

# New Kids on the ASEAN Block

## Myanmar SMEs and Regional Economic Integration

**Thomas Bernhardt, Giles Dickenson-Jones and S Kanay De**

*For decades, Myanmar's economic system has been characterized by central planning and international isolation. Today, as the country undergoes a far-reaching political and economic transition, it is leaving this past behind. For Myanmar's enterprises, and SMEs in particular, the opening of the country's economy and the intensification of regional economic integration through the ASEAN Economic Community brings both opportunities and challenges. It is in this context that the present study investigates the extent of Myanmar SME participation in ASEAN and East Asian regional economic relations as well as the challenges they face and the policy support they need for deeper integration. More specifically, this paper addresses the following four questions: What is the state of Myanmar SMEs' participation in regional trade, production networks, and investment activities? What are the enabling factors and obstacles to SME participation in regional economic activities? How are regional and preferential trade agreements affecting SMEs' activities and performance? And what are the policy imperatives to promote active participation of Myanmar SMEs in regional economic integration? To find answers to these questions, this study not only analyses existing secondary data but also draws on a new dataset collected by the Centre for Economic and Social Development (CESD) through a survey among Myanmar enterprises which focuses on the food-processing and garment sectors. It is found that, at present, Myanmar SMEs hardly participate in regional economic activities. They face numerous challenges such as: constrained access to capital and skills; limited investment in technology, innovation and human capital; minimal usage of ICT; and low awareness of regional integration dynamics. To overcome these challenges and reap the benefits of regional economic integration, enhanced firm-level efforts are needed while the government can provide support on various fronts.*

**Keywords:** Myanmar, SMEs, regional economic integration, ASEAN Economic Community, trade, foreign direct investment.

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## 1. Introduction

For decades, Myanmar's economic system has been characterized by international isolation and central planning while private sector activity was muted. Today, however, Myanmar is in the middle of a profound political and economic transformation towards an open, market-oriented economic system. In this time of transition, the context and conditions within which Myanmar enterprises operate are changing quickly. Of particular importance is the intensification of regional economic integration, most notably within the Association of Southeast Asian Nations (ASEAN). The launch of the ASEAN Economic Community (AEC) at the end of 2015 generates both opportunities and challenges for Myanmar's businesses. On the one hand, they will have easier access to inputs and markets in the ASEAN region. On the other hand, they will likely face increased competition in both domestic and regional markets. This will also be true for Myanmar's small and medium-sized enterprises (SMEs) which make up the vast majority of businesses in the country. However, knowledge and research on Myanmar's SMEs is scarce.

It is in this context that the present paper undertakes an investigation into the extent of the participation of Myanmar's SMEs in ASEAN and East Asian regional economic relations as well as into the challenges they face and the policy support they need for deeper integration. More specifically, the paper addresses the following four questions:

- What is the state of Myanmar SMEs' participation in regional trade, production networks, and investment activities?
- What are the enabling factors and obstacles to SME participation in such regional economic activities?
- How are regional and preferential trade agreements affecting SMEs' activities and performance?
- What are the policy imperatives to promote the active participation of Myanmar's SMEs in regional economic integration?

The remainder of this paper is structured as follows. Section 2 provides a macro-perspective on

Myanmar's trade and investment relations with the world, ASEAN and East Asia. In section 3, the paper starts to shift from an economy-wide perspective towards a firm-level perspective, providing a quick snapshot of what is known about SMEs in Myanmar. Section 4 presents the methodological approach chosen for the present study, in particular the enterprise survey conducted by the authors. Section 5 summarizes the characteristics of the survey sample. Drawing on our own survey and additional business survey data, section 6 investigates the current state of Myanmar SMEs' participation in regional economic activities. Section 7 discusses various enabling factors and obstacles to SME participation in regional trade, production networks, and investment. Section 8 gives insights into SMEs' perceptions of regional economic integration and what they expect to be its impact. Finally, section 9 concludes and presents some policy implications emerging from the preceding analyses.

## 2. The Macro Perspective: Myanmar's Foreign Trade and Investment Relations

### 2.1 Myanmar's Global Trade Performance in the Recent Past

Due to its political regime, Myanmar has been relatively isolated and its overall level of integration in the world economy has been very low for several decades. Before the United States started to impose economic sanctions in 1997 and many European countries followed suit, Myanmar also had relevant trade linkages with Western countries. However, in the face of Western sanctions, Myanmar's external trade saw a reorientation towards Asia (see Kudo 2008; Martin 2012). Two of the main reasons for this reorientation were, first, the fact that Asian countries largely did not follow the United States in imposing sanctions and, second, that many of them (most notably China) were experiencing high levels of economic dynamism and growth. Since 2013, however, Myanmar is re-engaging with Western markets in Europe and the United States.

In any case, Myanmar's external trade has expanded rapidly over the last decade. In several years, exports and, in particular, imports have

grown at two-digit rates. After taking a dip in 2003, when U.S. trade sanctions were tightened, total exports have continuously grown from US\$2.4 billion in 2003 to US\$13.8 billion in 2015. Similarly, Myanmar's imports from the world, which had been on a slight downward trend since the mid-1990s, expanded more than eightfold from roughly US\$2 billion in 2003 to US\$16.2 billion in 2015. In fact, imports first surpassed exports in 2011. Since then, Myanmar's trade deficit has widened further. In relation to total economic activity, exports correspond to around 20.8 per cent of GDP and imports to 26.5 per cent of GDP. This is (often significantly) lower than in most other Southeast Asian countries, reflecting Myanmar's still comparatively low degree of integration into the world trading system.<sup>1</sup>

## 2.2 Myanmar's Trade with ASEAN

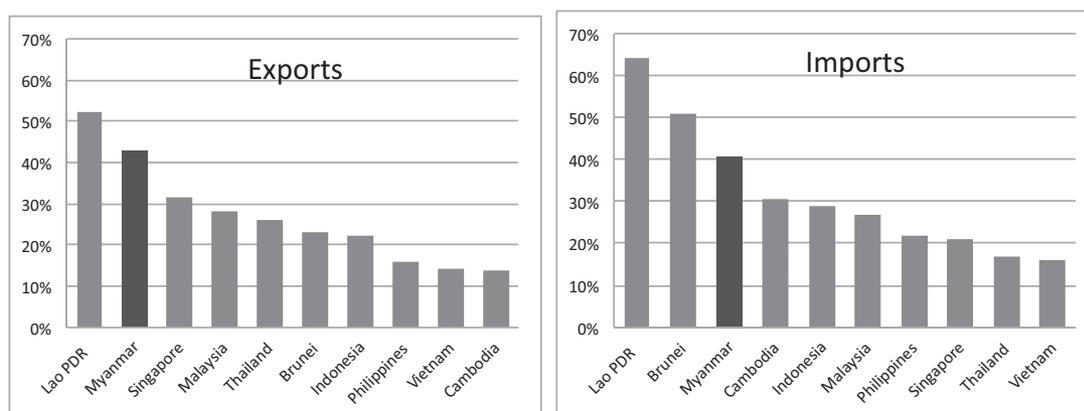
Myanmar joined ASEAN as a member state in July 1997. ASEAN is an important market for Myanmar's exports. As can be seen in Figure 1, over 40 per cent of Myanmar's exports are destined for other ASEAN countries. This is the second highest share among all ASEAN member states, only topped by Laos. Likewise, Myanmar sources

about 40 per cent of all its imports from other ASEAN countries. Only Laos and Brunei get a higher share of their imports from within ASEAN. This shows Myanmar's trade has a strong regional focus. Moreover, Myanmar's ASEAN exports more than doubled over the last decade while its ASEAN imports even more than quadrupled. As a result, though, Myanmar's ASEAN trade balance turned from a surplus of US\$446 million in 2005 to a deficit of US\$2,269 million in 2013 (see also Tables 1 and 3).

Overall, however, Myanmar is still a very small player within ASEAN. Its share in total intra-ASEAN exports (i.e. of total exports by ASEAN countries to other ASEAN member states) is a slim 1.4 per cent and, thus, only somewhat higher than Brunei's, Cambodia's and Lao's. This reflects that, despite recent liberalization policies, Myanmar is not only a newcomer to world trade but also to ASEAN trade.

When Myanmar's trade with ASEAN is decomposed, Thailand shows up as the country's most important export market by far, accounting for 87 per cent, or US\$4 billion, of total exports to ASEAN in 2013 (Table 1). Looking at Myanmar's regional exports beyond ASEAN reveals that Japan, Korea and particularly China are important

FIGURE 1  
Share of ASEAN in Member States' Total Exports and Imports, 2013



SOURCE: ASEAN Merchandise Trade Statistics Database.

