

## **CHAPTER 2**

### **PRESENT SITUATION OF SME IN ASEAN COUNTRIES**

#### **2.1 The concept of SME in ASEAN countries**

ASEAN is very diverse different cultures, economic systems, history and political order. The ego of each nation in the grouping is typically self-centred. That creates troubles for the organization from time to time. Yet, looking at the global picture, forming the ASEAN Community is a strategic imperative and economic necessity. Collectively, the Southeast Asian countries as ASEAN will be competitive vis-a-vis other regions of the world and an attractive destination for investors. ASEAN needs foreign direct investment and jobs for its peoples. ASEAN will do well if the member states work together and navigate through the interests of powerful neighbour and the bewildering technological developments affecting the marketplace and society. The ASEAN Community is now the operating environment for all of us. The ASEAN Community has three pillars – political/security, economic and social cultural. The ASEAN Economic Community or the AEC has achieved positive results even though there are persistent complaints that ASEAN businesses are still not fully aware of the benefits accruing from the AEC. Tariff reduction and removal of obstacles to facilitate trade and open markets are ongoing. ASEAN is amalgamating its five Free Trade Agreements (FTA) with China, Korea, Japan, Australia, New Zealand and India into the Regional Comprehensive Economic Partnership (RCEP). Infrastructural development and connectivity are being improved. Overall, growth prospects for the AEC are good: more than 5% annually for the next five years.

##### **2.1.1 The defining principle and defining standard of SME**

SME are a relatively vague concept. Generally speaking, it is difficult to give a unified and appropriate standard should be defined by all industries. A comprehensive overview of the conceptual definition of SME in various countries or regions of the world can be found. The definition of SME is neither unitary nor immutable. Different countries or regions because of their respective economic development different stages, levels, and conditions, the definition of SME is not consistent, the same country or region with the advancement of its economic development process, it has continuously adjusted its

definition of SME. In determining SME an important principle in the concept of industry is the principle of relativity.

A company's size can only be determined when it is compared with the scale of other companies (usually compared in the same industry). Therefore, in many cases, relativity is more important than some objective scale. The principle of relativity is reflected in the following three aspects:

(1) Regional relativity. Countries with different economies of scale have different standards for defining the scale of SME. The number of employees is a commonly used indicator for defining the scale of SME in various countries or regions.

(2) Industry relativity. The actual size of SME varies greatly from industry to industry. However, no matter what kind of standards are adopted, the actual size of SME is always related to industry differences. Therefore, the scale of SME should fully reflect the characteristics of each industry.

(3) Time relativity. SME are only a relative concept. They are relative in time and are constantly changing along with economic development and social changes. Although determining a company's size can always be achieved with some more objective data such as employment, income, turnover, output value, etc., the scale standards of companies determined by using these data will change with time.

According to the defining principle, there are currently two internationally defined standards for SME: scale standards and status standards. The scale of SME can be roughly divided into two categories: The first category is based on some objective indicators of the company. This mainly includes: sales, employment, added value, product quantity and value, profit, total assets, net currency value, new capital investment, etc., of which the most used is employment and sales. The most commonly used SME indicator in the United States is that the number of employees is less than 500. The EU commonly used indicator is that the number of employees is less than 250, and the indicator commonly used in France is also less than 500. The second category is based on the relative share index in the industry. Regardless of the actual size of a small and medium-sized enterprise in an industry, only a percentage of the number of enterprises is determined. All enterprises within this percentage are small enterprises. There are two relative share indicators commonly used in the United States: the first is to define small-scale enterprises that account for 90% of each industry as SME, and the second is to take 75% of total sales in each industry on a smaller scale. Enterprises are defined as SME. The above indicators are more suitable for statistical analysis between industries. The latter indicators are more suitable for the classification management in the industry

and protect the competition in the industry.

The status standard is to classify companies according to their position in the market. The use of status criteria to divide SME is because large-scale enterprises tend to gain market dominance. If they abuse their dominant market position, they will form monopolies. This is extremely detrimental to market operations and economic development. Therefore, from the perspective of protecting competition and maintaining market order, it is imperative for SME to occupy a considerable proportion in order to form effective market competition and promote the development of market economy in the true sense. Compared with the scale standard, the status standard has fewer indicators. The definition of SME in developed countries usually adopts a combination of the two methods, that is, on the basis of a qualitative analysis of the market status of enterprises, SME are defined in terms of scale(Ronald,1985).

