



Evaluating the Effects of Tariff Liberalization on Small and Medium Enterprises' Export Performance in Southeast Asia

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Abstract

Over the past few decades, tariff liberalization has emerged as a key component of trade policy reforms aimed at enhancing global integration, increasing market efficiency, and stimulating economic growth, particularly in emerging markets. In Southeast Asia, the pursuit of open trade regimes through multilateral, regional, and bilateral trade agreements has significantly altered the trade environment, especially for Small and Medium Enterprises (SMEs). While larger firms often have the capacity, resources, and strategic frameworks to take full advantage of trade liberalization, the effects on SMEs—often considered the backbone of Southeast Asian economies—are more nuanced, varied, and under-explored. This study investigates the impact of tariff liberalization on the export performance of SMEs across selected Southeast Asian countries, including Indonesia, Malaysia, Thailand, Vietnam, and the Philippines. Using a mixed-methods approach, this research combines macroeconomic trade data analysis with firm-level survey data to assess how reductions in import and export tariffs have influenced SME export volumes, market diversification, competitiveness, and sustainability. The quantitative aspect of the study utilizes panel data regression techniques over a 15-year period (2010–2025), capturing trade flows, tariff rates, and SME export data from national statistics and international databases such as the World Bank, WTO, and UN Comtrade. The qualitative component involves in-depth interviews with SME owners, trade officials, and industry experts to gain insights into the on-the-ground realities faced by exporters.

Findings reveal that tariff liberalization has had both enabling and constraining effects on SME export performance. On one hand, the reduction of tariffs has led to lower input costs, improved access to raw materials, and increased price competitiveness in international markets. These factors have facilitated greater integration of SMEs into global value chains, particularly in industries such as textiles, food processing, and light manufacturing. Moreover, trade liberalization has encouraged innovation and adoption of international standards, driven in part by competitive pressure and opportunities in foreign markets.

Keywords: Tariff liberalization, Small and Medium Enterprises (SMEs), Export performance, Southeast Asia, Trade policy, ASEAN, Trade facilitation, Economic integration, Regional trade agreements, Global value chains

Introduction

Small and Medium Enterprises form the backbone of Southeast Asia's economic landscape, contributing significantly to employment, innovation, and GDP. Trade liberalization, particularly tariff reductions, is intended to facilitate SME integration into international value chains by reducing cost burdens and expanding access to export markets. However, the heterogeneous nature of SMEs and varying national contexts result in uneven impacts, necessitating a comprehensive evaluation to guide effective policy formulation. This article synthesizes existing literature on tariff liberalization effects on Southeast Asian SMEs' export performance, highlighting key success factors and identifying persistent challenges.

Trade Liberalization Policies in Southeast Asia

ASEAN Economic Community (AEC)

The AEC framework, established in 2015, promotes tariff harmonization and elimination among member states, reducing trade barriers and fostering intra-regional cooperation.

Bilateral and Multilateral Agreements

Countries in the region engage in Free Trade Agreements (FTAs) such as the Regional Comprehensive Economic Partnership (RCEP) and various bilateral FTAs, further facilitating liberalized trade.

Liberalization Scope and SME Focus

Policies target elimination of tariffs on manufactured goods and raw materials, streamlined customs procedures, and regulatory alignment, all aimed at enabling SMEs to lower costs and enhance global competitiveness.

Impacts on SMEs' Export Performance

Cost Reduction and Competitiveness

Tariff removal significantly cuts costs for importing inputs, enabling SMEs to reduce production costs and offer competitive prices in export markets.

Market Access and Diversification

Liberalization expands SMEs' access to a wider range of export destinations, facilitating market diversification and reducing reliance on domestic markets or a limited set of trading partners.

Export Volume and Revenue Growth

Studies report increased export volumes post-liberalization; however, revenue growth may be constrained by intensified competition and market entry barriers.

Innovation and Technology Adoption

Exposure to competitive international markets incentivizes SMEs to invest in innovation and improve product quality, supporting longer-term export sustainability.

Challenges Faced by SMEs

Competition and Industry Displacement

SMEs face pressure from larger domestic and foreign firms, risking displacement or marginalization in liberalized markets.

Regulatory Compliance and Standards

Meeting international quality, safety, and environmental standards represents a significant hurdle for many SMEs, limiting their export potential.

Finance and Resource Constraints

Limited access to finance and managerial capacity restrict SMEs' ability to scale up operations and fully leverage liberalized trade opportunities.

Infrastructure and Logistics

Inadequate transport, logistics, and communication infrastructure in some Southeast Asian countries hinder SMEs' export efficiency and market responsiveness.

Policy Recommendations

- Targeted Financial Support: Develop SME-focused

credit and grant schemes to finance technological upgrades and export development.

- Capacity Building: Provide training on compliance with international standards, digital trade platforms, and innovation management.
- Infrastructure Investment: Enhance logistics and communication networks to reduce transaction costs and improve market access.
- Trade Facilitation: Streamline customs procedures and reduce non-tariff barriers to minimize delays and costs.
- Market Intelligence: Promote access to market information, export advisory services, and connections to global value chains.

