in 2016 and published in 2018.

<sup>11</sup>The population of SMEs in the study area ( $N$ ) is approximated to be around 407,049 (approximately 60 percent of the total Indonesian SME population of 678,415). The sample ( $n$ ) would not exceed 20,352 SMEs (5 percent of SMEs population in the study area) due to time and budget constraints. In the case that  $n \leq 0.05N$ , the sample size formula for an infinite population is appropriate



at least a total sample of 461). It is important that our study sample consists of SMEs in different export stages including exporting SMEs and non-exporting SMEs due to the changes and possible variations in export barriers across the export phases. However, stratified sampling was not applicable as the export status of the SMEs was unknown prior to the survey. Therefore, a quota random sampling method was used in which the sampled SMEs were drawn randomly from the sample frame until the export status category of each SME was filled in. As such, the survey targeted at least 192 samples (half the calculated sample size of 384) for each category of exporting and non-exporting SMEs (see Figure 1).

The study was administered with the assistance of qualified research assistants in April–August 2014. We contacted and approached 971 SMEs during the study era, 522 of whom were prepared to engage in the study (a response rate of 53.76 percent). As many as 449 SMEs refused to participate in the survey, had shut down the business or changed the number of employees beyond 5–99. Of the 522 questionnaires returned, 497 were valid, while 25 were unusable owing to unfinished answers. The available answers comprised of 271 exporting SMEs and 226 non-exporting SMEs and therefore achieved the desired complete sample size and quota. Furthermore, in the category of 226 non-exporting SMEs, 114 SMEs had the intention and plan to export and the other 112 had no intention of exporting in the future, which added more variation to the sample collected.



**Figure 1: Sample Quota of SMEs and Realization**

Table 2 illustrates the sample distribution by province and export status.

(Anderson et al., 2010; Crossley, 2008; Lee et al., 1999), and given as:

$$n = \left( \frac{(Z_{\alpha/2})\sigma}{MOE} \right)^2$$

where  $n$  is the sample size;  $Z_{\alpha/2}$  is the value of the two-sided confidence interval in normal distribution,  $\sigma$  represents the variation of the variable of interest and  $MOE$  is the desired margin of error (Anderson et al., 2010; Crossley, 2008). Assuming that  $Z_{\alpha/2} = 1.96$  (corresponds to a 95 percent confidence interval), response distribution  $\sigma = 0.5$ ,  $MOE = 0.05$ , and  $N = 407,049$  (total number SMEs in Java, Madura, and Bali).

A large number of answers have been gathered from East Java Province (185 SMEs, including Madura Island) and DKI Jakarta Province (100 SMEs). The two provinces are highly populated and industrialized. The following 212 participants were allocated to the following five regions (Banten, West Java, Central Java, DI Yogyakarta, and Bali).

**Table 2: Sample Distribution of SMEs by Province and Export Status**

Province	Exporter		Non-Exporter		Total by Province	
	Count	%	Count	%	Count	%
Banten	11	4.1	4	1.8	15	3.0
DKI Jakarta	56	20.7	44	19.5	100	20.1
West Java	19	7.0	20	8.8	39	7.8
Central Java	13	4.8	28	12.4	41	8.2
DI Yogyakarta	53	19.6	6	2.7	59	11.9
East Java	76	28.0	109	48.2	185	37.2
Bali	43	15.9	15	6.6	58	11.7
Total by Export Status	271	100	226	100	497	100

Source: Author's calculation based on survey data

Table 3 displays the allocation of respondents SMEs by commodities and export status. Seventy-four SMEs produce more than one type of product (multi products) while the remaining 423 SMEs specialize in a specific type of product, with the largest number in handicrafts (91 SMEs) and the lowest number in machinery components (18 SMEs).

**Table 3: Sample Distribution of SMEs by Product and Export Status**

Products	Exporter		Non-Exporter		Total by Products	
	Count	%	Count	%	Count	%
Agricultural Products	23	8.5	8	3.5	31	6.2
Food and Beverages	17	6.3	39	17.3	56	11.3
Furniture	43	15.9	37	16.4	80	16.1
Handicrafts	59	21.8	32	14.2	91	18.3
Garments	33	12.2	36	15.9	69	13.9
Leather Products and Fashion Accessories	15	5.5	17	7.5	32	6.4
Household Utensils	15	5.5	12	5.3	27	5.4
Machinery Components	7	2.6	11	4.9	18	3.6
Other Products	9	3.3	10	4.4	19	3.8
Multi Products	50	18.5	24	10.6	74	14.9
Total by Export Status	271	100	226	100	497	100

Source: Author's calculation based on survey data

In addition to the SME survey, this study also gathered information from nine central government agencies whose policy areas are directly or indirectly related to the development of SMEs or international trade activities. The survey of government agencies was aimed at capturing the perspectives of policy makers on export barriers faced by SMEs and identifying the provision of policy measures, programs and assistance related to the development or export development of SMEs. Table 4 shows the list of central government agencies and

**Table 4: Surveyed Central Government Agencies**

Ministries/ Agencies	Functions Related to SMEs' Export Activities
Ministry of Cooperatives and SMEs	<ul style="list-style-type: none"> <li>• Deputy for Production</li> <li>• Deputy for Marketing and Business Networking</li> <li>• Deputy for Human Resource Development</li> <li>• Deputy for Financing</li> </ul>
Ministry of Industry	<ul style="list-style-type: none"> <li>• Directorate and Small and Medium Industries</li> <li>• Directorate General of International Industry Cooperation</li> </ul>
Ministry of Trade	<ul style="list-style-type: none"> <li>• Directorate General of Foreign Trade</li> <li>• National Agency for Export Development</li> </ul>
National Agency for Development Planning	<ul style="list-style-type: none"> <li>• Poverty, Employment and SMEs Section</li> </ul>
Ministry of Foreign Affairs	<ul style="list-style-type: none"> <li>• Economy Section</li> <li>• Assistant Minister for Economic, Social and Cultural Affairs</li> </ul>
Coordinating Ministry of Economy	<ul style="list-style-type: none"> <li>• Deputy for Coordinating International Economic Cooperation</li> <li>• Deputy for Coordinating Creative Economy, Entrepreneurship and SMEs</li> </ul>
Ministry of Maritime and Fishery Affairs	<ul style="list-style-type: none"> <li>• Directorate General of Maritime and Fishery Product Competitiveness</li> </ul>
Ministry of Tourism and Creative Economy	<ul style="list-style-type: none"> <li>• Directorate General of Design, Technology and Media-Based Creative Economy</li> </ul>
Ministry of Agriculture	<ul style="list-style-type: none"> <li>• Directorate General of Agriculture Product Processing and Marketing</li> </ul>