### **2.1.2 ASEAN countries define the concept of SME**

The defining standard of SME in ASEAN countries is mainly the scale standard. The quantitative indicators chosen mainly include sales, employment, registered capital, total assets, and fixed assets. At the same time, ASEAN countries fully embody the relativity of time, industry and region when formulating SME standards. Therefore, in different historical periods, the definition of ASEAN SME will be different.

During the period of the New Economic Policy (1971-1990), Malaysia established a small and medium-sized enterprise as a company with assets of less than 250,000 equities (at the time, total US\$100,000). In 1977, the government doubled this amount, that is, less than 500,000 equ. (at the time of a total of 200,000 US dollars) were SME. Among them, the number of full-time employees is between 1 and 4 for rural enterprises, 5-25 for small businesses, and 25-250 for medium-sized companies(Philippe,2000). Since the 1990s, the definition of Malaysian SME In terms of change, small-scale enterprises are those whose fixed assets are less than 500,000 ringgit or less than 50 full-time workers, while medium-sized enterprises are those that have 500,000-2.5 million ringgit. Since 1998, in order to expand the scope of SME, Malaysia has added standards based on the definition of the original SME. That is, manufacturing enterprises with an annual sales income of less than 25 million ringgit and employees less than 150 employees also belong to SME(Ronald,1985). Malaysian SME are mostly concentrated in labor-intensive industries. The characteristics of such enterprises are that their products are mainly for domestic sales.

Since its independence, Singapore has undergone major changes in its basic economic structure, and the definition of SME has also continuously changed. The definition of SME at the beginning of independence was simple: SME with assets of less than S\$250,000 (US\$120,500 at the time) were SME. In 1981, the Singapore government increased the standard to S\$2 million (US\$963,855 at the time) for SME. The late 80s and early 90s, the Singaporean government again stipulated that if an enterprise meets 2 of the following 3 conditions, it can be regarded as a SME:

- (1) Fixed assets less than S\$8 million;
- (2) Less than 100 employees
- (3) The annual turnover is less than S\$15 million.

According to this definition, there were 70,000 SME in Singapore at the time, accounting for 90% of the country's total number of enterprises. In 1998, affected by the East Asian financial crisis, the Singapore government expanded the scope of SME and redefined the definition of the standard as: low fixed assets SME are manufacturing companies with S\$15 million and service companies with fixed assets below S\$15 million and employees less than 200 (Philippe, 2000). The industrial characteristics of SME in Singapore are as follows: In the commercial sector, there are retail products for food, toys and groceries; in the manufacturing industry there are leather products, electrical and electronic, rubber and ceramics, etc.: There are investment companies in the service industry, financial lending, Real estate and so on.

The definition of SME in the Philippines has also undergone a series of changes. Before 1985, the standard for the classification of small and medium-sized enterprises was between 100,000 and 100,000 pesos (the total amount was US\$12740-127,400 at the time), and enterprises with 5-99 employees were SME. After 1985, the division standards of Philippine companies have changed, with the number of employed persons being classified, with 10 or less households, 10-99 small businesses, 100-199 medium-sized companies, and 200 or more large companies; classified by total assets. , The following 500,000 pesos are family businesses, 50-500 million pesos are small businesses, 500- 20 million pesos are medium-sized companies, and 20 million pesos are large companies. In 1998, the Philippine government expanded the scope of SME in the manufacturing industry, and stipulated that SME had fixed assets below 60 million pesos and manufacturing companies with employees below 200 employees.

In the mid-1970s, Indonesia defined small and medium-sized enterprises (SME) as defining 70 million Indonesian rupiah (at the time, totaling US\$112,000). Among them, employees are between 1 and 4 rural enterprises, and employees are among 5-19 small businesses. According to this definition, there were 1,234,511 SME in Indonesia in 1974, accounting for 95.7% of the total number of enterprises. In 1998, facing the new situation of the Indonesian economy, the Indonesian government once again designated SME as having fixed assets of less than US\$1 million. The enterprises in the wholesale, retail, and service industries whose manufacturing industry and annual sales revenue does not exceed US\$5 million are SME.

Unlike other countries, there is no definition of a small and medium-sized enterprise in Thailand that can be widely accepted. Various public institutions and departments have their own classification standards for SME to meet their own needs. Moreover, many concepts are ambiguous and ambiguous (see Table 2-1). In late 1998, the Thai government began to unify the classification standards of small and medium-sized enterprises in order to make the statistical caliber consistent and at the same time enable the government's policies to be effectively implemented. On December 22, 1998, the Thai Cabinet stated that in drafting the "Promotion Law for SME," the classification of SME should include the following points:

(1) SME should be an independent legal entity;

(2) Medium-sized enterprise standards: In the field of production and service, its fixed assets should not exceed 200 million Thai strains.

