



Executive Summary

ASEAN Integration Report 2024

Inclusive Trade: Perspectives on Regulatory Challenges for MSMEs in ASEAN

In view of the importance of micro, small, and medium-sized enterprises (MSMEs) as the backbone of ASEAN economies—contributing significantly to employment and economic growth—this report aims to understand their limited participation in cross-border trade, particularly in the context of trade regulations such as non-tariff measures (NTMs). At first glance, these trade regulations appear to be neutral with respect to the size of firms; NTMs are generally applied uniformly without specifically targeting businesses based on their scale. However, the way NTMs are structured and enforced can act as a barrier to inclusive trade as it places a heavier compliance burden on MSMEs, which lack the resources and capacity to navigate these regulations. Streamlining NTMs is a key focus of the ASEAN Economic Community (AEC) Blueprint 2025, which emphasises the

need for deeper regional integration to increase trade and facilitate smoother market access across ASEAN. This report focuses on ASEAN as a whole, with a closer look at Malaysia, Indonesia, and Thailand.

To effectively address these challenges, it is important to consider these key stylised facts when shaping policies to promote trade inclusivity and support MSME internationalisation in ASEAN: firm size in cross-border trade, participation of women-led MSMEs in international markets, and the role of public and private networks. Firstly, firm size significantly influences trade participation due to resource and capacity differences. Larger enterprises dominate exports, while medium-sized enterprises, though not as dominant, still leverage their relatively stronger resources and networks, giving them a higher potential for

internationalisation compared to micro and small enterprises. However, tailored support is needed to help medium-sized enterprises fully leverage this potential and expand into global markets. At the same time, micro-enterprises, which often focus on survival due to high export costs, require targeted assistance to scale up and become export-ready. Secondly, women-led MSMEs face additional barriers. Challenges such as ‘time poverty’ due to disproportionate caregiving responsibilities and cultural biases restrict their growth and ability to engage in export markets—highlighting the need for gender mainstreaming policies in this area. Lastly, leveraging public and private networks is vital for market entry, though the preference for public versus private networks varies depending on the local context, enterprise characteristics, and strategic needs. This variation should be carefully considered when tailoring support at the national level to ensure that MSMEs receive the most effective assistance.

In this context, the regulatory landscape further complicates matters for MSMEs in cross-border trade. While the ASEAN region has made significant strides in reducing tariffs, trade remains costly due to the increasing use of NTMs and non-tariff barriers (NTBs) as alternative policy tools. The average trade cost among ASEAN-4 members (Malaysia, Indonesia, Thailand, and the Philippines) remains high, equivalent to a 76.7%

tariff. In particular, the food sector faces intense regulation through sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), driven by concerns over health, perishability, and rising consumer demand for quality. Looking specifically at Malaysia, Indonesia and Thailand, the regulatory distance among these countries in the food sector is relatively low, suggesting some alignment, however, the real challenges lie in the details of implementation, especially for MSMEs. These businesses often struggle with compliance due to limited resources, making it difficult to navigate complex requirements. Even minor regulatory misalignments can become significant barriers for MSMEs when accessing new markets.

ASEAN has made significant progress in addressing and streamlining NTMs to align standards and enhance transparency. However, progress has been uneven, particularly in sectors with complex regulatory needs like food and agriculture. Streamlining NTMs has proven more challenging than reducing tariffs, partly due to the need for careful balance between national regulations and regional integration. Therefore, there is an urgent need for greater coordination among ASEAN countries to harmonise NTMs and reduce regulatory fragmentation. This would help lower trade costs, especially for MSMEs, allowing them to better integrate into regional value chains and contribute to equitable economic growth across the region.