ASEAN SMALL AND MEDIUM ENTERPRISES
TOWARDS A SUSTAINABLE INTEGRATED ECONOMY

Policy Brief
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The author relied mainly on the publications of the ASEAN Secretariat, the Economic Research Institute for ASEAN and East Asia (ERIA), the Asian Development Bank, and the World Bank for his analysis. He would also like to acknowledge the suggestions of Ambassador Ong Keng Yong, Executive Deputy Chairman of RSIS, and Dr Kaewkamol Pitakdumrongkit, Deputy Head of the Centre for Multilateralism Studies, RSIS.
EXECUTIVE SUMMARY

This policy brief underscores the importance of small and medium enterprises (SMEs) in ensuring sustainable economic development in ASEAN. It discusses the opportunities and impediments that SMEs in the region face. New policy anchors are recommended for the successful implementation of the five strategies laid out in the ASEAN Strategic Action Plan for SME Development (SAPSMED 2016-2025), namely, (1) promote productivity, technology, and innovation; (2) increase access to finance; (3) enhance market access and “internationalisation”; (4) enhance policy and regulatory environment; and (5) promote entrepreneurship and human capital development. Pursuing these strategies requires support by the respective governments, effective regional efforts and effective representation of SMEs’ interests.
I. ASEAN SMES: A BIRD’S EYE VIEW

ASEAN small and medium enterprises (SMEs) are a significant engine of growth in the region and serve as the backbone of the ASEAN economies. Hence, they need to keep pace with globalisation and trade liberalisation as well as with advances in technology and production processes.

According to the ASEAN Secretariat, Micro, Small and Medium Enterprises (MSMEs) dominate the business scene in the region. MSMEs account for almost 100 per cent of the enterprises in some ASEAN member states. These enterprises play an indispensable role for the region, especially in job creation, contribution to gross domestic product (GDP) and economic integration. Across ASEAN, they employ between 51.7 and 97.2 per cent of all workers. Moreover, the contribution of MSMEs to each ASEAN member state’s GDP varies between 30 and 53 per cent. Nevertheless, MSMEs’ share of total exports remains small, accounting for only between 10 and 29.9 per cent. This shows that there is much to be done to deepen the role of these enterprises in ASEAN economic integration.

Ensuring the well-being of MSMEs is part of ASEAN's commitment to achieving “Equitable Economic Development”, that is, bringing about inclusive, equitable and sustainable development. The importance of SME development to ASEAN economic integration was enshrined in the ASEAN Economic Community (AEC) Blueprint of 2007-2015, and the AEC Blueprint 2016-2025 also incorporates SME development. Thus, the ASEAN Strategic Action Plan for SME Development (SAPSMED 2016-2025) laid out five strategies: (1) promote productivity, technology, and innovation; (2) increase access to finance; (3) enhance market access and “internationalisation”; (4) enhance policy and regulatory environment; and (5) promote entrepreneurship and human capital development.

ASEAN’s SAPSMED 2010-2015 resulted in a number of achievements in boosting the competitiveness of SMEs in the region. One outstanding example was the ASEAN One Village One Product Guidelines, which aim to transform local products into export-quality products. These have helped SMEs in Vietnam to produce goods that meet export standards. However, there is much room for improvement. Thus, concerted efforts should be made to implement SAPSMED 2016-2025.


2 Ibid.

3 Ibid.
II. CHALLENGES AND OPPORTUNITIES

It is important for ASEAN SMEs to become fully aware of the business realities of the AEC and the Regional Comprehensive Economic Partnership (RCEP), and be equipped to exploit them. The AEC is an integrated market and production base comprising over 620 million people, which could expand to more than three billion through the RCEP, which is being negotiated by the ten ASEAN member states and six of their trading partners, namely, China, Japan, India, South Korea, Australia and New Zealand. Both the AEC and RCEP could bring plenty of opportunities to SMEs and help them increase their participation in global value chains. Hence, ASEAN member states should fine-tune the measures they undertake towards implementing the five strategies of SAPSMED 2016-2025.

a. Promote Productivity, Technology and Innovation

Productivity and technology improvements are key to SMEs being able to fully integrate into the production networks of multinational companies (MNCs). However, there are some hurdles that impede the development of ASEAN SMEs in this respect. Training and the pursuit of innovative policies are necessary to enhance the productivity of these enterprises.