TABLE 1  
Myanmar's Bilateral Exports to ASEAN and East Asian Countries (in US\$'000)

	2005	2010	2011	2012	2013
Brunei	n.a.	n.a.	n.a.	184	857
Cambodia	422	52	132	114	263
Indonesia	14,155	31,847	71,279	63,533	73,151
Malaysia	133,585	229,229	233,749	183,412	198,161
Philippines	1,337	13,313	20,539	29,929	24,765
Singapore	107,866	82,941	85,905	79,035	179,231
Thailand	1,787,181	2,813,866	3,268,318	3,673,985	4,032,926
Vietnam	45,778	102,824	84,801	109,476	123,515
<i>ASEAN-10 total</i>	<i>2,090,323</i>	<i>3,274,070</i>	<i>3,764,723</i>	<i>4,139,667</i>	<i>4,632,869</i>
China	274,395	966,087	1,679,873	1,298,226	2,856,867
Hong Kong	48,315	41,086	47,463	47,042	40,994
Japan	203,572	385,935	590,014	672,031	759,296
Korea	56,257	159,892	298,681	351,164	487,769
Macao	33	1,920	2,706	2,585	2,241

NOTE: n.a.: not available.

SOURCE: UN COMTRADE Database.

markets in the East Asian region. In 2013, Myanmar's exports to China amounted to almost US\$3 billion, which makes it the second largest regional export market after Thailand.

Table 2 shows that Myanmar's exports to ASEAN are dominated by raw materials and resource-based products. Actually, gas and crude oil account for over 80 per cent of all exports. Myanmar's top-20 export products also include agricultural, food, fishery, and forestry products as well as metals and minerals. Manufactured products are almost entirely absent from this top-20 list.

Similar to exports, Thailand is also Myanmar's most important source of imports in ASEAN. However, Thailand is much less dominant as a source of imports to Myanmar than it is as market for the country's exports. In 2013, Myanmar purchased goods and services worth US\$3.8 billion from Thailand, corresponding to roughly half of Myanmar's total ASEAN imports, while Singapore accounted for about 30 per cent of the country's imports from ASEAN. However, Myanmar's most important source of imports in the region is China (see Table 3).

The composition of Myanmar's imports from ASEAN is quite different from the structure of its exports. First and foremost, it is much more diversified and much less concentrated in a few products. Table 4 reveals that petroleum oils again top the ranking of imports (accounting for 19 per cent of Myanmar's total ASEAN imports), but unlike on the export side (where crude oil dominates), in this case it is refined petroleum. The rest of the ranking mostly consists of manufactured products, including processed food and beverages, construction materials, machinery, vehicles, and medicaments.

### 2.3 ASEAN and East Asian Investment in Myanmar

In the late 1990s and early 2000s, Myanmar attracted few foreign investors and most of them were from East and Southeast Asian countries such as China, Thailand and South Korea. Moreover, the bulk of foreign investments during that time were in natural resource extraction and export-oriented hydropower projects.

TABLE 2  
Myanmar's Top-20 Export Products to ASEAN, 2013

Rank	HS code	Product group	Export value (US\$ million)	Share of total exports (%)
1	2711	Petroleum gases and other gaseous hydrocarbons	3,674.73	79.4
2	2709	Crude petroleum oils	152.81	3.3
3	0713	Dried leguminous vegetables, shelled	137.24	3.0
4	4403	Wood in the rough	130.17	2.8
5	4001	Natural rubber, balata and similar natural gums	69.30	1.5
6	2505	Natural sands of all kinds	35.32	0.8
7	0306	Crustaceans	33.89	0.7
8	1202	Ground-nuts, not roasted or otherwise cooked	33.30	0.7
9	7403	Refined copper and copper alloys, unwrought	32.54	0.7
10	4407	Wood sawn or chipped lengthwise, sliced or peeled	31.77	0.7
11	0102	Live bovine animals	31.76	0.7
12	0302	Fish, fresh or chilled	23.90	0.5
13	0303	Fish, frozen, excluding fish fillet	14.35	0.3
14	1006	Rice	14.25	0.3
15	2609	Tin ores and concentrates	13.41	0.3
16	7307	Tube or pipe fittings	10.22	0.2
17	4402	Wood charcoal	9.17	0.2
18	0703	Onions, shallots, garlic, leeks and alliaceous vegetables	9.11	0.2
19	2617	Other ores and concentrates	8.84	0.2
20	9001	Optical fibres and optical fibre bundles	8.70	0.2
<i>Total</i>			<i>4,628.98</i>	

NOTE: These figures are based on mirror data on product groups at the 4-digit level of product disaggregation according to the Harmonized System (HS) of Commodity Description and Coding System.

SOURCE: UNCOMTRADE Database.

However, with recent economic reforms, Myanmar has not only seen a significant increase in the number of foreign direct investment (FDI) projects but also a diversification in terms of sectors and the countries of origin of foreign investors. Although there are still investments in natural resource and hydropower projects, most new FDI projects are in manufacturing (especially in the garment sector), hotels and tourism, telecommunications, and other non-extractive sectors.<sup>2</sup>

Recently, other ASEAN countries have become an important source of FDI inflows for Myanmar. This can be seen in Figure 2 which displays how inward FDI is distributed between intra-ASEAN

inflows (i.e. FDI coming in from another ASEAN member state) and extra-ASEAN inflows (which originate from non-ASEAN countries) in each of the ten ASEAN member countries. As Figure 2 shows, the share of ASEAN in total inward FDI was more than 70 per cent in Myanmar in 2014, the highest figure reported among ASEAN member states. In total terms, however, Myanmar is still a minor recipient of intra-ASEAN FDI inflows. In 2014, less than 3 per cent of all intra-ASEAN FDI flows went to Myanmar.

Overall, these trade and FDI statistics point out that, while Myanmar is currently still a small player within ASEAN, there is also a huge scope and

TABLE 3  
Myanmar's Bilateral Imports from ASEAN and East Asian Countries (in US\$'000)

	2005	2010	2011	2012	2013
Brunei	38	n.a.	n.a.	27	36
Cambodia	70,283	2	79	83	675
Indonesia	77,990	284,172	359,471	401,590	556,375
Malaysia	245,562	369,510	558,968	704,519	716,951
Philippines	9,087	11,233	14,129	19,132	22,682
Singapore	594,888	1,159,348	1,212,957	1,339,308	2,245,413
Thailand	704,851	2,072,955	2,845,830	3,127,141	3,786,941
Vietnam	11,978	49,521	82,458	117,813	229,747
<i>ASEAN-10 total</i>	<i>1,644,426</i>	<i>3,946,741</i>	<i>5,073,892</i>	<i>5,709,613</i>	<i>7,558,819</i>
China	934,847	3,475,524	4,821,497	5,673,756	7,338,689
Hong Kong	1,563	986	537	799	889
Japan	91,811	261,854	502,932	1,257,544	1,057,427
Korea	120,013	478,809	666,742	1,330,892	705,109
Macao	0	n.a.	n.a.	n.a.	n.a.

NOTE: n.a.: not available.

SOURCE: UNCOMTRADE Database.

potential for Myanmar to intensify its economic relations with ASEAN. We now move from a macro-perspective to a firm-level perspective, which will be the focus of the following sections.

### 3. The Firm-level Perspective: SMEs in Myanmar — What Do We Know?

In Myanmar, reliable data on SMEs is patchy and scarce. In many other countries, data on businesses is regularly collected through business surveys by government authorities, such as Statistics Offices or Ministries of Industry. In Myanmar, such a regular and comprehensive exercise has not yet been established. Moreover, where data is collected, this does not seem to be undertaken based on a stringent methodology in line with international standards nor according to a given schedule and programme.

According to data released by the Office of the President in January 2013, approximately 127,000 enterprises are registered in Myanmar, of which 99.4 per cent are SMEs (Global New Light of Myanmar 2013). This percentage is comparable to

what can be observed in other Asian economies. The absolute number of SMEs, however, is quite low for a country the size of Myanmar. It corresponds to a ratio of only about 2.6 registered SMEs per 1,000 citizens in Myanmar — a figure that is well below those seen in other countries in the region (Abe and Dutta 2014). In addition, there are an estimated 620,000 informal (i.e. unregistered) firms operating in the country, corresponding to 83 per cent of all businesses (Global New Light of Myanmar 2013). Hence, overall registration rates of businesses are very low. Reasons for this include a cumbersome registration system and business distrust against government entities and policies (Bissinger and Maung Maung 2014; World Bank 2015a). It is likely that unregistered firms are heavily under-represented in most existing datasets.