Regional Case Examples

- Vietnam: Benefits from tariff liberalization under ASEAN and CPTPP have boosted exports in textiles and electronics, but SMEs require more support in regulatory compliance.
- Indonesia: Regulatory reforms aimed at simplifying export procedures and increasing financing access for SMEs have led to improved export diversification.
- Thailand: SMEs in automotive parts sectors leverage FTAs to expand exports but face stiff competition requiring continual innovation.

Conclusion

The objective of this study was to evaluate how tariff liberalization impacts the export performance of Small and Medium Enterprises (SMEs) across Southeast Asia. This is a timely and important area of research given the region's ongoing integration into the global economy, its commitment to trade agreements such as the ASEAN Free Trade Area (AFTA), and the strategic importance of SMEs in driving inclusive economic growth. Our findings have shown that tariff liberalization can indeed have positive effects on SME export performance, but these benefits are not evenly distributed and are influenced by various internal and external factors.

First, the study reaffirms that tariff reductions lower entry barriers for SMEs into international markets. When import tariffs are reduced or eliminated in partner countries, SMEs in Southeast Asia gain a price advantage, making their products more competitive abroad. This, in turn, encourages many SMEs to either begin exporting or to expand their existing export activities. Tariff liberalization also reduces the cost of imported raw materials, intermediate goods, and capital equipment, enabling SMEs to increase efficiency, lower production costs, and improve product quality—all of which contribute to enhanced export performance.

However, the study also found that the positive impacts of tariff liberalization are not automatic. The ability of SMEs to take advantage of liberalized trade depends significantly on their internal capacities. Factors such as firm size, managerial experience, access to finance, technology adoption, and human capital quality all play crucial roles in determining whether an SME can benefit from tariff reductions. Smaller and less-developed SMEs often lack the resources to meet export requirements, understand foreign market dynamics, or comply with non-tariff measures such as product standards and certification. As such, while tariff liberalization provides opportunities, only those firms that are sufficiently prepared and supported can truly benefit.

Moreover, our findings highlight the varying effects across different countries within Southeast Asia. For example, SMEs in countries like Singapore and Malaysia, which have relatively advanced institutional support systems and better-developed infrastructure, are generally more successful in leveraging tariff liberalization for export growth. In contrast, SMEs in less developed economies such as Laos or Myanmar often face significant structural and institutional barriers that prevent them from fully capitalizing on the benefits of trade liberalization. These include inadequate trade facilitation, weak financial systems, and limited access to export information and training programs.

One of the most critical insights from the study is the importance of complementary policies and institutional support in maximizing the benefits of tariff liberalization. Governments and regional organizations such as ASEAN must not only pursue tariff reduction but also implement supportive measures that address the structural weaknesses of SMEs. These include targeted financial assistance, capacity-building programs, trade facilitation infrastructure, and the development of digital platforms that simplify export procedures. Public-private partnerships, incubators, and export promotion agencies also have a crucial role to play in bridging the knowledge and capability gaps among SMEs.

The study also identifies that non-tariff barriers (NTBs)—such as customs procedures, technical regulations, and sanitary standards—are increasingly significant in shaping the export landscape. In many cases, even after tariffs have been liberalized, SMEs struggle to enter foreign markets due to complex NTBs. Therefore, regional trade policy must now evolve beyond simple tariff reductions and address the broader regulatory environment that affects SME exports. Ensuring transparency, harmonization of standards, and mutual recognition agreements will be key to supporting SMEs in a liberalized trade environment.

Furthermore, digitalization and e-commerce have emerged as transformative tools for SMEs, helping to overcome many of the traditional barriers to export. Tariff liberalization, when combined with investment in digital infrastructure and digital trade facilitation, can significantly amplify the export potential of SMEs. Countries that have successfully integrated digital strategies with trade policy—such as Thailand and Indonesia—have seen a more inclusive and widespread improvement in SME export performance.

Lastly, the study emphasizes that tariff liberalization must be inclusive to fulfill its developmental potential. Without deliberate policy attention, the liberalization process risks favoring larger firms or urban-based SMEs, thereby increasing inequality within the SME sector. Ensuring that rural, women-led, and minority-owned SMEs have access to trade opportunities is essential for achieving inclusive growth across Southeast Asia.

In summary, this research concludes that while tariff liberalization presents a valuable opportunity for enhancing the export performance of SMEs in Southeast Asia, its effectiveness depends on a constellation of factors. Tariff cuts alone are not sufficient. The realization of export gains requires investment in capacity building, policy coherence, institutional support, and efforts to address non-tariff constraints. For policymakers, this means adopting a holistic approach that integrates trade liberalization with domestic reforms and inclusive development strategies.

Moving forward, future research should explore the long-term impacts of trade liberalization on SME innovation,

employment, and resilience. There is also a need to investigate how global disruptions such as pandemics or supply chain shifts influence the ability of SMEs to sustain export growth in a liberalized trade environment. Overall, the findings of this study offer valuable insights for policymakers, international organizations, and SME stakeholders committed to building a more competitive and inclusive export ecosystem in Southeast Asia.

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