According to the Conference Board of Canada, a research organisation, the average labour productivity (GDP per person employed) in ASEAN in 2015 was equivalent to only 31 per cent of labour productivity in the United States.\(^4\) Labour productivity among ASEAN member states showed variations: Singapore’s average labour productivity for the same year was 112 per cent of that of the United States, Thailand’s 25 per cent, Myanmar’s 8 per cent and Cambodia’s 5 per cent.\(^5\) Hence, it is necessary that ASEAN SMEs receive more training to boost their productivity so that they could become qualified suppliers in global value chains. For example, Denso, a Japanese supplier of components and parts for the automotive industry, established its multi-million dollar Denso Training Academy in Thailand. This specialised training facility has helped to provide a pool of skilled workers for Thailand’s automotive industry.

It is also important to recognise the trends that facilitate the growth of SMEs which ASEAN member states should prioritise for regional development. According to Kurt Wee, president of the Singapore Association of Small and Medium Enterprises (ASME), renewable energy products such as solar panels


\(^5\) Ibid.
have proven viable and marketable for use in the residential, commercial and industrial areas, and SMEs ought to pay attention to this area of market development. In turn, the government agencies concerned should develop appropriate regional regulations and standards to help SMEs flourish in the business of solar panels and other renewable energy products.\footnote{Kurt Wee in interview with author on February 27, 2017.}

ASEAN needs to have in place innovation policies that will underpin the growth and competitiveness of SMEs. According to the Economic Research Institute for ASEAN and East Asia (ERIA), the lack of a strategic approach to innovation policy for SMEs is one of the impediments to SME development in ASEAN. It is therefore necessary to find ways to promote technology and technology transfer in enhancing the competitiveness of SMEs in the region. Policy measures that are needed to boost the competitiveness of these enterprises include: protection and promotion of intellectual property rights, development of broadband infrastructure and industrial parks, and provision of financial incentives for research and development (R&D).

Some of the ASEAN member states have implemented innovation policies that are worth replicating in other parts of ASEAN. For instance, Singapore has an Incubator Development Programme (IDP), which provides venture accelerators and incubators grants to improve and enhance capability programmes for innovative start-ups. Separately, Singapore’s Technology Enterprise Commercialisation Scheme (TECS) gives competitive grants for innovative activities, based on the evaluation of the technical and commercial merits of proposed ventures. In Malaysia, it was reported in 2016 that the Secretariat for the Advancement of Malaysian Entrepreneurs (SAME), a unit under the Prime Minister’s department, had obtained the cooperation of TAR University College to establish an incubation centre for SMEs.\footnote{Fazleena Aziz. “Incubation Centre to be Established for SMEs.” New Straits Times, April 21, 2016. Accessed March 30, 2017. http://www.nst.com.my/news/2016/04/140599/incubation-centre-be-established-smes.} Another example is Thailand’s University Business Incubator (UBI) programme, which has established nine university networks covering 56 universities wherein about 10 university incubators can foster technology through the “Technology Licensing Office” channel, which handles technology licences and promotes public-private partnerships.

\subsubsection*{b. Increase Access to Finance}

Access to finance is an important tool for ASEAN SMEs to gain a foothold in the market. According to the International Finance Corporation, the estimated credit gap for SMEs in ASEAN is as much as US$2 billion in the Philippines, US$4 billion in Vietnam, US$8 billion in Malaysia and US$12 billion each in Indonesia and Thailand. The ERIA’s SME Research Working Group noted
that there is a big gap in access to finance between the less developed and the better developed ASEAN member states. The overall scores for access to finance are estimated as follows (6 is the highest; 0 is the lowest): Singapore (5.6), Malaysia (4.6), Thailand (4.3), Indonesia (4.3), Philippines (3.6), Vietnam (3.4), Brunei (3.0), Laos (2.5), Cambodia (2.5) and Myanmar (2.1).

There are several avenues to finance for SMEs. In Singapore, it was estimated that more than 4,000 SME loans, amounting to S$1.5 billion, were co-guaranteed by the government in 2012. The loans provided range from micro loans of up to S$100,000 to loans of up to S$15 million for the purchase of assets and equipment. Moreover, Singapore has flexible provisions for loan collaterals, which include property, vehicles, machinery and equipment. In February 2017, the Monetary Authority of Singapore (MAS) announced regulatory changes that will boost the capacity of Singapore’s three licensed finance firms to provide financing to SMEs. The new rules will enable these firms to offer uncollateralised loans up to 25 per cent of their capital funds, up from 10 per cent, while the limit on the unsecured loans available to any single borrower will be raised to up to 0.5 per cent of each finance firm’s capital funds, up from the current limit of S$5,000. Based on the capital funds of the three finance firms, this policy change could increase the aggregate sum of unsecured loans available for SMEs to some S$550 million.