Another issue is dispersed data storage. This is because there are different public agencies/departments where enterprises can register. Among them is the Central Department of SME Development under the Ministry of industry which maintains one of the more reliable datasets

TABLE 4  
Myanmar's Top-20 Import Products from ASEAN, 2013

Rank	HS code	Product group	Import value (US\$ million)	Share of total imports (%)
1	2710	Refined petroleum oils	1,450.88	19
2	1511	Palm oil and its fractions	515.11	7
3	9406	Prefabricated buildings	288.47	4
4	2523	Portland cement, aluminous cement	209.43	3
5	2202	Waters, including mineral waters	153.66	2
6	2106	Food preparations nes	134.69	2
7	8525	Transmission apparatus for radio or television	130.68	2
8	1901	Malt extract; food preparations of flour, groats, meal, starch or malt extract	115.84	2
9	7304	Tubes, pipes and hollow profiles	106.70	1
10	3004	Medicaments	104.02	1
11	8431	Machinery parts	102.29	1
12	2203	Beer made from malt	93.52	1
13	2101	Extracts, essences and concentrates of coffee or tea	92.38	1
14	8703	Motor cars and other motor vehicles	90.57	1
15	8471	Automatic data processing machines	80.25	1
16	8502	Electric generating sets and rotary converters	73.93	1
17	4011	New pneumatic tyres, of rubber	71.52	1
18	8507	Electric accumulators	64.88	1
19	2208	Undenatured ethyl alcohol	64.51	1
20	8454	Converters, ladles, ingot moulds and casting machines used in metallurgy or in metal foundries	63.73	1
<b>TOTAL</b>			<b>7,474.13</b>	

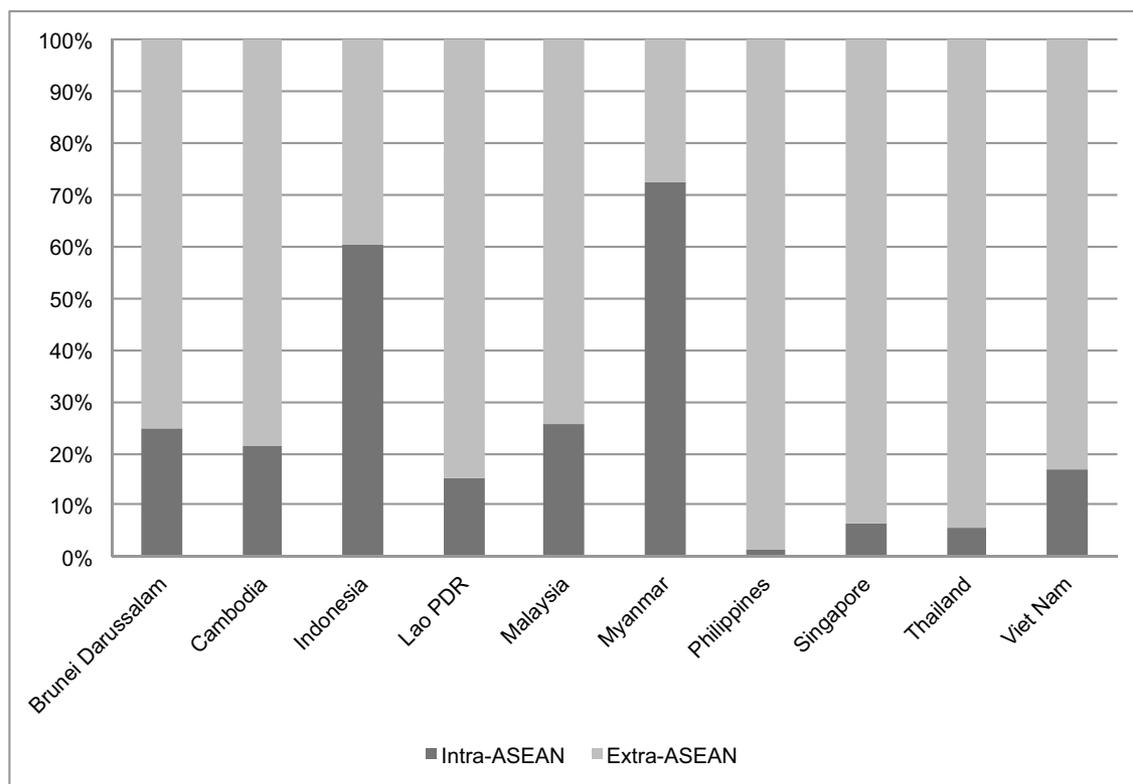
NOTE: These figures are based on mirror data; "nes" stands for "not elsewhere specified".

SOURCE: UNCOMTRADE.

on small and medium enterprises. Based on this, there are almost 40,000 SMEs in Myanmar. These SMEs include micro (or "cottage") enterprises of which 78 per cent operate in the manufacturing sector (cottage handicraft) and about 21 per cent in the service sector. Among those SMEs that are *not* involved in cottage industries, more than 60 per cent operate in the food-processing sector. An additional 7.6 per cent of total SMEs operate as construction material producers. Meanwhile, mineral and petroleum producers make up a further 5.1 per cent and garment firms another 4.5 per cent of SMEs (ADB 2015).<sup>3</sup>

Given the limited available data on SMEs in Myanmar, it is difficult to determine their contribution to the country's economic activities precisely. In view of this gap in terms of reliable information, a number of international agencies recently conducted a series of surveys in Myanmar. These include: an SME survey by the German Institute for Development Evaluation (DEval 2015), a business survey conducted jointly by the Organization for Economic Cooperation and Development (OECD), the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) and UNESCAP (see Soans

FIGURE 2  
Intra- and Extra-ASEAN FDI Inflows, 2014



SOURCE: ASEAN Foreign Direct Investment Statistics Database.

and Abe 2015); a “One Pager Business Census” by UNDP (2014); as well as the World Bank’s Enterprise Survey; its Investment Climate Survey; and its Doing Business Survey (World Bank 2014, 2015a, 2015b).

#### 4. Methodology

While these surveys have helped to improve the availability of information on Myanmar’s business sector, they differ in surveying methods, sample sizes, and topics covered. This means that the data produced by these surveys is not always fully commensurable. Despite these shortcomings, these business survey datasets will constitute one pillar of the analyses undertaken here.

However, existing survey data provides limited information on how and to what extent SMEs participate in regional trade and investment — which is the focus of the present paper. This is why the authors, as part of a cooperation between Centre for Economic and Social Development (CESD), Economic Research Institute for ASEAN and East Asia (ERIA) and the ISEAS – Yusof Ishak Institute, conducted their own business survey with a specific emphasis on regional economic integration issues.

The questionnaire used in this survey was co-developed by CESD, ERIA and ISEAS and consisted of different types of questions (including dichotomous, multiple-choice, rank order scaling, demographic and closed-ended questions) designed

to better understand Myanmar SMEs' engagement in regional economic activities and the challenges they face.

The survey sample was determined through convenience sampling, selecting firms from two sets of enterprise lists. This includes: first, lists provided by different Industrial Zone Management Committees; and second, a list of apparel producers provided by the Myanmar Garment Manufacturers Association (MGMA). Survey participants were then selected randomly from these two lists. Part of the convenience sampling was to restrict survey locations to Yangon Region and Mon State in Myanmar, and to focus on certain particularly important industries (primarily food processing and apparel manufacturing). While we acknowledge that this sample is not representative of the full enterprise population in Myanmar,<sup>4</sup> the survey allowed us to collect useful information. In total, 205 enterprises were contacted and asked to participate in the survey. Eight of them refused to do so, leaving a sample size of 197 enterprises. The survey was carried out from July to November 2015.

The analyses undertaken in the following sections do not only draw on our own data but also information from other business surveys, especially the World Bank's Enterprise Survey and DEval's SME survey, both of which offer data disaggregated by firm size. It should be

noted, however, that both our and the World Bank's surveys are based on relatively small samples of 197 firms and 630 firms, respectively, so that any interpretation and generalization of the figures presented in the following should be done with some caution. Additionally, it should be noted that the definition of what constitutes an SME as applied in the World Bank's Enterprise Survey (with small firms being those with 5–19 employees and medium-sized firms those with 20–99 employees) differs considerably from the one applied in other surveys, including ours (where small firms have 11–49 workers and medium firms 50–249 workers).<sup>5</sup>

Despite its shortcomings, the data collected through our survey complements the existing stock of enterprise-level data for Myanmar in an important way and allows for some useful analyses.

## 5. Sample Characteristics

Table 5 gives an overview about how the sample for our survey looks like. It comprises a total of 197 firms, 27 per cent of which are small, 27 per cent medium-sized, and 45 per cent large. While not being fully representative of Myanmar's business population, our survey nevertheless allows us to focus on two of the most important manufacturing industries in Myanmar, i.e. apparel (52 per cent of

TABLE 5  
Survey Sample Overview

Industry (ISIC Code)	Firm Size			Total No.	% Share in total
	Small No.	Medium No.	Large No.		
10. Manufacture of Food Products	52	27	10	89	45
14. Manufacture of Wearing Apparel	1	22	79	102	52
16. Manufacture of Wood and Wood Products	1	1	0	2	1
17. Manufacture of Paper and Paper Products	0	1	0	1	1
32. Other Manufacturing	0	3	0	3	2
Total Number	54	54	89	197	
% Share in Total	27	27	45	100	

our sample) and food manufacturing (45 per cent of our sample), and to do some more in-depth analysis on them.

The workforce size of surveyed firms varies greatly across industry, with food manufacturers tending to be relatively smaller when compared with apparel manufacturers (as measured by both the larger share of small-sized enterprises and the lower average number of workers per firm, see Tables 5 and 6).<sup>6</sup> Moreover, it appears that food manufacturers tend to be family businesses (92 per cent of respondents) which serve the domestic market, with only 27 per cent of food manufacturers indicating that they are exporting.