directorates-generals, deputies or functions within agencies that are relevant to the export activities of SMEs. In total, in various agencies, 36 survey responses were collected from officials.

Two collections of structured questionnaires with close-ended questions have been developed and translated into *Bahasa Indonesia*. The first batch of questionnaires was intended for small and medium-sized enterprises and the second set for central government institutions/agencies. The SME questionnaire was conducted randomly to 25 SMEs in the DKI Jakarta area before the SME survey was administered. The response to the SME survey questions required a good knowledge of the operational activities of the firms and therefore the questionnaires were administered to the owners or managers of SMEs.

### 3.2. Export Barriers Analysis

From the literature on export barriers discussed earlier, fifty specific types/items of export barriers were developed. Appendix 1 offers full details for each object. In the survey, all participants were questioned to show how serious/difficult each export barrier product was in a three-point Likert scale in the export operations of SMEs.<sup>12</sup>

<sup>12</sup>For the use of such scale in the survey of export barrier, see OECD (2012).

The analysis of the Likert-scale response of the export barrier items is as follows. First, we rank the fifty export barrier items by their average Likert response scores to identify the major impediments to exports by SMEs. A strong median Likert score of an export barrier product refers to an elevated rate of complexity or seriousness of this sort of obstacle for SMEs (Hashim & Ahmad, 2008; Liargovas & Skandalis, 2008).

We also rank the export barrier items based on the average Likert response score given by government agencies. The ranks may represent policy makers' perceptions of the level of difficulties/severities of each export barrier and may reflect government agencies' priorities in assistance provision. Government agencies are likely to provide more assistance to remove the export barriers that they perceive as the most severe for SMEs, but less assistance for the barriers that they perceive as less difficult.

We plot government agencies' perceptions of the export barriers against SMEs' perceptions (obtained from SME survey) using a 3 x 3 grid (OECD-APEC, 2006). Figure 2 plots SMEs' perceived difficulties of export barrier items on the horizontal axis and the government agencies' perceived difficulties of export barrier items on the vertical axis. The fifty export barrier items are classified into three broad levels of difficulties including the Top 25 percent (12 most difficult export barrier items).

For some export barrier items, government agencies may give higher average Likert response scores than SMEs (barrier items in Cells A, B, and D). The government agencies tend to over-provide the assistance to remove these types of barriers and therefore may reconsider the current level of assistance provisions. For the export barrier items placed in Cells H, I, and F, the government agencies give lower average Likert response scores than SMEs. The government agencies tend to underprovide the assistance to remove this type of barriers and therefore should look to increase the current level of provision. For export barrier items in Cells G, E, and C, both government agencies and SMEs give equally low, medium and high average Likert response scores, respectively. It is likely that the current level of assistance provision already meets SMEs' needs and therefore should be sustained (i.e. sustain low provision for barriers in Cell G, medium provision for barriers in Cell E and large provision for barriers in Cell C).

We also investigate the participation of SMEs in the export assistance provided by government agencies. In the SME study, participants were questioned if they received five kinds of help from any key public organizations including global trade fairs, publishing of SME catalogs, managerial training, technical training, and export financing, insurance and grants. The participants were also questioned if they received five forms of assistance from any local public agency, including technical training, managerial training, grants of equipment, grants of capital and international trade fairs. The independence test (Chi-square test) is used to examine the association between SMEs' export status (exporting and non-exporting) with their participation in export assistance provided by central and local government agencies. In addition, for every assistance that SMEs received

<b>Government agencies' perspectives</b>	Very Difficult (Top 25%)	<b>(A) Reconsider</b>	<b>(B) Reconsider:</b>	<b>(C) Sustain:</b>
	Moderately difficult (Mid 50%)	<b>(D) Reconsider:</b>	<b>(E) Sustain:</b>	<b>(F) Increase:</b>
	Less Difficult (Bottom 25%)	<b>(G) Sustain:</b>	<b>(H) Increase:</b>	<b>(I) Increase:</b>
<b>Export Barriers' Rank based on Likert Score</b>	Less Difficult (Bottom 25%)	Moderately Difficult (Mid 50%)	Very Difficult (Top 25%)	<b>SMEs' Perspectives</b>

**Figure 2: Policy Options to Overcome Export Barriers Faced by SMEs**

Source: OECD-APEC (2006) and Lloyd-Reason and Mughan (2008)

from central or local government agencies, the respondents were asked to indicate the helpfulness of the assistance in a three-point Likert-scale (1 = not helpful, 2 = helpful, 3 = very helpful).

## 4. Result

### 4.1. Export Assistance Provision by Central Government Agencies

The surveyed SMEs were asked to indicate their participation in various types of export assistance from the central government. Table 5 summarizes the involvement of SMEs in five distinct programs of import support from key public organizations. Overall, exporting SMEs receive more assistance (total of 264 counts) than non-exporting SMEs (total of 116 counts). The most accessible export assistance is international trade fairs (e.g. international shows, exhibitions and exhibitions) followed by technical training (including specific production processes, packaging, logistics or machinery for specific markets) and managerial training (e.g. business planning, marketing, awareness of cultural differences). On the other hand, financial support (including export financing, export insurance and export guarantees) and *SME Catalogue* publications are the least accessed programs. However, the Chi-square test (insignificant at 5 percent level) indicates that there is no significant association between the export status of SMEs (exporting and non-exporting) and the types of central government export assistance that they access.