The guarantee schemes offered by Credit Guarantee Corporation Malaysia Berhad (CGC) are another good funding avenue, helping to bridge the gap between the needs of SMEs and the concerns of lenders by providing a commercially viable guarantee system. As of 2012, CGC had cumulatively guaranteed loans to more than 420,000 SMEs valued at RM51.4 billion.

Nevertheless, some ASEAN member states have encountered difficulty in providing SMEs with access to finance. For example, Laos has restrictive

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9 Ibid.


collateral definition. According to ERIA SME Research Working Group, the country’s collateral requirement ranges from 100 to 150 per cent of the loan amount, which inhibits the growth of SMEs that have limited assets.

c. Enhance Market Access and “Internationalisation”

Increasing access to information on regional and global markets will help to better prepare ASEAN SMEs for export activities and enhance their participation in global value chains. It will also increase their share of total ASEAN exports, which remains small, ranging between 10 and 29.9 per cent.13

The ASEAN countries should consider raising their spending on physical and IT infrastructure so that SMEs could develop better communication linkages with their suppliers and customers. In this regard, the Master Plan on ASEAN Connectivity 2025 (MPAC 2025) is an important initiative. MPAC 2025 aims to improve the region’s infrastructure with a view mainly to enhancing the movement of goods and services. However, the plan acknowledges that the region’s infrastructure development requires investments of more than US$110 billion a year.14

In addition, the ASEAN countries should develop export promotion strategies to help SMEs deepen their market penetration. SMEs could also be given more information on international trade, on participation in trade missions and international trade exhibitions, and on quality requirements for meeting international standards.

Several ASEAN member states have already established their respective export promotion strategies. For example, the Malaysia External Trade Development Corporation (MATRADE) serves as the external trade promotion arm for promoting Malaysian products produced by SMEs. Some export programmes promoted by MATRADE are: trade and investment missions, overseas trade fairs, in-store promotions, specialised marketing missions and promotion services, and an exhibition centre. Meanwhile, in Singapore, ASME takes a multifunctional approach to help SMEs develop niches in international markets. For example, its trade shows and exhibitions help SMEs grow their businesses overseas. ASME has more than 11,000 members and they are provided various forms of assistance each year. In Thailand, the International Trade Promotion Fund under the Ministry of Commerce helps finance SME development projects. In 2013, the fund had a sum of 300 million Thai bahts to


bankroll SMEs. However, some ASEAN member states are experiencing challenges in market access. For example, Myanmar has not developed an export promotion programme for SMEs. Cambodia, on the other hand, has limited export promotion programmes owing to a tight government budget and insufficient trained staff.

d. Enhance Policy and Regulatory Environment

Governments in some ASEAN members states need to introduce less costly, less cumbersome and speedier business registration processes that would facilitate the setting up of start-ups. According to World Bank data, an average of 24.9 days is required for 11.2 procedures to start a business in Indonesia, while it requires 67 days for eight procedures in Laos. In contrast, it only takes 2.5 days to complete 3 procedures in Singapore, where the Accounting and Corporate Regulatory Authority’s Bizfile serves as a one-stop online portal for businesses to register and monitor the progress of their registration. Thus, Singapore is placed second among 190 economies in the World Bank’s Ease of Doing Business Rankings.

The ease of doing business affects the overall business environment. According to the World Bank, the overall registration process in Indonesia can cost up to 19.4 per cent of total per capita income. Meanwhile, the overall registration process in the Philippines and Vietnam can cost up to 15.8 per cent and 4.6 per cent of income per capita, respectively. Therefore, ASEAN member states should improve their business registration procedures as this can help to improve the overall business environment for the private sector as well as enhance the standard of government services. Entrepreneurial enthusiasm must not be dampened by lengthy and costly registration procedures.

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18 Ibid

19 Ibid
e. Promote Entrepreneurship and Human Capital Development

Entrepreneurship programmes could be initiated to equip SMEs with improved management and business processes. Human resource and entrepreneurship promotions are key determining factors for SMEs to succeed.

There are already several initiatives to promote entrepreneurship and human capital in ASEAN. The ASEAN Common Curriculum in Entrepreneurship, which is one of the initiatives of SAPSMED 2016-2025, aims to establish a common curriculum for entrepreneurship in the region with the use of an entrepreneurship educational programme that is currently being implemented in universities in some ASEAN member states. In Singapore, the country’s entrepreneurial learning (EL) policies and projects have received sufficient budget and proper evaluation. The EL programmes are integrated into the secondary school curriculum, benefitting 131 schools and almost 32,000 students under the Young Entrepreneurs Scheme for Schools (YES! Schools). At the tertiary and postgraduate level, the Singapore Institute of Management and Nanyang Technological University (NTU) offer formal degrees on entrepreneurship. One such example is NTU’s Master of Science Technopreneurship and Innovation Programme (MSc TIP), which equips students with essential entrepreneurial skills to turn ideas into successful commercial ventures.