The industry does not exceed 100 million Thai mills, and the retail industry does not exceed 60 million Thai strains;

(3) Standards for small-scale enterprises: In the fields of production, service, and wholesale, fixed assets should be less than 50 million Thai strains, and fixed assets in the retail industry should not exceed 30 million Thai mills. Unfortunately, this taxonomy has not been finally accepted. In the SME Promotion Law passed on January 12, 2000, this taxonomy was not adopted. Despite this, the Thai government is still actively collecting data to establish a unified SME standard classification. This article uses the classification criteria of the Ministry of Industry Development of Thailand.

**Table 2-1: Thailand departments divide SME according to total assets and number of employees**

	Medium-sized enterprises	Small-scale enterprises
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Organization	Fixed assets	Employee	Fixed assets	Employee
Small Industrial Finance Corporation	-	-	$\cong 0.5$	No regulation
Small Industrial Guarantee Company	-	-	$\cong 0.5$	No regulation
Industrial Development Department	0.2~1	50~200	$\cong 0.2$	$\cong 50$
Industrial Finance Corporation	1~5	No regulation	$\cong 1$	No regulation
Thai Bank	$\cong 5$	No regulation	$\cong 0.5$	No regulation

Source: Referred from Philippe Regnier, *Small and Medium Enterprises in Distress: Thailand*, Gower Publishing Limited, England, 2000, P29.

It can be seen that due to the wide distribution and large number of SME, it is not easy to define them uniformly. Since ASEAN countries have different defining standards at different times, it is natural for ASEAN as a whole to be unable to formulate a unified SME standard that meets the national conditions of each country.

## 2.2 Present situation of SME in ASEAN Countries

### 2.2.1 Changes in the Development of SME in ASEAN Countries before the 1990s

After the ASEAN countries achieved independence after the war, they adopted a strategy of industrialization and SME achieved initial development. Indonesia's SME have been slow to develop in the 50-60s due to the impact of state capital and foreign-funded enterprises. In 1974, the Indonesian government issued a decree restricting the activities of foreign capital, and small and medium-sized private enterprises began to develop. The development of domestic SME in Malaysia in the 1950s and 1960s was also relatively slow. The "New Economic Policy" implemented in the 1970s put emphasis on and support for SME and formulated corresponding policies and measures to promote the development of SME in the country. In the Fourth Five-Year Plan (1980-1985), the government of Malaysia used SME as an integral part of industrial development and formulated guidelines for SME. The Philippines is the first country in the ASEAN countries to implement industrialization. The relative number of SME and their economic status are higher than those of other countries.

In the 1950s and 1970s, the government implemented economic policies that benefited ethnic SME, enabling SME to develop rapidly during this period. However, by the mid-1980s, the status of Philippine SME has been continuously weakened relative to the proportion of large companies. In the early 60s, SME developed rapidly in Singapore and played a major role in the early stages of industrialization. However, with the transformation of industrial structure and the influx of foreign capital, foreign-funded enterprises gradually took the place of local SME, and the role of local SME was becoming less and less. In the 1950s, Thailand implemented industrialization policies that focused on the development of national capital, which inhibited the development of domestic private SME. After the 1950s, Thailand gradually abandoned this economic policy and turned to encourage and develop private capital, which created the development of domestic SME. Conditions.

Although SME in the ASEAN countries have developed along with industrialization and played an important role in the national economy, the development of SME is slow relative to the development of large enterprises. The foundation of SME is still very fragile. This is because as the ASEAN countries accelerate the process of industrialization and the economy is at the take-off stage, the composition of the company's scale will also change toward larger scale. A number of large-scale enterprises have been established, and small and medium-sized enterprises have joined the ranks of large enterprises due to the expansion of their production scale. Coupled with the implementation of the export-oriented industrialization strategy, the standardization of products, large production volumes, and low profit per unit of product have stimulated the establishment and development of large enterprises. In addition, government policies are tilted toward large enterprises and state-owned enterprises, which is also the reason for the slow development of SME at this stage.