Next, we investigated whether SMEs at the pre-export stage (non-exporters) and those at the export stage (exporters) have the same needs for these five types of export assistance programs. Table 6 summarizes the perceived helpfulness of each export assistance program by SMEs (measured in a 3-point Likert scale where 1= not helpful, 2 = helpful, and 3= very helpful). Non-exporting SMEs

**Table 5: SMEs' Participation in Central Government Export Assistance Programs**

Export Assistance Programs	Exporters		Non-Exporters		All Respondents		Statistical Test
	Count	%	Count	%	Count	%	
International trade fairs	121	45.83	48	41.38	169	44.47	$\chi^2 = 6.088$
Publication of SME Catalogue	33	12.50	11	9.48	44	11.58	
Managerial training	58	21.97	25	21.55	83	21.84	
Technical training	40	15.15	29	25.00	69	18.16	
Export financing, insurance and guarantee	12	4.55	3	2.59	15	3.95	
Total	264	100.00	116	100.00	380	100.00	

Source: Author's calculation based on survey data

recorded financial export support as the most useful aid, accompanied by international trade fairs. In contrast, exporting SMEs perceived *SME Catalogue* as the most beneficial program followed by international trade fairs. This indicates that the most required export assistance for exporters (exporting phase) differs from those required by non-exporting SMEs (pre-export phase).

Furthermore, the mean difference test results suggest that exporting and non-exporting SMEs differ significantly in their perceived helpfulness in two export assistance programs: international trade fairs and export financial support (see last column in Table 6). These two kinds of export aid programs are considered to be more useful by non-exporting SMEs than by exporting SMEs. One possible explanation is that these types of export assistance are more effective in helping SMEs initiate/try exporting (early export stage) but less useful in sustaining or expanding exports (advanced export stage) (OECD-APEC, 2006).

**Table 6: Helpfulness of Central Government Export Assistance Programs**

Export Assistance Programs	Mean Helpfulness Score			Statistical Test	
	Exporter	Non Exporter	All Respondents	Equality of Variances	Mean Difference
International trade fairs	2.57	2.77	2.63	14.997***	-2.538**
Publication of SME Catalogue	2.64	2.45	2.59	0.086	0.837
Managerial training	2.54	2.6	2.56	1.032	-0.460
Technical training	2.43	2.62	2.51	0.583	-1.612
Export financing, insurance and guarantee	2.42	3.00	2.53	12.740***	-3.023**

Source: Author's calculation based on survey data

Note: Equality of variances assumption is checked with Levene's test

(\*\*) and (\*\*\*) represent 5 percent and 1 percent significant levels, respectively

## 4.2. Export Assistance Provision by Local Government Agencies

The SMEs surveyed were asked to indicate their involvement in various types of export assistance provided by local government agencies (provincial, municipal, and regency government agencies). Table 7 summarizes the participation of SMEs in export assistance programs of five different provincial government agencies. Overall, exporting SMEs receive more assistance (total of 238 counts) than non-exporting SMEs (total of 138 counts). Exporting SMEs participate more actively in all export assistance programs, except for capital grants.

**Table 7: SMEs' Participation in Provincial Government Export Assistance Programs**

Export Assistance Programs	Exporters		Non-Exporters		All Respondents		Statistical Test
	Count	%	Count	%	Count	%	
Technical training	66	27.73	30	21.74	96	25.53	$\chi^2 = 9.946^{**}$
Managerial training	66	27.73	37	26.81	103	27.39	
Grants of equipment	23	9.66	20	14.49	43	11.44	
Grants of capital	21	8.82	24	17.39	45	11.97	
International trade fairs	62	26.05	27	19.57	89	23.67	
Total	238	100.00	138	100.00	376	100.00	

Source: Author's calculation based on survey data

Note: (\*\*) represents 5 percent significance level

Moreover, the Chi-square test (significant at 5 percent level) indicates that there is a significant relationship between the export status of SMEs (exporting and non-exporting) and the types of export assistance they access. The participation of exporters is highly concentrated in three programs—technical training, managerial training, and international trade fairs (81.51 percent of total participation). On the contrary, the participations of non-exporting SMEs varied across five export assistance programs of the provincial government.

Table 8 summarizes the involvement of SMEs interviewed in export aid programs of municipal/regency public organizations. Overall, the most accessed municipal government programs are technical and managerial training, respectively. However, the insignificant Chi-square test indicates that there is no relationship between the export status of SMEs (exporting and non-exporting) and the types of export assistance that SMEs participate in.

Next we investigate the helpfulness of the export assistance of local government agencies (at both provincial and municipal levels) for export activities of SMEs. Table 9 summarizes the perceived helpfulness of each export assistance program. Overall, exporting SMEs receive more assistance (total of 121 counts) than non-exporting SMEs (total of 104 counts). Both exporting and non-exporting SMEs viewed international trade fairs and capital grants as the first and second most useful help, respectively. The mean difference test results, however, suggest that exporting and non-exporting SMEs differ significantly in the perceived helpfulness of one type of assistance—managerial training. Interestingly, managerial training is perceived as being more beneficial by non-exporting SMEs than by

**Table 8: SMEs' Participation in Municipal Government Export Assistance Programs**

Export Assistance Programs	Exporters		Non-Exporters		All Respondents		Statistical Test
	Count	%	Count	%	Count	%	
Technical training	38	31.40	41	39.42	79	35.11	$\chi^2 = 6.559$
Managerial training	39	32.23	20	19.23	59	26.22	
Grants of equipment	11	9.09	13	12.50	24	10.67	
Grants of capital	21	17.36	23	22.12	44	19.56	
International trade fairs	12	9.92	7	6.73	19	8.44	
Total	121	100.00	104	100.00	225	100.00	