Apparel manufacturers appear to be more export-focused, with 84 per cent declaring themselves exporters. Furthermore, almost two-thirds of apparel manufacturers surveyed are partially or wholly foreign-owned (see Table 6). These characteristics are likely a reflection of the predominance of the labour-intensive Cut-Make-Pack (CMP) production model under which many of Myanmar's apparel firms produce for foreign brands and buyers (see ILO 2015; MGMA 2015; MoC and ITC 2015).

The high proportion of firms reporting membership in a business association likely reflects the fact that survey participants were drawn from industry lists. The almost universal membership evident in the apparel sector can be explained by: first, the fact that the MGMA is quite a competent, proactive and strong business association; and second, by the requirement of

MGMA membership for apparel manufacturers wanting to obtain import permits for essential input materials such as fabrics, yarn or accessories.

The average age of SMEs sampled by the World Bank's Enterprise Survey is around twelve years. Similarly, both the DEval and the OECD-UMFCCI-UNESCAP surveys found that a clear majority of firms have been operating for more than ten years. This corroborates our survey results which show an average age of eleven years among the enterprises in our sample (see Table 7). Only around 23 per cent of all SMEs covered by the DEval survey had started operations during the previous four years. In our sample, the percentage of firms being younger than five years, at around 38 per cent, is markedly higher. The explanation for this seems that there is a clear tendency for firm creation rates to vary across industries.

As can be seen in Table 7, the firms surveyed in the food manufacturing sector were almost twice the age of firms in the apparel manufacturing sector. At the same time, the share of rather "new firms" (age less than five years) is more than three times higher in the apparel sector (56 per cent) than in the food processing sector (16 per cent). Myanmar has become an increasingly attractive location for apparel manufacturing over the last five years, with relative increases in wages in neighbouring countries such as China, factory accidents in Bangladesh, the easing of sanctions, and foreign investment reforms cited as key factors driving this (Berg and Hedrich 2014). MGMA (2015) reports that in the last ten years, on average, two new

TABLE 6  
Selected Firm Characteristics by Industry

<i>Industry</i>	<i>Average No. of Workers per Firm</i>	<i>Share of Family Businesses (%)</i>	<i>Member of Business Association (%)</i>	<i>Firms with Foreign Ownership (%)</i>	<i>Firms That Export (%)</i>
Manufacture of Food Products	105	92	70	3	27
Manufacture of Wearing Apparel	657	60	97	61	84
Total (Incl. Paper, Wood and Other)	391	75	84	32	61

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

TABLE 7  
Firm Age by Industry

Industry	Age Range			Total	Average
	<5 yrs	5 to 20 yrs	>20 yrs		
10. Manufacture of Food Products	15	58	16	89	15.2
14. Manufacture of Wearing Apparel	57	42	3	102	7.4
All Firms	75	101	21	197	11.1

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

apparel factories started operations. By contrast, the more locally oriented food manufacturing sector has not experienced such a boom of new business entries and incumbents seem to dominate the market.

According to both the World Bank Enterprise Survey and our own survey, the legal status of almost all Myanmar SMEs is sole proprietorship. Apart from that, around 4 per cent of small firms and about 5 per cent of medium-sized enterprises operate with the legal status of partnership (see Figure 3). The predominance of sole proprietorship and partnerships as the most common legal forms echo a tendency for SME ownership and management to be relatively fluid.

## 6. Current State of Myanmar SMEs' Participation in Regional Economic Activities

This section will investigate to what extent Myanmar SMEs currently participate in regional economic activities such as regional investment, trade and production networks.

### 6.1 ASEAN Business Relations of Myanmar's SMEs

Tables 8 and 9 give an overview of the extent and type of business relations that surveyed firms reported having with companies in other ASEAN member states. As can be seen in Table 8, only 13 per cent of responding firms report having ASEAN business relationships. The share is largest among medium-sized firms (16.7 per

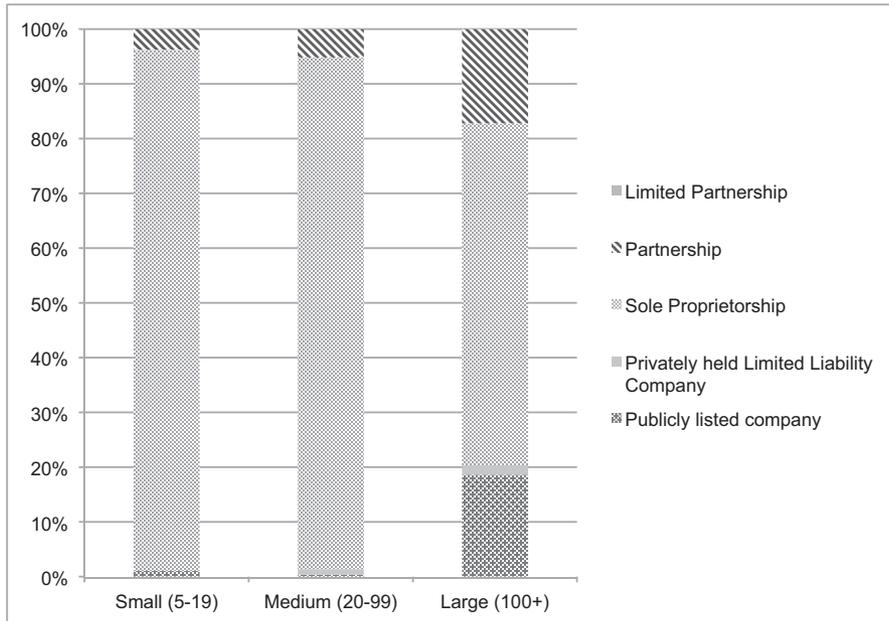
cent), followed by large enterprises (16.1 per cent) while only a minority of small firms (5.7 per cent) engage in business with companies in other ASEAN countries. As might be expected, Table 8 also shows that firms with foreign ownership are slightly more likely to have ASEAN business relations than fully domestically owned firms.

Table 9 provides more details on the type of these business relations and the countries of origin of business partners. As can be seen there, not a single firm reported having any business relationship with Brunei, Laos, and the Philippines. By contrast, Thailand, Malaysia and Singapore are the most common business partner countries within ASEAN. The most important type of ASEAN business relationship is importing: 8.2 per cent of surveyed firms reported importing from ASEAN, while approximately 7.2 per cent reported exporting to at least one other ASEAN country.<sup>7</sup> For the firms surveyed, Thailand, Malaysia and Singapore seem to be most common business partner countries within ASEAN. Thailand is the source of imports for 4.6 per cent of respondents and the destination for exports for 2.6 per cent of respondents. As for Malaysia, 3.1 per cent indicated that they were importing from there, 2.6 per cent said where exporting and 1 per cent reported investment relations.

### 6.2 Regional FDI in Myanmar SMEs

The World Bank Enterprise Survey suggests that SMEs with any foreign ownership (not only regional) are a clear minority. However, as can

FIGURE 3  
Legal Status of Myanmar Enterprises



SOURCE: World Bank Enterprise Survey Database.

TABLE 8  
Share of Firms with ASEAN Business Relations by Firm Size and Foreign Ownership (%)

	<i>ASEAN Business Relations</i>	
	<i>No</i>	<i>Yes</i>
Small	94.3	5.7
Medium	83.3	16.7
Large	83.9	16.1
Domestically Owned	86.6	11.9
Foreign-invested	82.8	15.6
Total	85.4	13.1

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

TABLE 9  
Business Relationships with ASEAN Countries

	<i>% of Respondents Importing from</i>	<i>% of Respondents Exporting to</i>	<i>% of Respondents with Investment in/from</i>
Thailand	4.6	2.6	NA
Malaysia	3.1	3.1	1.0
Singapore	1.0	2.1	NA
Vietnam	0.5	1.5	NA
Cambodia	0.5	NA	0.5
Indonesia	0.5	NA	NA
ASEAN Total	8.2	7.2	1.5
Non-ASEAN	2.1	1.5	0.5

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

be seen from our survey results in Tables 10 and 11, this masks important variations across sectors and firm sizes. For instance, among the firms we surveyed, 3 per cent of food manufacturers and 59 per cent of apparel manufacturers reported to have at least partial foreign ownership.<sup>8</sup> Furthermore, larger firms were more likely to be foreign-invested with not a single small firm reporting foreign ownership, as opposed to around 17 per cent of medium-sized firms and 62 per cent of large firms.

This is confirmed by Table 12 which shows that while 92.3 per cent of our sample SMEs are entirely locally owned (i.e. have no foreign asset holders), the same is true for only 36.4 per cent of large enterprises. Table 12 also allows comparisons between the food sector and the garment sector. In the former, the share of fully domestically owned enterprises (96.6 per cent) is much higher than in the latter (38.8), reflecting the fact that garment firms tend to be both larger and more integrated into cross-border value chains than food manufacturers. Most importantly, Table 12 confirms what was already stated above, namely that most FDI inflows come from regional investors from ASEAN or East Asian countries. By contrast, investors from non-Asian countries, for now at least, still play a rather subdued role in Myanmar. For Myanmar's SMEs, investors from

Japan and Hong Kong seem the most important, followed by China, India, Australia and the EU. In summary, FDI in Myanmar SMEs is minimal and dominated by regional investors.

