

## Chapter 1. Economic context and role of SMEs in ASEAN

### The economic context

ASEAN is comprised of ten Member States which collectively cover 4.49 million km<sup>2</sup> and are home to 642.4 million people.<sup>1</sup> The region's large and growing market is strategically located. It has large natural resource endowments, is a top destination for the global offshoring industry and is located on one of the world's busiest shipping routes. It generated a combined nominal GDP of USD 2.8 trillion in 2017.<sup>2</sup> Indonesia is the region's largest country, accounting for 37% of its nominal GDP and 41% of its population in 2017.

#### *A thriving yet heterogeneous region, with a diverse economic structure*

The ASEAN region is home to abundant oil and gas, coal, precious stones, metals, minerals and timber. It is one of the world's largest producers of agricultural commodities (especially palm oil, rice, cocoa and coffee). In the 1970s and 1980s, many countries used this endowment, along with smart economic policies, as a springboard for industrialisation. Today the region is a thriving hub for global manufacturing and trade, with a particular specialisation in electronics, automobiles and textiles. Incomes have risen rapidly: the GDP per capita (PPP) of ASEAN countries has more than doubled since 2000.

**Table 1.1. Key socioeconomic indicators for ASEAN, 2016**

Country	Total area (km <sup>2</sup> )	Population (million inhabitants) <sup>1 6</sup>	GDP per capita (PPP Int\$) <sup>1 6</sup>	Arable land (% of land area) <sup>2</sup>	Rural population (% total population)
Brunei Darussalam	5 765	0.4	74 914	1.0	22.5
Cambodia	181 035	15.7	4 104	21.5	79.1
Indonesia	1 913 579	262.2	12 349	13.0	45.5
Lao PDR	236 800	6.8	7 332	6.6	60.4
Malaysia	331 388	32.0	29 236	2.9	24.6
Myanmar	676 576	53.4	6 070	16.7	65.4
The Philippines	300 000	104.9	8 355	18.8	55.7
Singapore	719	5.6	93 920	0.8	0
Thailand	513 120	67.7	18 231	32.9	48.5
Viet Nam	331 231	93.7	7 027	22.6	65.8
<b>ASEAN</b>	<b>4 490 213<sup>3</sup></b>	<b>642.4<sup>3</sup></b>	<b>12 361<sup>5</sup></b>	<b>14.9<sup>4</sup></b>	<b>52.1<sup>4</sup></b>

*Note:* **1.** Data from 2017 **2.** Data from 2015 **3.** Total **4.** Median **5.** Weighted average **6.** Preliminary statistics. *Source:* ASEC (2016), *Selected Basic Indicators*, <https://data.aseanstats.org/> (accessed 15 April 2018); World Bank (2017), *World Development Indicators*, <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed 4 April 2018); ASEC preliminary statistics for 2017 (2018 forthcoming).

These developments have been supported by sound macroeconomic management, high savings rates,<sup>3</sup> relatively open trading systems and a young, rapidly growing population.

Despite some common themes, however, ASEAN countries vary significantly in terms of economic structure, development levels, population and density, political and legal systems, geographic endowment and cultural and religious traditions (Box 1.1). This diversity can help to explain some of the region's rapid and resilient growth, but it may also open up new challenges for integration.

#### Box 1.1. ASEAN Member States: economic snapshots

**Brunei Darussalam** is a small oil-rich country located on the isle of Borneo. It has a very high income per capita with a small population of less than 450 000. With its reliance on hydrocarbons, Brunei Darussalam economy is susceptible to fluctuations in commodity prices. After four consecutive years of negative growth from 2013 to 2016, following a slump in world oil prices, the economy has recently recovered in 2017 recording a positive real GDP growth of 1.3% in 2017. Brunei Darussalam continues to face some challenges in diversifying the economy, such as low productivity outside the oil and gas sector and a relatively attractive public sector. One of its key assets for future growth is its young and well-educated population. Human capital development remains high on the national agenda.

**Cambodia** is a country located in the Greater Mekong Subregion that recently graduated to lower middle-income status. Since the 1990s it has developed a strong textile and garments industry, but it has faced difficulties moving into higher value-added activities.

**Indonesia** is an archipelagic nation covering an estimated 17 508 islands, of which around 920 are inhabited. It is ASEAN's biggest and most populous country. Its economy has traditionally been commodity driven, benefitting from the country's substantial natural resource endowment. It remains a lower middle-income country, but its rapidly growing middle class is opening up new market opportunities.