Source: Author's calculation based on survey data

**Table 9: Helpfulness of Regional Government Programs**

Export Assistance Programs	Mean Helpfulness Score			Statistical Test	
	Exporter	Non Exporter	All Respondents	Equality of Variances	Mean Difference
Technical training	2.28	2.40	2.33	4.301**	-1.217
Managerial training	2.22	2.40	2.29	3.062*	-1.715*
Grant of equipment	2.24	2.42	2.32	0.241	-0.985
Grant of capital	2.40	2.59	2.50	1.142	-1.307
International trade fairs	2.59	2.64	2.60	0.000	-0.442

Source: Author's calculation based on survey data

Note: Equality of variance assumption is checked with Levene's test

(\*) and (\*\*) represent 10 percent and 5 percent significance levels, respectively

exporting SMEs. The probable reason is that such export aid could be more efficient in assisting SMEs initiate/attempt to export but less helpful in maintaining or extending it (OECD-APEC, 2006).

### 4.3. Mismatch in the Perceived Difficulty of Export Barriers

While the above sections explain the prevailing assistance for export, this section provides the discussion on the barriers for export. Specifically, this section provides the main perceived export barriers by the SMEs juxtaposed with such by the government, including the differences they possess. Hence, the mismatch of the perceived export barriers by the SMEs and the policymakers can be identified.

Table 10 shows the ten most difficult export barriers faced by the surveyed SMEs based on average Likert response scores. Appendix 2 provides the full lists of the 50 export barrier responses. Overall, foreign currency exchange risks are the most severe barrier to export. The literature indicates at least three methods in which the exchange rate may adversely influence SMEs. First, overseas market demand for products from SMEs may fluctuate with the exchange rate (Geng & Geng, 2012). Second, sometimes the contract with foreign buyers fixes the price of the product in terms of foreign currency value, so the fluctuation of the exchange rate can affect the actual domestic currency revenue of SMEs (Helísek, 2013). Third, SMEs' production often requires imported raw materials, whose prices



may fluctuate with exchange rates and in turn affect SMEs' costs of production.

Further, the next four main export barriers perceived were: B9 (Shortage of export insurance); B10 (Granting credit facilities or payment delay to foreign customers); B36 (Economic fluctuations in target markets); and B32 (Unequal treatment in business competition law in target markets). We note that generally, the main export barriers perceived by the SMEs that were deemed most pressing are more related to the distribution and financing aspect, while the rest (rank 4 to 10) are more related to the target markets' characteristics.

**Table 10: Ten Main Export Barriers Perceived by SMEs**

Rank	Export Barriers	N	Likert Score	
			Mean	Std. Dev.
1	B37 High risks of foreign exchange	496	2.35	0.672
2	B9 Shortage of export insurance	496	2.33	0.689
3	B10 Granting credit facilities or payment delay to foreign customers	497	2.30	0.688
4	B36 Economic fluctuations in target markets	496	2.30	0.628
5	B32 Unequal treatment in business competition law in target markets	496	2.29	0.620
6	B26 Enforcing contracts/resolving disputes in target markets	495	2.22	0.639
7	B21 Offering technical/after-sales service in target markets	493	2.20	0.675
8	B29 Restriction of asset ownership in target markets	496	2.20	0.617
9	B33 Sophisticated target markets' laws/ regulations	494	2.20	0.624
10	B45 (Intellectual) property rights protection in target markets	495	2.19	0.650

Source: Author's calculation based on survey data

Note: The Likert-scale ranges from 1 = not difficult, 2 = difficult and 3 = very difficult

Further, we discuss the main export barriers perceived by the policymakers. We note that, policymakers generally agree that the main export barrier would be the restriction of asset ownership in target markets (B29). The next four export barriers are: B46 (Health, safety, and technical standards in target markets); B30 (Unequal treatment in tax/eligibility to affiliate in target markets); B08 (Shortage of investment capital), and B32 (Unequal treatment in business competition law in target markets).

Arguably, the policymakers deem the barriers more related to the target market's characteristics and/or competition landscape as the more pressing issue. Table 11 shows the ten most difficult export barriers faced by small and medium-sized enterprises based on average Likert response scores, perceived by policymakers.

We note that while there are several similarities of main export barriers perceived by SMEs as practitioners and the policymakers as regulators (e.g., both deem intellectual property rights, unequal treatment in business competition in target market, among others as similarly important), a general difference in perspective is rather stark. As we explored above, we notice that the policymakers generally perceive difficulties and characteristics in the target markets to be the

**Table 11: Ten Main Export Barriers Perceived by Policy Makers**

Rank	Export Barriers	N	Likert Score	
			Mean	Std. Dev.
1	B29 Restriction of asset ownership in target markets	36	2.500	0.5606
2	B46 Health, safety and technical standards in target markets	36	2.444	0.5578
3	B30 Unequal treatment in tax/eligibility to affiliate in target markets	36	2.417	0.6036
4	B08 Shortage of investment capital	36	2.389	0.6449
5	B32 Unequal treatment in business competition law in target markets	36	2.361	0.6393
6	B21 Offering technical/after-sales service in target markets	36	2.333	0.5345
7	B48 Quotas and/or embargoes imposed by target markets	36	2.333	0.5345
8	B50 Preferential tariff for exporters from other countries	36	2.333	0.5855
9	B37 High risks of foreign currency	36	2.306	0.5248
10	B33 Sophisticated target markets' laws/regulations	36	2.278	0.6595
11	B45 (Intellectual) property rights protection in target markets	36	2.278	0.5133

Source: Author's calculation based on survey data

Note: The Likert-scale ranges from 1 = not difficult, 2 = difficult and 3 = very difficult

more pressing issue (e.g., asset ownership, health and technical standards, tax treatments in target market, among others). Meanwhile the SMEs, while also acknowledging that such barriers are important, are instead more concerned with rather the financing and export-enabling aspects, such as exchange rate, insurance, and credit facilities.