### *6.3 Participation of Myanmar SMEs in Global and Regional Trade*

In general, exports to foreign countries play almost no role for most of Myanmar's SMEs. According to the World Bank's Enterprise Survey, only 4.2 per cent of medium-sized companies and 0.8 per cent of small enterprises export directly or indirectly at least 1 per cent of sales. Similarly, among the SMEs surveyed by DEval (2015), only around 4 per cent stated that they export at all. These percentages are considerably lower than those for fellow ASEAN member states (see Figure 4). However, there are important variations across sectors. This is what the results from our survey show, according to which 7 per cent of small firms and 56 per cent of medium-sized firms indicated that they export at least some of their output. The explanation for this significant difference is that firms from export-oriented sectors dominate our survey sample.

Regional trade accounts for an important share of these exports, as our survey results indicate. Overall, East Asia seems to be a more important

TABLE 10  
Domestic vs. Foreign Ownership According to Firm Size (%)

	<i>Firm Size</i>			<i>Total (all firms)</i>
	<i>Small</i>	<i>Medium</i>	<i>Large</i>	
Domestically Owned	100	83	38	68
Foreign-invested Firms	0	17	62	32

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

TABLE 11  
Share of Foreign-invested Firms by Firm Size and Industry (%)

	<i>Firm Size</i>			<i>Total (all firms in sector)</i>
	<i>Small</i>	<i>Medium</i>	<i>Large</i>	
Manufacture of Food Products	0	4	20	3
Manufacture of Wearing Apparel	0	32	67	59

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

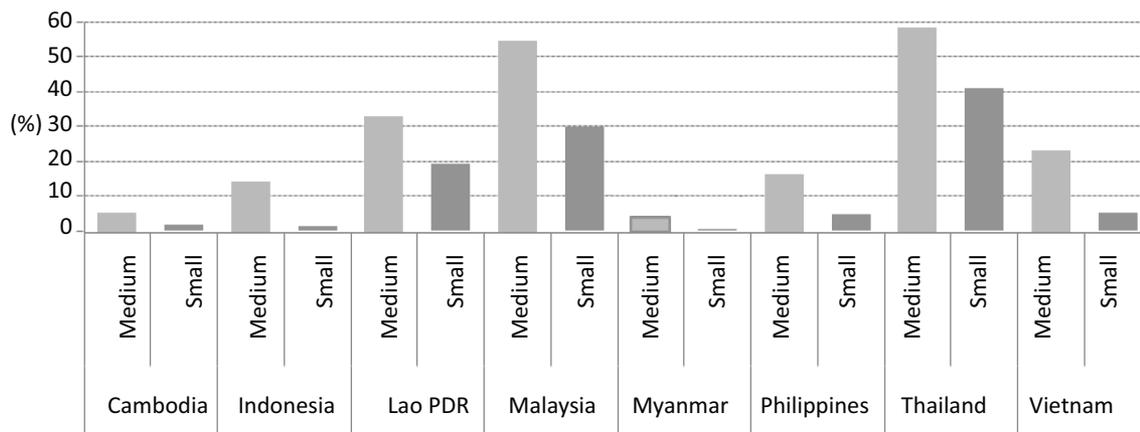
TABLE 12  
Countries of Origin of Foreign Investors in Myanmar by Sector and Firm Size (%)

	<i>Share of Overall Responses</i>				
	<i>Full Sample</i>	<i>SMEs</i>	<i>Large Enterprises</i>	<i>Food Producers</i>	<i>Garment Producers</i>
Korea	9.80	0.00	21.60	0.00	19.40
Japan	9.30	2.90	17.00	2.20	16.30
China	6.20	1.00	12.50	1.10	11.20
Hong Kong	6.20	2.90	10.20	1.10	11.20
Taiwan	2.60	0.00	5.70	0.00	5.10
EU countries	1.60	1.00	2.30	1.10	2.00
Australia	1.00	1.00	1.10	0.00	2.00
India	1.00	1.00	1.10	0.00	1.00
Thailand	1.00	0.00	2.30	0.00	2.00
Indonesia	0.50	0.00	1.10	0.00	1.00
Norway	0.50	0.00	1.10	0.00	1.00
Malaysia	0.50	0.00	1.10	0.00	1.00
Singapore	0.50	0.00	1.10	1.10	0.00
No foreign investment (locally owned)	66.80	92.30	36.40	96.60	38.80

NOTE: Multiple responses possible per respondent.

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

FIGURE 4  
Percent of SMEs Exporting Directly or Indirectly (at least 1% of sales)



NOTE: Small enterprises are defined as having 5–19 employees, medium enterprises are defined as having 20–99 employees; sample sizes and survey years differ across countries.

SOURCE: World Bank Enterprise Survey Database.

export destination than ASEAN, however: Merely 7 per cent of responding firms reported exports to ASEAN, compared to 41 per cent for East Asia (see Table 13). Small enterprises are an exception, however, with a larger share exporting to ASEAN than to East Asia (4 per cent vs. 3 per cent).

Moreover, there are again important differences across sectors — while ASEAN is a more important export market for Myanmar food manufacturers than for apparel producers, the reverse is true for East Asia. Almost 60 per cent of surveyed apparel firms export to East Asia compared to just 15 per

TABLE 13  
Exporting Firms by Industry, Firm Size and Export Markets (%)

<i>Size</i>	<i>Share of Exporting Firms (All)</i>	<i>Share of Firms Exporting to ASEAN</i>	<i>Share of Firms Exporting to East Asia</i>
Small	7	4	3
Medium	56	9	35
Large	91	7	67
<i>Industry</i>			
Manufacture of Food Products	27	11	15
Manufacture of Wearing Apparel	84	3	59
<i>Total</i>	<i>61</i>	<i>7</i>	<i>41</i>

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

cent of food producers who do. This reflects the fact that in view of U.S. and EU sanctions starting in 2003, Myanmar apparel producers began to target the East Asian countries of Japan and Korea as substitute export markets and these two countries are still the most important destinations for Myanmar apparel exports today (Kudo 2008; MoC and ITC 2015).

Indeed, 46 per cent of all apparel firms in our sample reported exports to Japan and 25 per cent to Korea<sup>9</sup> (see Table 14). However, the lifting of sanctions in recent years, and especially the EU's reinstating of Myanmar into its Generalized System of Preferences (GSP), led to both the United States and the EU gaining ground again as export markets for Myanmar garment products. Accordingly, they rank second and third in terms of frequency of being mentioned as export markets by survey participants.

The picture is quite different for the food manufacturing sector. While Japan also ranks

first, it was mentioned by only 10 per cent of respondents. Similarly, the three other markets that dominate the ranking in the apparel sector are much less important as export markets for Myanmar food manufacturers: only 1.7 per cent of respondents report exporting to the United States, 5 per cent to the EU, and 1.7 per cent to Korea. Other countries seem equally important as buyers of Myanmar processed food products. This includes countries that play no or just a minor role as export markets for Myanmar apparel, both within the region (Malaysia, Singapore, Thailand and Vietnam as ASEAN members as well as China, Hong Kong and Taiwan in East Asia) and outside the region, particularly in the Middle East.

Based on this, a number of conclusions can be drawn. First, a smaller share of food producers are exporting; second, food exporters target other foreign markets compared to apparel producers; and third, export markets for Myanmar processed food products seem to be more diversified (or,

TABLE 14  
Myanmar's Major Export Destinations by Industry

<i>Export Market</i>	<i>Food</i>		<i>Apparel</i>	
	<i>% of Respondents</i>	<i>Rank</i>	<i>% of Respondents</i>	<i>Rank</i>
Japan	10.0	(1)	46.1	(1)
EU Countries	5.0	(2)	31.6	(3)
China	5.0	(2)	6.6	(5)
Thailand	5.0	(2)	2.6	(8)
Malaysia	5.0	(2)	2.6	(8)
Singapore	5.0	(2)	1.3	(11)
Australia	3.3	(7)	3.9	(6)
Hong Kong	3.3	(7)	1.3	(11)
United Arab Emirates	3.3	(7)	NA	NA
Vietnam	3.3	(7)	NA	NA
United States	1.7	(11)	32.9	(2)
Korea	1.7	(11)	25.0	(4)
Taiwan	1.7	(11)	2.6	(8)
Kuwait	1.7	(11)	NA	NA
Asian Countries	1.7	(11)	NA	NA
Saudi Arabia	1.7	(11)	NA	NA
Qatar	1.7	(11)	NA	NA

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

conversely, apparel exports from the country are more concentrated in a few dominant markets).

Meanwhile, Table 15 compares the export orientation of Myanmar SMEs against that of large firms. Looking at the rankings of export markets of SMEs vs. large enterprises shows that large firms are able to export to high-income markets (such as Japan, the EU and the United States), where customers are typically more demanding with regard to the quality, sophistication and consistency of supply (UNIDO 2015), whereas most SMEs are not. While among large firms 35 per cent said they were exporting to the EU and 32 per cent to the United States, only 5.6 per cent of SMEs reported exporting to each of these two markets.