The record elsewhere in the region is less encouraging. According to the ERIA SME Research Working Group, the promotion of entrepreneurial education needs more support from governments in Cambodia and Myanmar. Entrepreneurial learning has not been included in the basic education curriculum in Cambodia. In Myanmar, EL is not specifically mentioned in the national education policy although the government articulates EL policy in its national economic development plan.

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III. POLICY RECOMMENDATIONS

Supporting SME development is critical for enhancing ASEAN’s competitiveness and for bringing about inclusive growth to the whole region. ASEAN should implement effective SME development policies that will propel regional cooperation among member states. These should be in the form of helping SMEs expand their international markets and integrate into global supply chains.

a. Increase Export Promotion Programmes and Expand Capacity Building for SMEs

ASEAN governments should increase their export promotion programmes and expand capacity building and credit programmes for SMEs with strong potential to export. SMEs should also have access to internationally-recognised industry standards so that they can enhance the quality of their products. A good example is Singapore’s Standards, Productivity and Innovation Board (SPRING Singapore), which serves as an enterprise development agency responsible for helping enterprises in areas such as financing capability, technology and innovation, management development and access to markets. SPRING Singapore also develops an internationally-recognised set of standards, which can help SMEs produce export-quality products.

b. Establish a Higher SME Body in the Region

In order for SMEs to fully benefit from deeper regional integration, there should be a higher ASEAN SME body. In fact, the ERIA SME Research Working Group has suggested that the ASEAN SME Advisory Board should be elevated to the level of an ASEAN SME Ministers Meeting. This elevated body, it suggested, should report to the AEC Council in coordinating regional efforts for SME development, involving the integration of various regional initiatives such as trade, investment, and banking and finance in congruity with ASEAN’s SME development agenda.

c. Represent SMEs’ Interests

The establishment of SME associations will help individual SMEs extend their networks and acquire technology knowhow. These associations will institutionalise collective actions in pursuit of the interests of their members. For example, Singapore’s ASME is undertaking various services for SMEs, such as advocacy, policy consultations and organising trade missions and exhibitions that could help its members develop niches in overseas markets.

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d. Ease Restrictive Loan Collateral Policies

ASEAN member states should introduce innovative financing instruments whereby SMEs can use intangible collaterals such as ideas and expertise as their assets. Flexible provisions for collaterals will allow financial institutions to be more responsive to the financing needs of SMEs. In Singapore, for example, MAS recently eased the limit on uncollateralised loans that finance firms can offer to their clients, a move that is intended to benefit SMEs.

e. Build Strong Collaboration with Government, Banks, and Associations

Effective collaboration with government, banks, and associations could help to build the financial management and credit access of SMEs. SME associations and banks could work together to help SMEs build their capacity in financial management, business plans, and book-keeping. Governments, for their part, could work with financial institutions to provide access to credit. A good example of this was when the government of Singapore co-guaranteed 4,000 SME loans amounting to $1.5 billion in 2012.

f. Focus on Innovation

ASEAN governments should put emphasis on SMEs that have the potential for innovation as they could become the primary drivers of growth and help to increase productivity. Enterprises that could bring innovation to the economy and increase productivity are those engaged in automation, information and technology, robotics, and artificial intelligence. These enterprises could introduce cutting-edge technologies that could have spinoffs for other sectors of the economy by enabling them to produce value-added products. For example, artificial intelligence could enhance the productivity of SMEs in the food production and service industries.
IV. CONCLUSION

The growth of SMEs has the potential not only to spur national economies but also to help ASEAN achieve a robust and competitive regional economy. SME development will also work towards the goal of achieving inclusive growth. Hence, ASEAN officials should work together to implement the five strategic goals of SAPSMED 2016-2025 as they will allow the seamless integration of SMEs in the ASEAN Community.

Nevertheless, effective SME development policies should be adopted to ensure the successful implementation of SAPSMED 2016-2025. Those policies could be in the form of helping SMEs to expand their international markets, increase their representation within the region, increase their access to finance through innovative financing instruments, and enhance their productivity through innovation. However, in order for any such policy to yield sustainable success it must be aligned with the prevailing trends and economic characteristics of each ASEAN member state.
ABOUT THE AUTHOR

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