**Lao PDR** is a lower middle-income country located in the Greater Mekong Subregion. It remains a largely agrarian economy but is developing its tourism industry, with a concentration in ecotourism. It has also invested substantially in hydropower facilities, and is an important provider of electricity to neighbouring countries.

**Malaysia** is an upper middle-income country on the path to graduating to high-income status. Since the 1970s it has managed to transform itself from a principally commodity-driven economy to one predominantly based on manufacturing and services, though commodities remain important.

**Myanmar** is a low-income country located in the Greater Mekong Subregion. It has recently begun to liberalise its economy and transition to a civilian government, and it has begun actively to seek investment in industry and infrastructure, although progress here has dwindled in recent years. It is a largely rural economy with substantial natural resources, and it holds substantial growth potential, with a sizeable consumer market. However, conflict persists in a significant proportion of the country.

**The Philippines** is lower middle-income country and archipelago covering an estimated 7 107 islands, of which around 200 are inhabited. It has the second largest population in ASEAN and an important service sector, with strong business process outsourcing and tourism industries. Its large diaspora makes an important contribution to GDP via remittances. It has developed a specialisation in the production of electronics.

**Singapore** is a high-income city state with one of the highest population densities in the world. Its strategic location on one of the world's busiest shipping lanes and its highly educated population have enabled it to develop strategic market niches. It is a global hub for financial and insurance services, oil trading and pricing, shipping and biotechnology.

**Thailand** is an upper middle-income country and anchor economy for the Greater Mekong Subregion. While its agricultural sector remains important to jobs and exports, it has become a

leading producer and exporter of vehicles and vehicle parts. It has a vibrant tourism sector and has invested significantly in infrastructure. Today it is a logistics hub for many countries in the region, with one of the biggest ports and airports in ASEAN.

**Viet Nam** is a lower middle-income country and market-oriented socialist economy. It remains largely rural and agrarian, but is rapidly building up a strong manufacturing sector via an export-oriented FDI-driven industrialisation model. However, it shows signs of a dual economy, with rather low productivity in non-FDI sectors. State-owned enterprises constitute a particular drag on the economy.

*Note:* the country income classifications denoted here are based on the World Bank's country income group classifications for the 2019 fiscal year, which is based on the GNI per capita calculated using the World Bank's Atlas method. Further information on the methodology and country groupings can be found at: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.

Among ASEAN countries, Cambodia, Lao PDR, Myanmar and Viet Nam remain largely rural economies, with 60-79% of their population residing in rural areas. Agriculture accounts for a significant share of total private-sector employment in three of these countries: Lao PDR (62%), Myanmar (51.3%) and Viet Nam (41.9%) (ILO, 2016<sub>[1]</sub>). In Cambodia, the service sector is the largest employer (45.5% of total private-sector employment).

Many ASEAN countries have built up strong manufacturing bases. Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam have managed progressively to develop manufacturing capacity in higher value-added products, such as electronic parts and automobiles. Cambodia has developed a strong textiles and garments industry,<sup>4</sup> and today this is one of the main drivers of jobs, revenue and export earnings in the country. The region is highly integrated into global value chains, and many ASEAN countries have successfully leveraged outsourcing opportunities from industrialised economies such as Japan, South Korea, and, more recently, China. Economic zones have played an important role in this process, with Singapore, Malaysia and the Philippines first pioneering the approach in ASEAN. As of December 2016, there were more than 1 600 economic zones in the region, including over 1 162 industrial parks, 200 information technology centres (all in the Philippines), 71 special economic zones, 52 technology parks, 35 free industrial zones and 13 export processing zones (ASEC, 2017<sub>[2]</sub>). Many ASEAN Member States have used economic zones as a rapid way to attract foreign direct investment and export-oriented industries, and have increasingly competed to attract the best companies via a range of incentives such as tax exemptions, subsidies and the relaxation of labour laws. Today, accounts for one-sixth to one-quarter of private-sector employment and value-added in all ASEAN countries except Lao PDR and Brunei Darussalam (ILO, 2016<sub>[1]</sub>; World Bank, 2016<sub>[3]</sub>).<sup>5</sup>

Finally, a number of ASEAN countries have managed to develop a vibrant service sector, and are today service-driven economies. Services, particularly trade, finance, and real estate, absorb 59% of total FDI inflows to ASEAN (ASEC, 2016<sub>[4]</sub>). In Malaysia, the Philippines and Singapore, services account for more than 50% of gross value added and private-sector employment, while in Thailand services account for more than 50% of gross value added and generate the highest share of private-sector employment (44%). In 2015, the total contribution of tourism to ASEAN GDP was 12.4% - with a direct contribution of 5% and indirect and induced GDP accounting for the remaining 7.4% (WTTC, 2016<sub>[5]</sub>). The region has developed a healthy tourism sector that holds future

potential for growth. Singapore is a global hub for financial and insurance services, while the Philippines is a world leader in business process outsourcing.