The difference, we argue, points out the lack of perspectives alignment between the SMEs and the policymakers. To put simply, the policymakers are concerned on how the Indonesian export products will compete in the target markets while, ironically, the products may not reach the destined market due to existing financing barriers, for instance. This calls for the policymakers not to only assume that barriers generally appear once the goods arrive at the target markets in terms of competitiveness issues, but instead also on enabling the exporting firms to fundamentally be exporting. Such mismatch might prove to be a hindrance towards the prevailing exporting activities, calling for the right policies to be made. We discuss the relevant policy options, taking into account such differing perceptions between SMEs and policymakers in the next section.

#### 4.4. Policy Options to Remove Export Barriers

The survey to policymakers was administered to government agencies whose policy areas are related to the exporting activities of SMEs. The survey asked each agency's key person(s) to indicate their perception of the difficulties of different types of export barriers faced by SMEs. The survey used 50 export barrier items and a 3-point Likert scale measure similar to those used in the survey for SMEs.

Appendix 2 provides the full outcomes of the average Likert reaction rating of the 50 export barrier products given by government agencies.

Government agencies develop and provide export assistance based on various factors, one of which is their own perception of export barriers faced by SMEs. Government agencies will provide more assistance to remove the barriers they perceive as very difficult barriers, but medium and low provision of aid to remove the barriers they perceive as moderately difficult and less difficult, respectively. We are therefore examining whether the views of government agencies are compatible with the views of SMEs on export barriers. Figure 3 shows the perceptions of policymakers of export obstacles on the vertical axis against the expectations of SMEs (earlier mentioned in Section 3.2) on the horizontal axis.

Figure 3 is interpreted as follows. Cell G includes all the barriers that SMEs and government agencies perceive as less difficult. It is therefore possible to retain the current minimum government attention to remove B1, B12, B14, B2, B24, B39, B40, and B41. Cell E involves all the obstacles that SMEs and government agencies regard as mildly challenging. It is therefore possible to retain the current medium level of government assistance to remove B16, B17, B19, B20, B22, B25, B3, B38, B42, B47, B49, B5, B6, and B7. Analogously, Cell C involves all the obstacles that SMEs and government agencies regard as very hard. The current government must therefore pay maximum attention to remove B21, B26, B29, B30, B32, B33, B37, and B45 should be retained.

	Very Difficult (Top 25%)	<b>(B) Reconsider</b>	<b>(B) Reconsider:</b> B44, B46, B48, B50, B8	<b>(C) Sustain:</b> B21, B26, B29, B30, B32, B33, B37, B45
<b>Government agencies' perspectives</b>	Moderately difficult (Mid 50%)	<b>(D) Reconsider:</b> B11, B13, B34, B4, B43	<b>(E) Sustain:</b> B16, B17, B19, B20, B22, B25, B3, B38, B42, B47, B49, B5, B6, B7	<b>(F) Increase:</b> B10, B18, B35, B36, B9
	Less Difficult (Bottom 25%)	<b>(G) Sustain:</b> B1, B12, B14, B2, B24, B39, B40, B41	<b>(H) Increase:</b> B15, B23, B27, B28, B31	<b>(I) Increase</b>
	<b>Export Barriers' Rank based on Likert Score</b>	Less Difficult (Bottom 25%)	Moderately Difficult (Mid 50%)	Very Difficult (Top 25%)
		<b>SMEs' Perspectives</b>		

**Figure 3: Policy Options to Overcome Export Barriers Faced by SMEs**

Source: Author's calculation based on survey data

Cells F, H, and I include all the export obstacles that government agencies consider not to be as hard as SMEs find them. Therefore, the current level of assistance provided by the government to remove B10, B18, B35, B36, B9, B15, B23, B27, B28, and B31 is probably lower than the SMEs actually need. The government may therefore increase the provision of assistance to remove these

barriers.

Cells A, B, and D include all the export obstacles that government agencies consider to be harder than SMEs think. Therefore, the current levels of assistance provided by the government to remove B44, B46, B48, B50, B8, B11, B13, B34, B4, and B43 are possibly higher than SMEs actually need. Thus, the government can reconsider (reduce) the assistance to remove those barriers.

## 5. Conclusion

### 5.1. Summary and Major Findings

Indonesia faces rapid changes in its international trade policies and environment due to its engagement in various bilateral, regional and multilateral free trade agreements. On the one hand, free trade escalates business competition for SMEs in the domestic market through cheap imported products and the increasing operation of foreign enterprises. On the other hand, free trade also offers enormous opportunities for SMEs to export and to venture abroad.

However, SMEs are less able to take advantage of foreign market opportunities than larger enterprises, as indicated by the marginal contribution to Indonesia's exports. SMEs only account for a small share of Indonesia's non-oil and gas exports and the share tends to decline over time. This contradicts SMEs' increasingly important role in the Indonesian economy, particularly as they have been Indonesia's major source of business establishment, employment provision and value added creation.

This study investigates the internationalization of Indonesian SMEs, particularly their direct-exporting activities. In particular, this study identifies the main factors that act as the main export barriers. Further, this study investigates the mismatch of perceived barriers between SMEs and the policymakers. Accurate identification of export barriers is imperative in SME internationalization. The policy measures to foster SMEs' exports are formulated based on the research results.

The findings show that government agencies play an important role in facilitating SME internationalization. Exporting SMEs receive more assistance than non-exporting SMEs from the central government in all types of assistance including international trade fairs, publication of *SME Catalogues*, managerial training, technical training, and export financing, insurance and guarantees.