### **2.2.2 The Development of SME Since the 1990s**

Since the beginning of the 1990s, as the globalization wave has swept every corner of the globe, many countries in the Southeast Asian region have continued to insist on export-oriented strategies while on the other hand they have focused on the development of the domestic micro-foundation of the economy. At the same time, the past industry base relied heavily on the drawbacks of a particular area or industry. It also gradually revealed that Malaysia relied heavily on electronic appliances and semiconductors, while the Philippines relied heavily on the textile and clothing industry, and Thailand focused on the development of Agro-based Industries. Singapore relies heavily on financial services. Moreover, most of these industries or areas are controlled by foreign capital, and they are mainly engaged in the production of capital-intensive and imported raw material-intensive products. This single unreasonable industrial structure makes the

industrial bases of ASEAN countries obvious vulnerability. In order to better develop its own economy in the era of economic globalization, ASEAN countries must establish their own industrial pillars and industrial bases and optimize their own industrial structure. In this context, promoting the development of SME is regarded as an important measure to improve the domestic industrial structure. ASEAN countries have supported small and medium-sized enterprises from various aspects such as financial assistance, technical support, information consultation, and encouragement of development. This has enabled SME in ASEAN countries to achieve a relatively rapid development.

In 1997, the East Asian financial crisis first broke out in Thailand. During the crisis, due to the lack of government support, SME that were at the height of the financial turmoil collapsed. In 1998 alone, there were 2 million people in the industry, and the number of bankruptcies in SME was twice as many as in 1996.

Until the second half of 1998, ASEAN countries began to focus on the impact of the crisis on SME and formulate some countermeasures. Thailand promulgated the "Promotion Law for SME" and the "Small and Medium-sized Enterprise-led Plan". At the same time, the World Bank, the Asian Development Bank and the Japan Overseas Economic Cooperation Fund, and Thailand's public financial institutions were drafted between 1999 and 2004 to jointly become Thai SME. Provide concessional loans and risk investment plans. In addition, Singapore has launched the Small and Medium Enterprises Promotion Plan and the 21st Century Plan. Indonesia has allocated special funds for the development of SME, and Malaysia has actively provided consulting services for SME.

Nevertheless, on the whole, the current state of development of ASEAN's SME is still worrying. Compared to large companies, their contribution to the economy has been declining year by year, especially in Thailand. In addition, ASEAN's SME's production methods are still lagging behind and their operating base is very fragile. Many countries in ASEAN have a large number of family industries. In particular, the number of family companies in Indonesia accounts for more than 90% of the total number of enterprises in the country, and their employment accounts for more than 50%. Their domestic SME mainly focus on labor-intensive and low-tech. Hierarchy and traditional handicraft sectors. Singapore SME are dominated by commerce and service industries, and the proportion of SME in manufacturing is relatively small. SME in other countries mainly focus on food, wood processing, textiles and garments, and plastics. In accordance with the high concentration of industrial geography in ASEAN countries, the regional distribution of SME is relatively concentrated. Indonesian SME are mainly concentrated in Java. Malaysia is concentrated in four states on the west coast of the Malay Peninsula. The Philippines is concentrated in Metro Manila and Thailand is concentrated in and around Bangkok.

### **2.3 The Status and Role of SME in ASEAN Countries**

The rational corporate structure in the national economy is characterized by the “pyramid”. A large number of small and medium-sized enterprises co-exist with a certain number of large-scale and super-large enterprises. Just like a pagoda, small and medium-sized enterprises are tower bottoms, while large-scale and extra-large enterprises are towers. top. The number of small and medium-sized enterprises affects the prosperity and development of the national economy. The size of large-scale and extra-large enterprises shows the economic strength of the country. There are no ordinary SME, especially small and medium-sized enterprises supporting large enterprises. The stability, sustainability, and healthy development of large enterprises. Although the development of individual SME has been fluctuating, and a large number of companies have gone bankrupt each year, more SME are born every year. This is an endless business community. It is precisely this type of enterprise group that plays a pivotal role in satisfying social needs, creating employment, promoting economic growth, optimizing industrial structure, and promoting export earnings. The SME in ASEAN countries have played the following roles in the economic development process.

ASEAN could do better and it has prioritised the development of small and medium enterprises (SME) to achieve equitable, inclusive and sustainable growth, as they represent more than 95% of all enterprises in the region. This could also contribute to poverty reduction as well as improve the status of women in the region as almost half of the enterprises are women-owned. ASEAN SME are the backbone of the ASEAN economies. According to the ASEAN Secretariat, they employ between 52% and 97% of all workers. In addition, their contribution to each ASEAN Member State’s GDP varies between 30% and 53%. However, their share of total exports remains small, between 10% and 30%. This means much remain to be done to strengthen the role of SME to help ASEAN economic integration. The ASEAN Strategic Action Plan for SME Development laid out five key 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.

According to the Economic Research Institute for ASEAN and East Asia (ERIA), the lack of strategic approach to innovation policy for SME is one of the impediments of SME development in ASEAN. It is therefore necessary to find ways to promote

technology and technology transfer for developing SME's innovation capabilities. Protection and promotion of intellectual property rights, development of broadband infrastructure and industrial parks, and sufficient financial incentives in research and technology development are some policy measures which have to be instituted to boost the SME.