### *Despite a contraction in global trade, growth has been resilient*

Today ASEAN is one of the fastest growing regions in the world, and it has broadly managed to sustain high economic growth rates over three decades. Over the past five years (2013-17), most ASEAN countries have continued to record GDP growth rates above 5%. While many ASEAN countries are export oriented, making them vulnerable to the global growth cycle, growth in recent years has been predominantly fuelled by domestic consumption. The region has a rapidly growing middle class, and this is creating new economic opportunities. An estimated 190 million middle-class consumers<sup>6</sup> were estimated to reside in ASEAN in 2012; by 2020, this figure is projected to rise to around 400 million.

**Table 1.2. Main macroeconomic indicators for ASEAN, 2016**

Indicator	Unit of measurement	Country									
		BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM
GDP growth <sup>2,3</sup>	Percent, y-o-y	1.3	6.8	5.1	6.9	4.2	6.8	6.7	3.6	3.9	6.8
Inflation <sup>2</sup>	Percent, average	-0.2	2.2	3.6	0.8	2.1	4.5	3.2	0.6	0.7	3.5
Government balance	Percent of GDP	-21.5	-2.9	-2.5	-1.2	-3.0	-4.6	-0.4	3.3	0.4	-6.6 <sup>1</sup>
Current account balance	Percent of GDP	15.5	-	-1.8	-4.4	3.0	-6.6	-0.3	19.0	11.9	4.1
Export of goods and services	Percent of GDP	49.6	61.3	19.1	38.9	67.2	-	28.0	172.1	68.9	93.6
Imports of goods and services	Percent of GDP	37.7	65.7	18.3	51.6	61.0	-	36.9	146.3	54.2	91.1
Net FDI	Percent of GDP	-1.3	-	0.4	3.1	4.6	-	2.6	25.0	0.75	7.6
External debt	Percent of GNI	-	-	-	93.3	69.6	-	21.1	-	31.4	38.4
Gross reserves	Percent of external debt	-	-	-	15.6	47.2	-	104.3	-	141.4	46.0
Domestic credit to the private sector	Percent of GDP	44.3	69.7	39.4	94.8	123.9	-	44.7	132.9	147.4	115.0
Unemployment	Percent of active population	6.9	0.3	5.6	-	3.4	4.0	5.5	3.0	1.0	2.1

Note: 1. IMF staff estimates 2. ASEC estimates (2017) 3. Preliminary statistics.

Source: World Bank (2017), *World Development Indicators*, <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed 4 April 2018); IMF (2017), *World Economic Outlook*, <https://www.imf.org/external/pubs/ft/weo/2017/02/weodata/weoselgr.aspx> (accessed 4 April 2018), ASEC (2017).

Sound macroeconomic fundamentals across the region as a whole have helped to moderate the impact of lower export earnings from sluggish global trade recovery. Most ASEAN countries have managed to maintain a relatively strong external position thanks to substantial international reserves, which provided an important buffer while global trade recovered, as well as growing regional markets.

### *Domestic structural reform may be needed to broaden and sustain growth*

The region is anticipated to sustain a high growth rate over the medium term, with average annual GDP growth of 5.2% forecast between 2018 and 2022 (OECD, 2018<sub>[6]</sub>). This is highly contingent on governments' ability to deliver on planned infrastructure projects. Notable downside risks include the possibility of a more rapid monetary policy contraction in advanced economies, growing protectionism and rapidly increasing private-sector debt (OECD, 2018<sub>[6]</sub>).