However, the empirical results indicate that the effectiveness of government assistance is probably crippled by government's misperceptions of the severity/difficulties of some types of export barriers faced by SMEs. For example, government agencies perceive that granting credit facilities or payment delay to foreign customers (B10), obtaining reliable foreign representation (B18), and stiff competition in target markets (B35) are not as difficult as SMEs perceive. Hence, the government's current levels of assistance provision to remove those barriers are probably lower than the level that SMEs actually need. In contrast,

government agencies perceive high tariff costs in target markets (B44), quotas and/or embargoes imposed by target markets (B48), and developing new products for foreign markets (B11) as more difficult than SMEs perceive. Hence, the government's current level of assistance provision to tackle those barriers is possibly higher than the level SMEs actually need.

Hence, the government should formulate export assistance programs based on accurate information on export barriers faced by SMEs. Accordingly, the government should have a good understanding of the severity and urgency of each type of export barriers, with which effective policy measures can be formulated. The results above revealed that misperceptions about the types and the difficulty level of export barriers may lead to under or over provision of export assistance in certain policy areas. This misperceptions of export barriers between policy makers and SMEs are not uncommon, even in developed countries (see for example Lloyd-Reason & Mughan, 2008; OECD-APEC, 2006). To obtain accurate information on export barriers, government agencies should proactively gather feedbacks from SMEs and various actors in the internationalization networks. For example, government agencies can regularly perform SME surveys in cooperation with universities and research institutes.

Further, the central government must disseminate their policy supports for SMEs internationalization to provincial, municipal and regency governments and coordinate its policy implementation. Since Indonesia's government decentralization in 1999, the local governments have played increasingly important roles in the policymaking (Brodjonegoro & Asanuma, 2000; Resosudarmo, 2004). Revindo (2017) reported that local government assistance has no significant effect in helping SMEs to become exporters or to sustain and expand their exporting. Without central government's direction, the local government may have stronger domestic market orientation in their assistance to local SMEs (Uchikawa & Keola, 2009).

## 5.2. Research Limitations and Future Studies

This research has a number of limitations regarding the scope of the study, the sample selection, the data and the estimation techniques. This study restricts the analysis to SMEs' direct exporting activities, which is one specific form of outward internationalization. Therefore, this research does not integrate other forms of outward internationalization including indirect export through large exporting firms, involvement in global supply chains and foreign investment to set up shops or inventory facilities overseas. Direct exporting is an increasingly viable outward internationalization strategy for SMEs due to decreasing trade barriers and transportation costs but indirect export and involvement in global supply chains remain as realistic options for SMEs owing to their risk aversion and lack of internal resources (Hessels & Terjesen, 2010).

This research focuses on the export barriers faced by small-sized and medium-sized enterprises and therefore excludes the case of micro-sized enterprises. The

database of micro enterprises in Indonesia is inaccessible as they usually take the form of individual enterprises or home industries. Furthermore, micro enterprises are less likely to engage in direct exporting activities due to their smallness and limited resources (Pendergast et al., 2008), despite the decrease in trade barriers and the advancement of information and communication technology.

This research covers seven provinces in Indonesia including all provinces in Java, Madura and Bali Islands. Of the thirty-four total provinces in Indonesia, the seven studied provinces contribute approximately 58 percent of total GDP and 53 percent of total non-oil and gas exports, and are the centers of economic activities and growth in Indonesia (BPS-Statistics Indonesia, 2014c). Approximately 57.5 percent of the total population and 60 percent of total SMEs in Indonesia also live in the seven provinces. The selection of the study region therefore enables the generalization of the outcomes of the research at country level (Indonesia) to some extent. However, the study findings do not reflect the characteristics of provinces that vary significantly from the provinces studied. In particular, the results may not reflect the least industrialized and least developed provinces where the lack of transportation, communication and logistics infrastructure may pose greater barriers for exporting activities.

Finally, this study uses a cross-sectional approach to analyze the impact of exporting using perceptual firm performance improvement data measured with Likert-scale questions. Hence, the study did not conduct a comparison of firm performance before and after exporting with actual financial performance data, with which more advanced data analysis methods such as difference-in-differences and panel data analysis can be employed.

The scope of the study can be extended to include other areas or provinces in Indonesia in order to improve the generalization of research outcomes. In specific, future research may try to include less developed/less industrialized provinces and regions with neighboring ASEAN countries close to the Indonesian boundaries. Provinces can also differ in their local governments' policies towards local SMEs. Accordingly, cross-province comparison of SME internationalization requires a larger sample size. The sample size should be calculated and randomized for each province to ensure sample sufficiency to perform statistical inferences at provincial level.

Alternatively, future research can be more specific on SME internationalization in a particular province/region or product group/industry. For example, case studies of SME internationalization in tourist destination provinces such as Bali and Yogyakarta can be considered. Case studies can also be drawn upon internationalization of SMEs in specific industries such as handicrafts, food and beverages, and garment and fashion accessories. Specific case studies will allow more specific policy measures recommendation to foster SME internationalization.

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Appendix 1. Export Barrier Items, Codes, Descriptions and Types

	Export Barriers Codes and Items	Descriptions	Types of Barriers
B1	Obtaining information about potential markets	Seek information to locate/analyze potential destination markets	Internal – Informational
B2	Obtaining reliable data on target markets' economy	After deciding the destination market, seek for the accurate, update and affordable data on the target market's economy and market	Internal – Informational
B3	Identifying business opportunities in target markets	Deciding types of business activities in target market, such as choosing between selling to local partners or to cooperate with them, or even to open your own outlet abroad	Internal – Informational
B4	Contacting potential customers in target markets	Seek and contact potential overseas customers in destination country	Internal – Informational
B5	Devoting managerial time to deal with internationalization	Commit and provide managerial team's time to deal with internationalization, such as for seeking information and designing export strategy	Internal – Human Resource
B6	Inadequate quantity and capability of personnel	Preparing personnel and workers who are able to handle day to day export activities including export documents and communication with foreign partners and customers	Internal – Human Resource
B7	Shortage of working capital	Provide extra funds to finance working capital for internationalization (such as for raw materials, wages, research and traveling)	Internal – Financial
B8	Shortage of investment fund	Provide extra funds to finance investment needed for Internationalization (such as building additional production facilities)	Internal – Financial
B9	Shortage of export insurance	Obtaining insurance for internationalization (including export products and assets abroad)	Internal – Financial
B10	Granting credit facilities or payment delay to foreign customers	Granting credit facilities or payment delay to foreign customers	Internal – Financial
B11	Developing new products for foreign markets	Developing new products that are more suitable for foreign markets	Internal – Marketing
B12	Adapting product design/style demanded by foreign customers	Adapting product design/style demanded by foreign markets	Internal – Marketing
B13	Meeting foreign product quality/standards/specifications	Meeting foreign product quality/standards/specifications	Internal – Marketing
B14	Offering satisfactory prices to foreign customers	Offering satisfactory prices to foreign customers	Internal – Marketing
B15	Matching competitors' prices in target markets	Matching competitors' prices in foreign markets	Internal – Marketing
B16	Lack of excess production capacity for exports	Provide extra production capacity to develop and make exported products	Internal – Marketing