### 2.3.1 Create a lot of job opportunities

The shortage of capital and the abundance of labor are common features of ASEAN countries. This requires less investment for each job creation. From this point of view, SME can create more job opportunities than large companies. (1) SME are mostly labor-intensive, their investment costs are not high, and the capital-labor ratio is low. Therefore, the cost of capital required for employment per creation unit is low; (2) SME can provide employment for unskilled workers. Increase the income of low-income groups, which is very beneficial for developing countries where unskilled workers play a major role; (3) The demand for initial capital, management, and other scarce resources for small businesses is limited. Therefore, this helps semi-unemployed or unemployed people to create their own company, self-employment, and create jobs for others. A Malaysian study shows that for companies with more than 100 employees, their per capita fixed assets are much higher than fixed assets for companies with less than 100 employees.

In addition, the indicator for measuring employment creation in small and medium-sized enterprises can also be used as the ratio of the number of SME employed to the total population of each country. This indicator was 45.6% in Singapore in 1986, Thailand was 62% in 1990, and Indonesia was 50% in the early 1990s.

**Table 2-2: Employment and Ratio of SME in Manufacturing Industry in Thailand (1996)**

Sum (people)	1-4	5-9	10-19	20-49	50-99	100-199	≥ 200
157363	117588	21666	8897	4662	1896	1195	1464
100	74.53%	13.8%	5.7%	3.0%	2%	0.8%	0.97%

Source: According to Tang Jushang (1999), Small Foreign Enterprises, China Planning Press, 1999, P30.

### **2.3.2 SME are an important driving force for economic growth**

Due to the large scale of SME and their distribution in various areas of the national economy, SME have increasingly become a major factor in economic growth. From the perspective of the number of enterprises, SME have absolute advantages. In Indonesia, the total number of large and medium-sized enterprises in the industrial sector in 1986 accounted for only 0.9%, and small and domestic enterprises accounted for about 99%. Malaysia's SME accounted for 95% of the total number of companies in 1999. Thailand accounted for 98% in 1996 and the total number of companies reached 118,648. In the Philippines, SME accounted for 90% of the total number of enterprises in 1999. In the early 90s of Singapore, SME accounted for 90% of the total number of enterprises in the country, mainly in the retail, trade, consulting, service, manufacturing and other industries, of which SME in the trade and retail accounted for 30% of the total, manufacturing industry accounted for 4%.

From the perspective of output contribution, SME also account for a considerable share. Thai SME created 60% of manufacturing output in 1996, 47% of economic value added and 55% of total exports. In the early 1990s, Singapore's gross output of SME accounted for 40% of the country's gross domestic product.

### **2.3.3 SME also have great potential in expanding export earnings**

SME have strong competitiveness in the production of traditional handicrafts and other material-intensive and labor-intensive products. According to the calculation of the Thai Ministry of Industry, Thai SME earn 50% of their export earnings (ie, total exports), which is second only to Taiwan (56%) and higher than South Korea (42%). Malaysia's SME exports account for total exports. 20%. In addition, according to a study conducted by Mohd Ghazali et al in 1998, among the 95 sample SME surveyed, 35% of SME had 26.50% of their total income from exports, and 15.8% of SME exports were Between 11-25% of its income, nearly 20% of SME's exports are below 10%, and other SME do not export. According to Indonesian Ministry of Industry data, between 1983 and 1992, the export volume of SME rose from US\$137 million to US\$2.1 billion. This shows that SME are as productive as large companies in terms of exports.

### **2.3.4 SME help increase capital formation and reduce income gap**

From the perspective of saving capital, SME can increase their savings in the economy and, to some extent, compensate for the savings gap. The sources of funding for SME are mainly borrowed from relatives and friends, or credit obtained from traders, and relatively little funding from the formal financial sector. In the absence of a fully developed financial market and the underdeveloped formal financial sector, the development of SME has actually increased capital formation.

From a social point of view, SME also help to reduce the serious inequality in income distribution. If large enterprises can produce a group of high-income people, SME have created a group of low-income people. Through SME, income can be passed on to more employees. Rural industry can supply necessary raw materials and spare parts for other rural industries, and can use surplus rural labor, which will help narrow the income gap. During the 1997-1999 financial crisis in East Asia, SME were considered as modulators to alleviate social conflicts and alleviate the further deterioration of regional poverty. In addition, small enterprises are more decentralized than large ones and are conducive to balanced development in all regions. Through liaison with major urban industries, they are conducive to promoting agricultural modernization.