Domestic structural reforms may become more pressing if growth is to be sustained and broadened (OECD, 2018<sub>[6]</sub>). Over the medium term, many governments in the region may face increasing pressures to moderate credit growth through enhanced bank regulation and supervision. While the quality of bank assets is not yet a cause for concern, the volume of non-performing loans and assets has increased, and this may leave ASEAN economies more vulnerable to external risks such as a reversal of nascent trade recovery or more rapid monetary contraction in advanced economies. Moves to tighten credit growth may dampen domestic demand, but may also reduce the threat of economic slippage should such risks be realised (OECD, 2018<sub>[6]</sub>).

Over the long term, the region will need to sustain and increase investment, particularly in infrastructure. By some estimates, ASEAN's infrastructure investment needs may reach USD 2 759 billion over the next 10 years, or 5% of the region's projected GDP (ADB, 2017<sub>[7]</sub>). ASEAN continues to face issues of connectivity, both within and between member states, with important transport corridors between trading ASEAN nations still missing, particularly rail links (ADB, 2015<sub>[8]</sub>; ASEC, 2016<sub>[9]</sub>). This is especially pronounced in the Greater Mekong Subregion,<sup>7</sup> and large-scale transport infrastructure projects are planned but at different levels of implementation. As the region's middle class continues to expand, demand for transport infrastructure is increasing, particularly in the region's urban centres. Development of the digital economy is constrained by underdeveloped telecommunication infrastructure in many countries, with less than 30% of the population online in Cambodia, Indonesia, Lao PDR and Myanmar (OECD, 2018<sub>[6]</sub>). Climate change is also likely to increase demand for investment in infrastructure, as pressures build to make existing infrastructure more disaster-proof and resource-efficient (ADB, 2017<sub>[7]</sub>).

Policy makers will need to crowd in more private financing into infrastructure investment to meet these demands. In some countries, this will require new business models and regulatory reform. Only two ASEAN countries operate at general cost recovery levels for electricity production, and in three ASEAN countries unitary revenues from electricity tariffs do not cover the marginal cost required to generate electricity (World Bank, 2018<sub>[10]</sub>). Reform may also require the exploration of new financing instruments that use private funds more efficiently and tap into new sources of funding, such as blended finance.

Alongside measures to upgrade infrastructure, policy makers are also seeking ways to enhance productivity to increase incomes and avoid the middle-income trap. While FDI has been an important driver of industrialisation in many countries, some show signs of a dual economy, with productivity in non-FDI sectors significantly lagging behind.

Human capital development is one facet of productivity enhancement measures and will be an increasingly pressing priority for policy makers over the long term. Strong education and training systems will enable SMEs to respond to and keep pace with emerging skill needs in the global economy. In some countries this will mean upgrading the current workforce via literacy drives and better provision of vocational education and training, typically via close public-private collaboration.<sup>8</sup> In others the focus will be more on preparing the country's future workforce, via skills planning and the development and promotion of facilities for lifelong learning.

Finally, some ASEAN economies may face pressures to improve the quality of public spending. Some countries are facing a widening budget gap, although the fiscal outlook appears to be largely stable (OECD, 2018<sub>[6]</sub>). A number of countries are embarking upon tax reform, while others are attempting to increase integrity in public service provision

and are increasingly undertaking more rigorous evaluation of public policies and programmes.<sup>9</sup>

### *Further economic integration presents challenges as well as opportunities*

Further economic integration offers to enhance economic growth and resilience in Southeast Asia. The freer movement of goods and services can lower barriers to trade and open up new markets for firms operating in the community. The freer movement of labour and capital can act as a macroeconomic stabiliser and a tool for spreading wealth from the community's more developed to less developed countries and sub-national regions. However it can also open up new challenges. Disparate levels of institutional development and income tends to increase competitive pressures and the need for structural reform in lower-income countries as integration advances. ASEAN demonstrates particularly divergent levels of economic development relative to other economic communities. Gross domestic product per capita (PPP) ranges from PPP Intl\$ 4 104 in Cambodia to PPP Intl\$ 93 920 in Singapore.<sup>10</sup> Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam continue to account for around 97% of ASEAN trade, 96% of GDP and 94% of FDI<sup>11</sup> (ASEC, 2016<sub>[4]</sub>).

More can be done to lower barriers to trade. While import tariffs for most goods have been removed, non-tariff barriers remain rather high.<sup>12</sup> Likewise, while gradual opening of the services market continues and offers better policy certainty, the question remains on whether this has led to actual liberalisation. Intra-ASEAN trade stands at around 23% of the region's total trade, which is lower than in other economic communities such as the European Union and NAFTA.<sup>13</sup> In absolute terms intra-ASEAN trade has been growing, and the region's market has effectively cushioned the adverse impact of a weakening external sector. There is, however, still some way to go to achieve the community's objective of doubling intra-ASEAN trade by 2025.