By contrast, regional markets with less demanding customers seem comparatively more important for SME exporters. For example, China was mentioned as often as the EU and the United States as export market for Myanmar SMEs (whereas among large firms it was mentioned three times less than the EU and the United States). In a similar vein, Malaysia ranks as the

fifth most frequently mentioned export market for SMEs — while it ranks only ninth among large firms. In summary, it can be noted that only few Myanmar SMEs export — but for those who do, regional markets are important.

Looking now at the import side, compared to other ASEAN countries, fewer Myanmar SMEs appear to source inputs from abroad, which points to their lower degree of integration into international production networks. More precisely, according to the World Bank's Enterprise Survey, 27 per cent of medium-sized firms and 13 per cent of small enterprises in Myanmar use material inputs and/or supplies of foreign origin. These percentages are significantly lower than those seen in other ASEAN countries (see Figure 5).

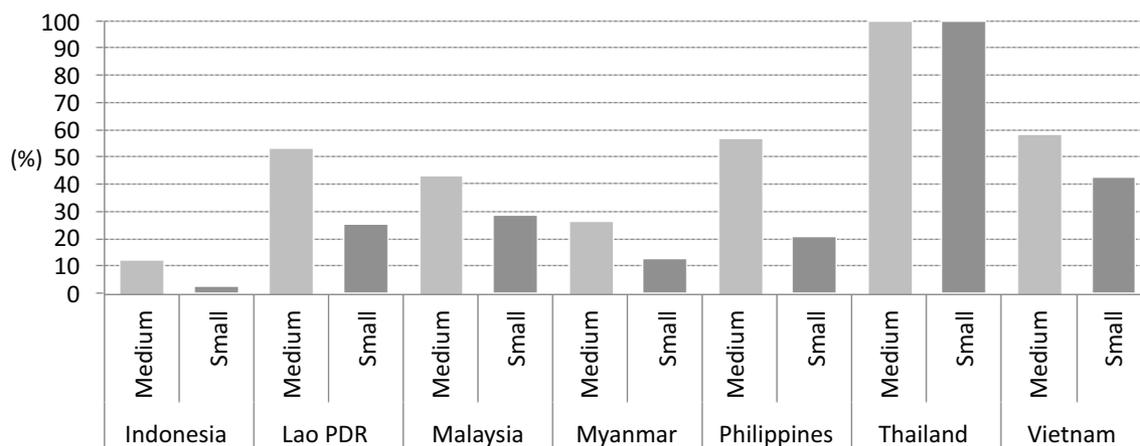
Again, however, there are differences across sectors. According to our survey, 88 per cent of Myanmar food manufacturers source all their inputs domestically with just 12 per cent obtaining all or at least some of their inputs from abroad (see Table 16). By contrast, foreign inputs are much more important for Myanmar's apparel sector. A staggering 95 per cent of the apparel firms in our

TABLE 15  
Myanmar's Major Export Destinations by Firm Size

<i>Export Market</i>	<i>All Firms</i>		<i>SMEs</i>		<i>Large Firms</i>	
	<i>% of Respondents</i>	<i>Rank</i>	<i>% of Respondents</i>	<i>Rank</i>	<i>% of Respondents</i>	<i>Rank</i>
Japan	29.7	(1)	12.5	(1)	47.0	(1)
EU Countries	19.6	(2)	5.6	(2)	34.8	(2)
USA	18.8	(3)	5.6	(2)	31.8	(3)
Korea	14.5	(4)	2.8	(6)	24.2	(4)
China	6.5	(5)	5.6	(2)	9.1	(5)
Thailand	3.6	(6)	2.8	(6)	4.5	(6)
Malaysia	3.6	(6)	4.2	(5)	3.0	(9)
Australia	3.6	(6)	2.8	(6)	4.5	(6)
Singapore	2.9	(9)	2.8	(6)	3.0	(9)
Hong Kong	2.2	(10)	1.4	(11)	3.0	(9)
Taiwan	2.2	(10)	NA	NA	4.5	(6)
Russia	2.2	(10)	1.4	(11)	3.0	(9)

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

FIGURE 5  
Percent of SMEs Using Material Inputs and/or Supplies of Foreign Origin



NOTE: Small enterprises are defined as having 5–19 employees, medium enterprises are defined as having 20–99 employees; sample sizes and survey years differ across countries.

SOURCE: World Bank Enterprise Survey Database.

TABLE 16  
Sources of Inputs by Industry and Firm Size (%)

	Industry		Size			Full Sample
	Food	Apparel	Small	Medium	Large	
All Inputs Sourced Locally	88	5	74	36	5	55
All Inputs Sourced Abroad	2	45	9	36	36	18
At Least Some Inputs Sourced Abroad	10	50	17	27	59	27
Total	100	100	100	100	100	100

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

sample indicated that they get all or at least some of their inputs from abroad. This can be explained by the peculiar integration of Myanmar's garment sector into regional and global value chains under the CMP model, whereby Myanmar garment factories basically just assemble mostly foreign garment components purchased and imported by the buyers themselves (see ILO 2015; MGMA 2015). These sectoral specificities also explain why

the shares of small and medium-sized enterprises that source inputs from abroad are higher in our survey sample (at 26 per cent and 64 per cent, respectively) than in the World Bank's.

Table 17 provides some details on the countries of origin of these foreign inputs. As can be seen there, in general, non-Asian countries play a negligible role as foreign suppliers of inputs. That is, if Myanmar enterprises source inputs

TABLE 17  
Sources of Foreign Inputs by Sector and Country of Origin (%)

<i>Import Source</i>	<i>Full Sample % of Respondents</i>	<i>Food % of Respondents</i>	<i>Apparel % of Respondents</i>
China	24	3	57
Thailand	10	3	16
Japan	10	0	30
Malaysia	9	5	11
Korea	6	2	16
EU Countries	5	0	11
Indonesia	4	0	11
Taiwan	4	0	11
Vietnam	3	0	8
Hong Kong	2	0	5
Singapore	2	2	3
United States	2	2	3

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

from abroad, they mostly do so from ASEAN and East Asian countries. Overall, China is the most important foreign source of inputs with 24 per cent of respondents importing supplies from there, followed by Thailand and Japan (10 per cent of respondents, respectively).

For Myanmar food manufacturers, however, Malaysia is the most important source of foreign inputs while China and Thailand rank second and third. By contrast, for the apparel sector, China and Japan are the most important countries of origin of foreign supplies, followed by Thailand and Korea. Given this high incidence of regional sourcing and the great importance of East Asian markets for exports documented above, it can be said that apparel production is the most pronounced case of a Myanmar industry being integrated into regional production sharing and regional value chains.

### **7. Enabling Factors and Obstacles to SME Participation in Regional Economic Integration**

There are various factors that provide Myanmar SMEs with opportunities to join regional business

networks. Myanmar's endowments provide its economy with certain comparative advantages. For example, Myanmar has a large pool of untapped labour that is both young and comparatively cheap. Moreover, Myanmar is blessed with an abundance of natural resources (ADB 2014). These resource endowments offer a springboard to Myanmar SMEs to integrate in regional production networks labour-intensive and resource-based industries. Moreover, rising labour costs in other countries, especially China, have incited multinational corporations (MNCs) to start relocating production. This opens up opportunities for SMEs in low-income economies like Myanmar to step into the lower ladders of regional and global value chains (Donaubauer and Dreger 2016). Finally, Myanmar has the advantage of being a "new frontier" for international business, making it attractive for MNCs that seek to diversify their supply base (MGMA 2015).

However, there are also a number of obstacles that Myanmar SMEs have to overcome if they want to participate (more) in regional economic integration. These will be discussed in more detail in the following.

### 7.1 Low Level of Technology Usage and Sophistication

According to the World Bank Enterprise Survey, the level of technology usage and technological sophistication is quite low among Myanmar SMEs (see Table 18). Among medium-sized firms, only 2.8 per cent uses technology licensed from foreign companies while licensing of foreign technology is almost non-existent among small Myanmar firms. Similarly, only around 1 per cent of Myanmar SMEs hold an internationally recognized quality certification.

Usage of modern information and communication technology (ICT) is also not very common among the small Myanmar firms covered by the World Bank Enterprise Survey: Only 7 per cent have a website and just 20 per cent use email to interact with clients or suppliers. Among medium-sized firms, these percentages are considerably higher

(at 29 per cent and 46 per cent, respectively) but still fall short of those for large enterprises. Finally, usage of external business services is not very widespread among SMEs in Myanmar. This is reflected in the fact that just 8.5 per cent of small firms and 42 per cent of medium firms get their financial statements reviewed by external auditors.