*continue...*

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	Export Barriers Codes and Items	Descriptions	Types of Barriers
B17	Establishing/using distribution channels in target markets	Establishing/using distribution, marketing and retailer channels in target markets	Internal – Marketing
B18	Obtaining reliable foreign representation	Obtaining foreign representations that are reliable (communicative, good reputation, solid operation facilities and marketing channels)	Internal – Marketing
B19	Supplying inventory abroad	Difficulty in supplying inventory abroad (shipping products on time, providing warehouse/inventories abroad)	Internal – Marketing
B20	Excessive export transportation/insurance costs	Cover excessive export transportation and communication costs	Internal – Marketing
B21	Offering technical/after-sales service in target markets	Offering technical/after-sales service abroad (such as providing repairation service or spare parts)	Internal – Marketing
B22	Adjusting promotional activities to the target markets	Difficulties in adjusting promotional activities to the target markets	Internal – Marketing
B23	Unfamiliar exporting procedures/paperwork	Understanding export procedures/paperwork such as customs and shipping	External – Procedural
B24	Communicating with overseas customers	Difficulties in communicating with overseas customers	External – Procedural
B25	Slow collection of payments from abroad	Collect and speed up payments from abroad	External – Procedural
B26	Enforcing contracts/resolving disputes in target markets	Difficulties in enforcing contracts/resolving disputes in foreign countries	External – Procedural
B27	Lack of home government export assistance/incentives	Seek Indonesian government export assistance/incentives	External – Governmental
B28	Unfavorable home country's export rules and regulations	Understanding and meeting Indonesian rules and regulations related to exports (e.g. no diplomatic relations, export restriction, etc.)	External – Governmental
B29	Restriction of asset ownership in target markets	Overcoming foreign governments' restriction on foreign asset ownership (land, building, and vehicles) and the movement of people/business persons (e.g. for visas and duration of stay)	External – Governmental
B30	Unequal treatment in tax/eligibility to affiliate in target markets	Overcoming foreign governments' unequal treatment compared to domestic firms in taxation and eligibility to affiliate	External – Governmental
B31	Restriction for the movement of people in target markets	Obtaining visas for business trips as well for bringing workers from Indonesia to support operation abroad if needed	External – Governmental
B32	Unequal treatment in business competition law in target markets	Overcoming foreign governments' unequal treatment compared to domestic firms in business competition regulation, such as in merger and affiliation, trust or procurement	External – Governmental

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		<i>...continued</i>	
	Export Barriers Codes and Items	Descriptions	Types of Barriers
B33	Sophisticated target markets/ laws/ regulations	Understanding laws and regulations that are sophisticated or not transparent in foreign countries	External – Governmental
B34	Different foreign customer habits/attitudes	Adapting to different foreign customer habits/attitudes	External – Task
B35	Stiff competition in target markets	Overcoming stiff competition in destination markets	External – Task
B36	Economic fluctuations in target markets	Anticipating poor/deteriorating economic conditions abroad that may affect inflation, unemployment and purchasing power in destination country	External – Environmental
B37	High risks of foreign currency	Anticipating high risks of foreign currency	External – Environmental
B38	Unfamiliar business practices in target markets	Understanding unfamiliar formal and informal foreign business practices	External – Environmental
B39	Different socio-cultural traits	Understanding and overcoming different socio-cultural traits including values and religion	External – Environmental
B40	Verbal/nonverbal language differences	Overcoming verbal/nonverbal language differences	External – Environmental
B41	Lack of e-commerce infrastructure in target markets	Using/utilizing e-commerce infrastructure in destination country	External – Environmental
B42	Political instability in target markets	Anticipating and responding to change in political stability in foreign markets	External – Environmental
B43	Negative image of Indonesia or Indonesian products	Overcoming negative image of Indonesia or Indonesian products abroad	External – Environmental
B44	High tariff costs in target markets	Dealing with high tariff cost in host countries	External – Environmental
B45	(Intellectual) property rights protection in target markets	Ensure property rights protection (e.g. intellectual property) in host countries	External – Environmental
B46	Health, safety and technical standards in target markets	Meeting restrictive health, safety, and technical standards in host countries (e.g. sanitary requirements)	External – Environmental
B47	Tariff classification and reclassification in target markets	Ensure appropriate and non-arbitrary tariff classification and reclassification in host countries	External – Environmental
B48	Quotas and/or embargoes imposed by target markets	Deal with unfavorable quotas and/or embargoes imposed by host countries	External – Environmental
B49	Customs administration cost in target markets	Deal with high costs of customs administration in host countries, including the cost rate, processing time, complicated procedure and bribery	External – Environmental
B50	Preferential tariff for exporters from other countries	Deal with stiff competition with exporters from other countries with preferential tariff from regional trade agreement with host countries	External – Environmental

Source: OECD-APEC (2006), Leonidou (2004), and OECD (2012)