Obstacles also remain for the free movement of labour and capital. Labour migration in ASEAN currently tend to be concentrated in a few one-way corridors: from Cambodia, Lao PDR and Myanmar into Thailand (which accounts for around 55% of total intra-ASEAN labour migration); from Indonesia to Malaysia (16%); and from Malaysia into Singapore (16%) (WEF, 2016<sub>[11]</sub>). Regional initiatives such as the creation of frameworks to facilitate and promote the mutual recognition of skills will be important to create a more fluid regional labour market. Freer movement of capital may be stymied by different levels of capital market development, and by gaps in the regulatory framework for financial services in some AMS.

## **SMEs in ASEAN**

SME development is an important pillar of regional integration efforts. Micro, small and medium-size enterprises represent around 97-99% of the enterprise population in most ASEAN countries.<sup>14</sup> The SME sector tends to be dominated by micro enterprises, which typically account for 85-99% of enterprises (where data are available). There is a relatively low share of medium-sized enterprises across the region as a whole, which may be indicative of a "missing middle" in the region's productive structure.

In most ASEAN countries, SMEs are predominantly found in labour-intensive and low value-added sectors of the economy, particularly retail, trade and agricultural activities. As such, they continue to account for a high share of employment but a low share of gross value added in most countries. The latest available data for the region suggests that

SMEs account for around 66.3% of employment (based on the median)<sup>15</sup> and 42.2% of gross value added.<sup>16</sup> While these figures should be approached with caution,<sup>17</sup> they suggest that SME productivity and growth may lag behind larger enterprises.

SMEs in general appear to be underrepresented as exporters, with their contribution to total exports estimated at around 10-30% (ERIA-OECD, 2014<sub>[12]</sub>). SMEs tend to engage more in global value chains as exporters than as buyers of foreign inputs (López González, 2017<sub>[13]</sub>), though the OECD (2016<sub>[14]</sub>) finds the sourcing of foreign value added to be associated with greater productivity, more sophisticated exports and less concentrated export structures.

## SME policy

SME policy goes hand in hand with private-sector development, and is premised on the idea that micro, small and medium-sized enterprises face barriers to growth. The limitations of SMEs relative to large firms include: *i*) lower bargaining power; *ii*) fewer resources to invest in technology and people, and to ride out difficult periods; *iii*) higher compliance costs; *iv*) smaller networks; and *v*) limited managerial and/or technical skills. These barriers can discourage entrepreneurs from embarking on a business venture or can cause SMEs to operate well below their optimal efficiency frontier. Advocates of SME policy argue that this may constitute a drag on productivity growth. They contend that measures to address these barriers could produce a more flexible, resilient, competitive and inclusive economy overall, generating a stream of social gains that outweigh the direct cost of financing SME support programmes.

Policy makers take a range of approaches to SME policy based on their objectives (Table 1.3). Often they employ a mix of approaches, with the dominant approach fluctuating over time in line with current, often political, policy priorities. They may also adopt different approaches for different segments of the SME population. The approach taken informs the selection of policies and how they are structured, and both horizontal and targeted policies may be used.

**Table 1.3. Objectives of SME policy**

Overarching goal	Specific goal
Macro objectives	<ul style="list-style-type: none"> <li>• Creation of employment</li> <li>• Economic development</li> <li>• Export growth</li> </ul>
Social objectives	<ul style="list-style-type: none"> <li>• Income redistribution</li> <li>• Poverty alleviation in developing countries</li> </ul>
Correction of market failures / inefficiency (static efficiency objectives)	<ul style="list-style-type: none"> <li>• Presence of externalities</li> <li>• Market access barriers</li> <li>• Asymmetric information</li> <li>• Small number of competitors</li> <li>• Information imperfection (lack of access to information about potential markets)</li> <li>• Levelling the playing field</li> </ul>
Dynamic efficiency objectives	<ul style="list-style-type: none"> <li>• Promotion of innovation</li> </ul>

Source: Harvie and Lee (2005), <http://ro.uow.edu.au/commpapers/1052/>.