The World Bank's results were mirrored by our survey, with a relatively small proportion of Myanmar SMEs currently employing ICT. In fact, outside of email and website use, the uptake of ICT by Myanmar SMEs is very low with less than 6 per cent of them reporting the use of ICT for online sales, marketing, and payment, respectively. It is important to note, though, that this represents both a supply and demand side problem, with electronic payment systems only recently being adopted domestically and still only in urban centres, where the minority of the population lives. Although not surprising, given Myanmar's

TABLE 18  
Innovation and Use of Technology among Myanmar Firms

<i>Company Size</i>	<i>Percent of Firms with an Internationally Recognized Quality Certification</i>	<i>Percent of Firms Using Technology Licensed From Foreign Companies</i>	<i>Percent of Firms Having Their Own Website</i>	<i>Percent of Firms Using Email to Interact With Clients/Suppliers</i>	<i>Percent of Firms with an Annual Financial Statement Reviewed by External Auditors</i>
Small	1.5	0.2	7.0	20.2	8.5
Medium	0.5	2.8	29.0	46.2	42.1

SOURCE: World Bank Enterprise Survey Database.

TABLE 19  
Percentage of ICT Usage by Firm Size (%)

	<i>Email Use</i>	<i>Website</i>	<i>Online Purchases</i>	<i>Online Sales</i>	<i>Online Marketing</i>	<i>Online Payment</i>	<i>Other ICT Use</i>
Small	24	8	2	4	2	2	4
Medium	78	20	2	4	2	6	10
Large	95	30	2	2	1	5	2

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

relatively recent efforts to engage in reforms in the telecommunications sector, it does illustrate the potential space SMEs may have to improve efficiency and access expanded markets through ICT.

### 7.2 Limited Innovation and Technology Efforts

As can be seen in Figure 6, only a very small percentage of firms surveyed engaged in any innovation and technology efforts between 2012 and 2014. This corroborates the findings from the OECD-UMFCCI-UNESCAP survey, where more than 60 per cent of all respondents reported having made zero investment in research & development (R&D). Interestingly, however, the SMEs in our sample were more likely than large enterprises to report investing in innovation and technology efforts in all but the “R&D outsourcing” category. Although the precise nature of this investment was not clear from the survey, it is likely the 19 per cent of SMEs that reported acquisition of machinery, equipment or software were engaging in plant modernization. Comparing across sectors, we can see from Figure 6 that the food processing firms in our sample have engaged much more in innovation and technology efforts than apparel producers.

This tendency for SMEs to invest more heavily in innovation and technology efforts also seems to be reflected in a higher propensity to introduce new or significantly improved products and/or services, with large firms being the least likely to report having introduced a new product or service (see Table 20). Interestingly, the lowest percentage (22 per cent) can be found among large firms, whereas 37 per cent of small and 39 per cent of medium-sized firms reported the introduction of a new product and/or a new service between 2012 and 2014. However, only about a quarter of SMEs have achieved operational innovation in the form of significantly improved production or distribution processes, sales and marketing practices, or management systems (Soans and Abe 2015). In view of currently low levels of productivity, Myanmar SMEs will need to scale up their investments in R&D and innovation

TABLE 20  
Introduction of New Product and/or Service  
during 2012–14 by Firm Size (%)

	<i>No</i>	<i>Yes</i>
Small	63	37
Medium	61	39
Large	78	22
Total	69	31

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

capabilities in order to survive the increasing exposure to foreign competition.

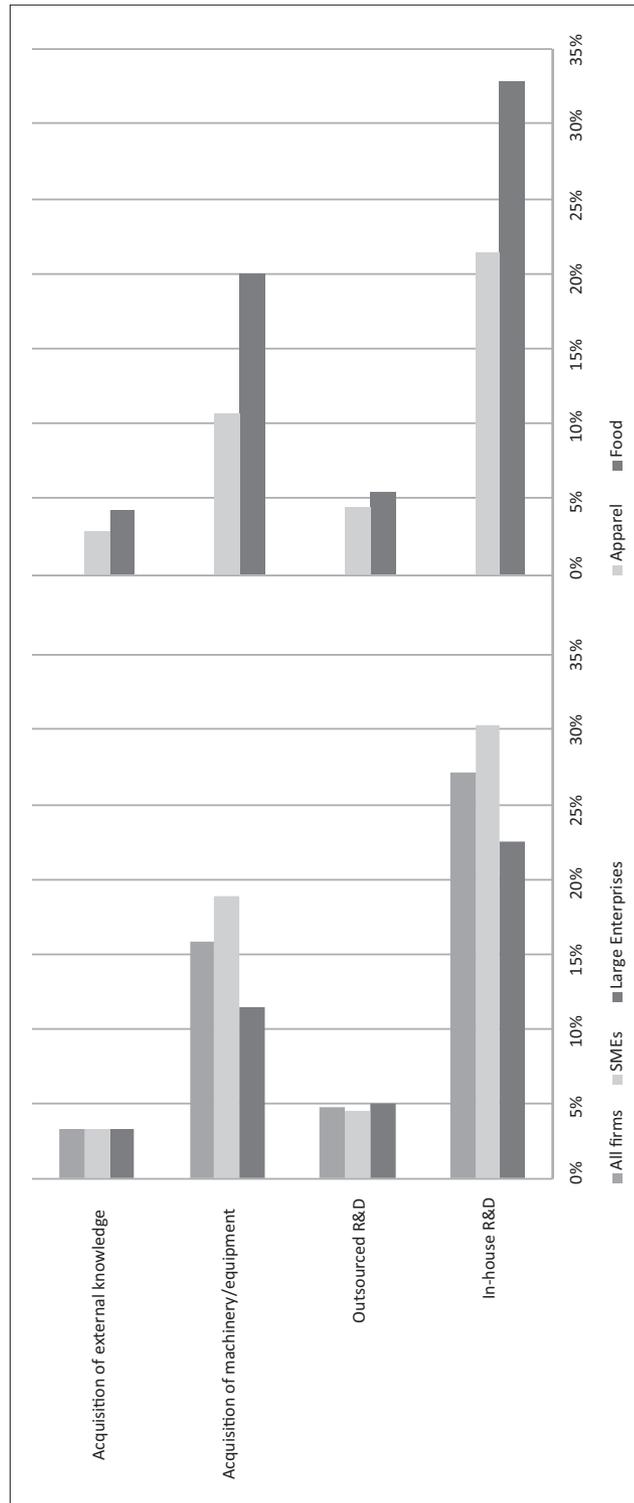
### 7.3 Prevalence of Low-skilled Labour and Little Investment in Human Capital Development

A relatively large share of Myanmar’s labour force is low skilled. In fact, around three-quarters of SMEs’ permanent full-time employees are hired as semi-skilled and unskilled workers (DEval 2015). This tends to have negative impacts on enterprises’ productivity, innovativeness and resilience. Accordingly, many SMEs view the labour force as inadequately educated and consider the shortage of skilled labour as a major constraint on their success.

Despite this, only a small proportion (15 per cent) of firms report expenditures on training for their workers (Figure 7). The proportion of garment producers reporting training expenses was somewhat higher than that of food manufacturers (22 per cent vs. 14 per cent). Comparing across firm sizes, large enterprises in our sample were found to be more than twice as likely as SMEs to invest in training expenditures (30 per cent vs. 13 per cent).

One of the factors that possibly shapes firms’ spending behaviour on training for their workers is the extent to which they source skills from abroad. The hiring of foreign experts might be viewed as a substitute for organizing formal trainings for workers, that is, foreign experts are hoped to transfer knowledge and know-how to the local workforce. As shown in Table 21, however,

FIGURE 6  
Innovation and Technology Efforts during 2012–14 by Firm Size and Sector (%)



SOURCE: ERIA-ISEAS Enterprise Survey 2015.

FIGURE 7  
Percentage of Firms Reporting Expenditures on Training for Workers



SOURCE: ERIA-ISEAS Enterprise Survey 2015.

TABLE 21  
Share of Firms Employing Foreign Staff in Different Occupations (%)

	<i>Number of Foreign Employees</i>								<i>Total</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6–10</i>	<i>11 and above</i>	<i>None</i>	
Managers and Professionals	10.6	6.1	2.0	1.0	1.0	2.5	1.0	75.8	100.0
Engineers and Technicians	7.1	3.5	1.5	2.0	2.0	4.5	2.5	76.8	100.0
Supervisory and Clerical	2.0	0.0	0.0	0.0	0.5	0.5	1.5	95.5	100.0
Plant and Machine Operators and Assemblers	0.5	0.0	0.0	0.0	0.0	0.0	0.0	99.5	100.0

SOURCE: ERIA-ISEAS Enterprise Survey 2015.

most of the sample firms have not hired any foreign workers. The occupational group most commonly filled with foreign staff is managers and professionals. Specifically, 24 per cent of all firms report having foreign managers and professionals, although of these the majority employ only two or less.

#### 7.4 Difficult Access to Finance

Access to finance was not a topic covered by our survey. The World Bank Enterprise Survey, however, found that around a third of Myanmar SMEs identify access to finance as a major constraint to doing business. In fact, SMEs hardly use modern financial services. For example, just

20 per cent of small enterprises and less than half of medium enterprises have a checking or savings account. Less than 8 per cent of SMEs use banks to finance working capital and less than 4 per cent of SMEs use banks to finance investments. In fact, most SMEs finance their investments through internal funds (see Table 22). As a consequence, only about 3 per cent of small firms and 13 per cent of medium-sized firms currently have a bank loan or line of credit. One of the reasons for this low percentage is the heavy collateral requirements. Typically, loans have to be almost 100 per cent collateralized (see Table 23).