Appendix 2. Export Barriers as Perceived by SMEs and Policy Makers

Export Barriers	Likert Response Score				Statistical Tests			
	SMEs		Government		Equality of Variances		Equality of Means	
	Mean	Std. Dev.	Mean	Std. Dev.	F	Sig.	t	Sig. (2-tailed)
B1	1.616	0.631	1.722	0.701	0.398	0.528	-0.970	0.332
B2	1.748	0.675	1.694	0.710	0.466	0.495	0.458	0.647
B3	2.063	0.692	2.167	0.697	0.320	0.572	-0.872	0.384
B4	1.722	0.704	1.917	0.649	6.497	0.011	-1.724	0.092
B5	2.043	0.673	1.750	0.604	0.098	0.755	2.537	0.011
B6	2.026	0.673	2.000	0.676	0.068	0.794	0.225	0.822
B7	1.990	0.661	2.139	0.683	0.998	0.318	-1.302	0.193
B8	2.111	0.703	2.389	0.645	0.159	0.691	-2.306	0.021
B9	2.327	0.689	2.056	0.715	2.284	0.131	2.273	0.023
B10	2.302	0.688	2.139	0.639	4.736	0.030	1.469	0.150
B11	1.716	0.640	1.750	0.604	0.934	0.334	-0.306	0.759
B12	1.665	0.720	1.528	0.560	4.278	0.039	1.393	0.171
B13	1.934	0.744	2.194	0.467	8.205	0.004	-3.079	0.003
B14	1.934	0.639	1.722	0.615	0.926	0.336	1.920	0.055
B15	2.038	0.626	1.694	0.525	0.370	0.543	3.212	0.001
B16	1.982	0.646	2.139	0.683	1.439	0.231	-1.403	0.161
B17	2.038	0.679	2.111	0.667	0.025	0.875	-0.622	0.534
B18	2.163	0.701	2.111	0.667	1.132	0.288	0.430	0.667
B19	2.070	0.661	2.139	0.487	3.225	0.073	-0.792	0.432
B20	1.992	0.687	1.806	0.525	0.741	0.390	1.594	0.111
B21	2.197	0.675	2.333	0.535	1.250	0.264	-1.187	0.236
B22	1.943	0.637	1.806	0.577	0.014	0.907	1.262	0.208

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Export Barriers	Likert Response Score				Statistical Tests				
	SMEs		Government		Equality of Variances		Equality of Means		
	Mean	Std. Dev.	Mean	Std. Dev.	F	Sig.	t	Sig. (2-tailed)	Mean Difference
B23	2.000	0.702	1.694	0.668	1.050	0.306	2.529	0.012	0.306
B24	1.630	0.663	1.500	0.609	0.656	0.418	1.140	0.255	0.130
B25	2.068	0.704	1.806	0.467	4.721	0.030	3.129	0.003	0.263
B26	2.216	0.639	2.250	0.500	3.125	0.078	-0.384	0.703	-0.034
B27	2.105	0.674	1.500	0.609	0.395	0.530	5.234	0.000	0.605
B28	1.992	0.694	1.361	0.593	0.039	0.843	5.313	0.000	0.631
B29	2.204	0.617	2.500	0.561	0.241	0.623	-2.799	0.005	-0.296
B30	2.135	0.652	2.417	0.604	0.531	0.467	-2.512	0.012	-0.281
B31	1.974	0.671	1.639	0.683	2.884	0.09	2.845	0.007	0.335
B32	2.290	0.620	2.361	0.639	0.323	0.570	-0.660	0.509	-0.071
B33	2.202	0.624	2.278	0.659	0.848	0.358	-0.697	0.486	-0.075
B34	1.816	0.697	1.750	0.500	5.492	0.019	0.743	0.461	0.066
B35	2.138	0.628	2.167	0.447	4.655	0.031	-0.364	0.718	-0.029
B36	2.304	0.628	2.167	0.561	6.312	0.012	1.412	0.165	0.138
B37	2.355	0.672	2.306	0.525	7.306	0.007	0.533	0.597	0.049
B38	1.937	0.646	1.917	0.500	3.520	0.061	0.230	0.819	0.020
B39	1.750	0.732	1.639	0.543	5.117	0.024	1.155	0.254	0.111
B40	1.668	0.669	1.722	0.615	1.864	0.173	-0.472	0.637	-0.054
B41	1.823	0.674	1.444	0.558	0.151	0.698	3.290	0.001	0.379
B42	2.121	0.577	2.167	0.561	0.006	0.937	-0.460	0.646	-0.046
B43	1.940	0.642	1.806	0.577	0.000	0.995	1.216	0.224	0.134
B44	2.135	0.648	2.222	0.591	0.078	0.780	-0.783	0.434	-0.087

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	Likert Response Score				Statistical Tests					
	SMEs		Government		Equality of Variances		Equality of Means			
	Mean	Std. Dev.	Mean	Std. Dev.	F	Sig.	t	Sig. (2-tailed)	Mean Difference	
Export Barriers										
B45 (Intellectual) property rights protection in target markets	2.192	0.650	2.278	0.513	1.700	0.193	-0.775	0.439	-0.086	
B46 Health, safety and technical standards in target markets	2.020	0.678	2.444	0.558	0.444	0.506	-3.663	0.000	-0.424	
B47 Tariff classification and reclassification in target markets	2.073	0.610	1.972	0.560	1.448	0.229	0.961	0.337	0.101	
B48 Quotas and / or embargoes imposed by target markets	2.065	0.657	2.333	0.535	0.031	0.860	-2.396	0.017	-0.269	
B49 Customs administration cost in target markets	2.093	0.600	2.083	0.732	3.644	0.057	0.077	0.939	0.010	
B50 Preferential tariff for exporters from other countries	2.139	0.582	2.333	0.586	1.850	0.174	-1.929	0.054	-0.194	

Source: Author's calculation based on survey data

Note: The Likert-scale ranges from 1 = not difficult, 2 = difficult and 3 = very difficult

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