The three key approaches to SME policy could be summarised as follows:

- **SME development as a tool to improve market efficiency.** This approach is broadly horizontal. It aims to ensure that all enterprises have equal access to markets and to promote dynamic competition. It focuses on removing administrative barriers that may distort competition, reducing information asymmetries, promoting easy entry-exit procedures and stimulating entrepreneurship.
- **SME development as a structural challenge that requires targeted support.** This approach calls for providing proactive, ongoing and direct support to enterprises until they have overcome most of their structural weaknesses. It places more emphasis on the structural features that constrain SME growth, such as a lack of economies of scales and scope, a lower capacity to invest in human and physical capital, and weak research and development activity. It tends to target select groups of enterprises and sectors, which may change over time.
- **SME development as a tool to increase human welfare.** The main objective of this approach is to increase social development and generate additional employment opportunities. To achieve these aims, policy makers mostly focus on introducing initiatives to support entrepreneurship, particularly among the most vulnerable, and on developing microfinance schemes. This approach generally targets micro and small enterprises, mainly the former, and tends to focus on those operating in traditional, highly labour-intensive sectors, such as hospitality, construction, transport and small-scale manufacturing.

A number of different approaches have been adopted in ASEAN, and these have tended to change over time.

## Notes

<sup>1</sup> Based on preliminary ASEC statistics for 2017.

<sup>2</sup> Based on preliminary ASEC statistics for 2017.

<sup>3</sup> Both high savings rates and sound macroeconomic management have become particularly pronounced in the years following the Asian Financial Crisis (1997-98).

<sup>4</sup> Since the 1990s, though it has faced difficulties upgrading to higher value-added products.

<sup>5</sup> An exception is Lao PDR, where industry accounts for 9.6% of private sector employment and 32.5% of value added (ILO, 2016<sub>[1]</sub>; World Bank, 2016<sub>[3]</sub>). As a small country mainly oriented around oil and gas production, Brunei Darussalam is also an exception, with industry accounting for just 18.0% of private sector employment but 57.3% of gross value added (ILO, 2016<sub>[1]</sub>; World Bank, 2016<sub>[3]</sub>).

<sup>6</sup> Defined as those with disposable income of around USD 16-100 a day.

<sup>7</sup> In particular in Cambodia, Lao PDR and Myanmar.

<sup>8</sup> For instance in CLM countries, which may not be able to adopt the export-manufacturing development model used by many ASEAN-6 countries in the 1970s and 1980s if technologies associated with Fourth Industrial Revolution disrupt the global economy to the extent predicted (WEF, 2016<sub>[11]</sub>).

<sup>9</sup> For instance, six AMS (Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand and Viet Nam) have joined the OECD's Inclusive Framework on BEPS. Indonesia has emphasised tax reform as one of the government's key priorities under the administration of President Joko Widodo.

<sup>10</sup> Based on preliminary ASEC statistics for 2017.

<sup>11</sup> Singapore alone absorbed 55% of FDI in 2016 (ASEC data).

<sup>12</sup> 99.2% of items on the Inclusion List in ASEAN-6 and 90.9% in CLMV countries, as of Q4 2016.

<sup>13</sup> Intra-EU exports account for 64% of total exports in the EU-28 and intra-EU imports account for 63.8% of total EU-28 imports, for example (EC, 2018<sub>[16]</sub>).

<sup>14</sup> Data for Myanmar is unclear. Official statistics suggest that only 87% of all enterprises are MSMEs, but this data may not fully represent the true population due to fragmented and irregular data collection. SME data in Myanmar is collected by a number of different bodies including the Directorate of Industrial Supervision and Inspection in the Ministry of Industry, the SME Development Centre, city and township development committees, and the Central Statistical Organisation. Until 2015, the country's SME definition also included a "horsepower" criterion, meaning that it could only be applied to those enterprises producing finished goods from raw materials, excluding service and trade businesses from official SME statistics. While the new SME definition is certainly an improvement, the inclusion of a number of different criteria may still create problems of application for many government agencies.

<sup>15</sup> The median is used due to rather high dispersion of values.

<sup>16</sup> Although data on SMEs' contribution to GDP/value added is missing for three countries (Cambodia, Lao PDR and Myanmar). The results are also skewed by Brunei (where SMEs reportedly only account for 16% of gross value added) and Indonesia (where they reportedly account for 61%), which again is why the median average is used.

<sup>17</sup> Since they are based on highly heterogeneous SME definitions and because some countries in the region face capacity constraints in collecting regular and accurate data.

## References

- ADB (2017), *Meeting Asia's Infrastructure Needs*, Asian Development Bank, Manila, [7]  
<https://www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf>
- ADB (2015), "Regional transport infrastructure: Mapping projects to bridge South Asia and Southeast Asia", *ADB Brief No. 43*, [8]  
<https://www.adb.org/sites/default/files/publication/174393/regional-transport-infrastructure.pdf>
- ASEC (2017), *ASEAN Investment Report 2017: Foreign Direct Investment and Economic Zones in ASEAN*, ASEAN Secretariat, Jakarta, <http://asean.org/storage/2017/11/ASEAN-Investment-Report-2017.pdf>. [2]
- ASEC (2016), *ASEANStatsDataPortal*, <https://data.aseanstats.org/fdi-by-sources-and-sectors>. [4]

- ASEC (2016), *Master Plan on ASEAN Connectivity 2025*, ASEAN Secretariat, Jakarta, [9]  
<http://asean.org/storage/2016/09/Master-Plan-on-ASEAN-Connectivity-20251.pdf>.
- EC (2018), *DG Trade Statistical Guide*, Publications Office of the European Union, Luxembourg, [16]  
[http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc\\_151348.pdf](http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151348.pdf).
- ERIA-OECD (2014), *ASEAN SME Policy Index 2014: Towards Competitive and Innovative ASEAN SMEs*, Economic Research Institute for ASEAN and East Asia, Jakarta, [12]  
<https://www.oecd.org/southeast-asia/ASEAN%20SME%20Policy%20Index%2014.pdf>.
- Harvie, C. and Lee, B.C. (2005), “Public Policy and SME Development”, *Working Paper 03-18*, Department of Economics, University of Wollongong, [15]  
<http://ro.uow.edu.au/commpapers/1052/>.
- ILO (2016), *Key Indicators of the Labour Market*, <http://www.ilo.org/ilostat>. [1]
- Lopez Gonzalez, J. (2016), “Using foreign factors to enhance domestic export performance: A focus on Southeast Asia”, *OECD Trade Policy Papers*, No. 191, OECD Publishing, Paris, [14]  
<http://dx.doi.org/10.1787/5jlpq82v1jxw-en>.
- López González, J. (2017), “Mapping the participation of ASEAN small- and medium- sized enterprises in global value chains”, *OECD Trade Policy Papers*, No. 203, OECD Publishing, Paris, <http://dx.doi.org/10.1787/2dc1751e-en>. [13]
- OECD (2018), *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth through Digitalisation*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264286184-en>. [6]
- WEF (2016), *Human Capital Outlook: Association of Southeast Asian Nations (ASEAN)*, [http://www3.weforum.org/docs/WEF\\_ASEAN\\_HumanCapitalOutlook.pdf](http://www3.weforum.org/docs/WEF_ASEAN_HumanCapitalOutlook.pdf). [11]
- World Bank (2018), *Infrastructure Gaps Vary across East Asia and the Pacific - and between Cities and Rural Areas*, <https://www.worldbank.org/en/news/feature/2018/03/28/infrastructure-gaps-vary-across-east-asia-and-the-pacific-and-between-cities-and-rural-areas>. [10]
- World Bank (2016), *World Development Indicators*, <https://doi.org/10.1596/978-1-4648-0683-4>. [3]
- WTTC (2016), *Travel and Tourism Economic Impact 2016: Southeast Asia*, World Travel and Tourism Council, London, <https://www.wttc.org/-/media/files/reports/economic-impact-research/regions-2016/southeastasia2016.pdf>. [5]



**From:**  
**SME Policy Index: ASEAN 2018**  
Boosting Competitiveness and Inclusive Growth

**Access the complete publication at:**  
<https://doi.org/10.1787/9789264305328-en>

**Please cite this chapter as:**

OECD/Economic Research Institute for ASEAN and East Asia (2018), "Economic context and role of SMEs in ASEAN", in *SME Policy Index: ASEAN 2018: Boosting Competitiveness and Inclusive Growth*, OECD Publishing, Paris/Economic Research Institute for ASEAN and East Asia, Jakarta.

DOI: <https://doi.org/10.1787/9789264305328-5-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to [rights@oecd.org](mailto:rights@oecd.org). Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at [info@copyright.com](mailto:info@copyright.com) or the Centre français d'exploitation du droit de copie (CFC) at [contact@cfcopies.com](mailto:contact@cfcopies.com).