In a similar vein, around 54 per cent of SMEs surveyed by DEval (2015) reported that they have additional, unmet funding needs. Access to trade finance — a key prerequisite for SMEs

to start international business — is particularly scarce. Accordingly, Myanmar ranks only 174th out of 189 economies in the ranking on the ease of getting credit in the latest World Bank Doing Business Report (World Bank 2015a).

### 7.5 Lack of Awareness of Trade Preferences

Both survey data and anecdotal evidence point to very low levels of awareness and understanding among Myanmar SMEs about the trade preferences available to them. Few know about their duty-free and quota-free access to the markets of various high-income countries through free trade agreements (FTAs) and the GSP (*Myanmar Times* 2014). This is illustrated in Figure 8, which shows that most FTAs have hardly been made use of;

TABLE 22  
Access to Finance for Myanmar Firms

<i>Company Size</i>	<i>Percent of Firms with a Checking or Savings Account</i>	<i>Percent of Firms Using Banks to Finance Investments</i>	<i>Percent of Investments Financed by Banks</i>	<i>Percent of Firms Using Banks to Finance Working Capital</i>	<i>Percent of Firms Identifying Access to Finance as Major Constraint</i>
Small	19.4	1.4	0.8	2.0	18.3
Medium	46.3	4.0	1.6	7.6	33.2

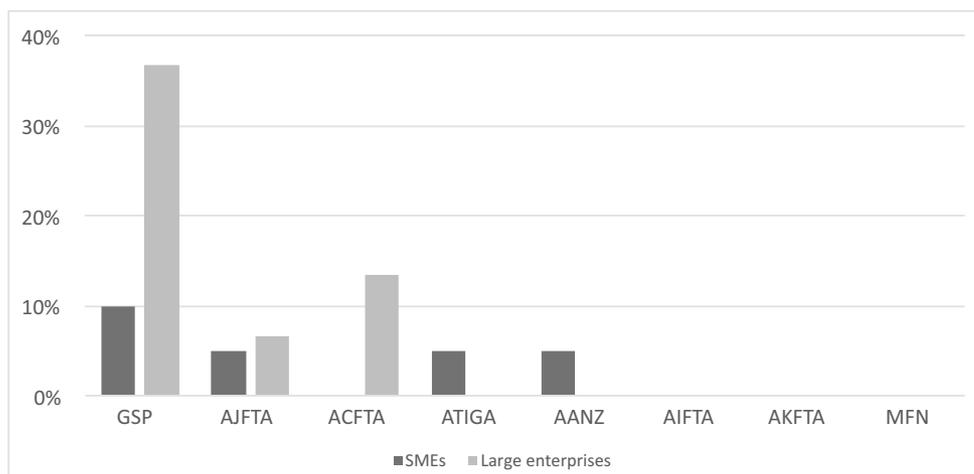
SOURCE: World Bank Enterprise Survey Database.

TABLE 23  
Access to Bank Loans for Myanmar Firms

<i>Company size</i>	<i>Percent of Firms with a Bank Loan/ Line of Credit</i>	<i>Percent of Firms Not Needing a Loan</i>	<i>Percent of Loans Requiring Collateral</i>	<i>Percent of Firms Whose Recent Loan Application Was Rejected</i>
Small	3.1	55.8	88.9	17.6
Medium	13.2	55.7	100.0	7.7

SOURCE: World Bank Enterprise Survey Database.

FIGURE 8  
Reported Usage of Different FTAs and Trade Preference Schemes



SOURCE: ERIA-ISEAS Enterprise Survey 2015.

only the GSP and the ASEAN-China Free Trade Area (ACFTA) benefits have been used by more than 20 per cent of all respondents.

Lack of knowledge is the main reason for survey firms not making use of FTAs and trade preference schemes, followed by too small trade volumes (see Figure 9). Interestingly, the share of respondents indicating these two reasons for non-usage of FTAs was larger among large enterprises than among SMEs (35 per cent and 20 per cent vs. 21 per cent and 1 per cent). Under “other reasons”, quite a number of survey firms mentioned that they felt that the FTAs were not relevant for their business or that they did not relate to their area of business. Figures 11 and 12 convey a similar message of low awareness of trade preferences available as a result of regional economic integration. In any case, these results indicate that many SMEs are not aware of the export opportunities that they would have thanks to preferential access to a range of foreign markets.

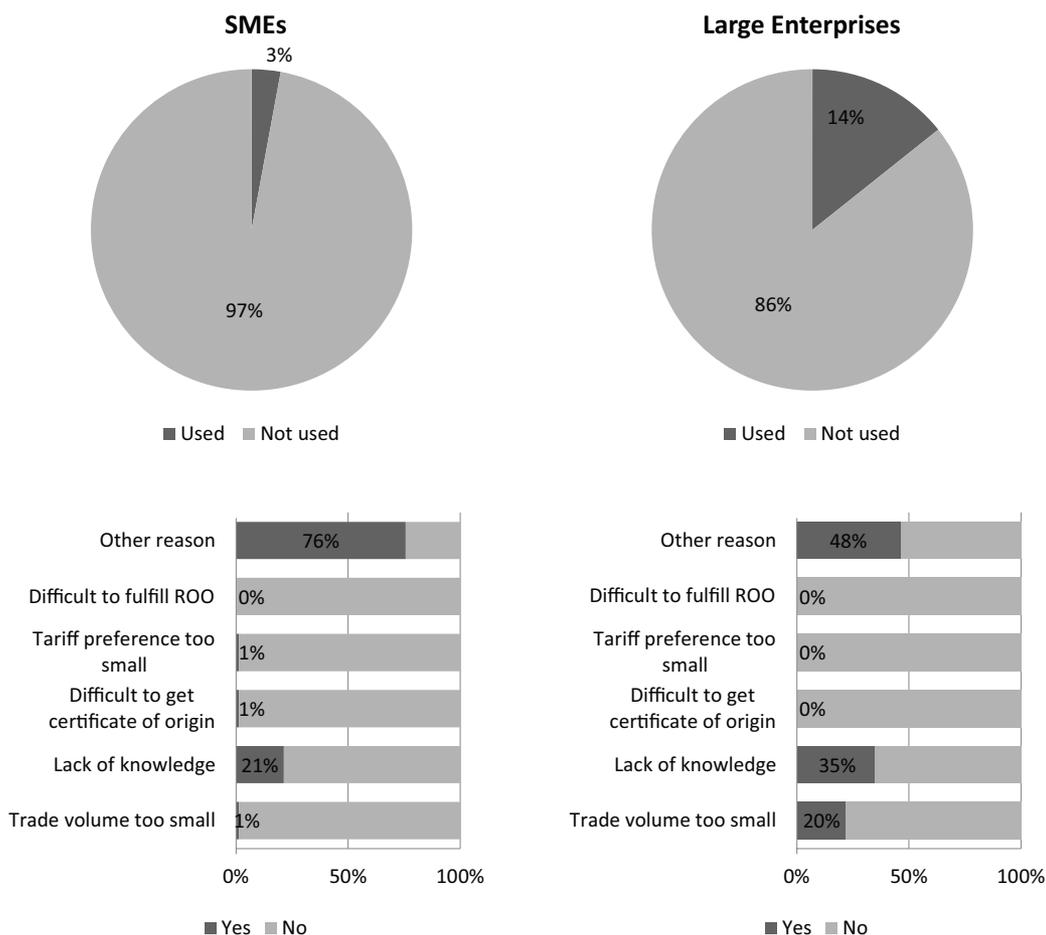
#### 7.6 Lack of Government Support and Other Constraints Faced by SMEs

A final, open-ended question in our survey invited respondents to provide comments on what they

view as the three most important reasons that impede their firm’s participation as supplier to other firms locally or internationally. The most common response pointed to the scarcity or lack of raw materials; this mostly came from apparel companies who currently have to import (almost) all their inputs since there is no local supply chain which many view as jeopardizing their competitiveness. The scarcity of skilled labor and access to finance were the second and third most frequently mentioned impediments to a firm’s integration as suppliers into value chains, supporting our earlier findings.

Another area that many respondents identified as a key impediment relates to factors such as deficiencies in the business environment, government procedures and the consistency of laws, the lack of government support, and political instability. Technology limitations, including the quality of machinery, and low investment rates were also mentioned by a considerable proportion of respondents. Finally, survey participants also cited exchange rate fluctuations, infrastructure (e.g. transportation), and concerns about the quality of their products and their ability to comply with international standards and certification requirements as important reasons that impede

FIGURE 9  
Usage of FTAs and Reasons for Not Using Any FTA



NOTE: ROO stands for rules of origin.  
SOURCE: ERIA-ISEAS Enterprise Survey 2015.

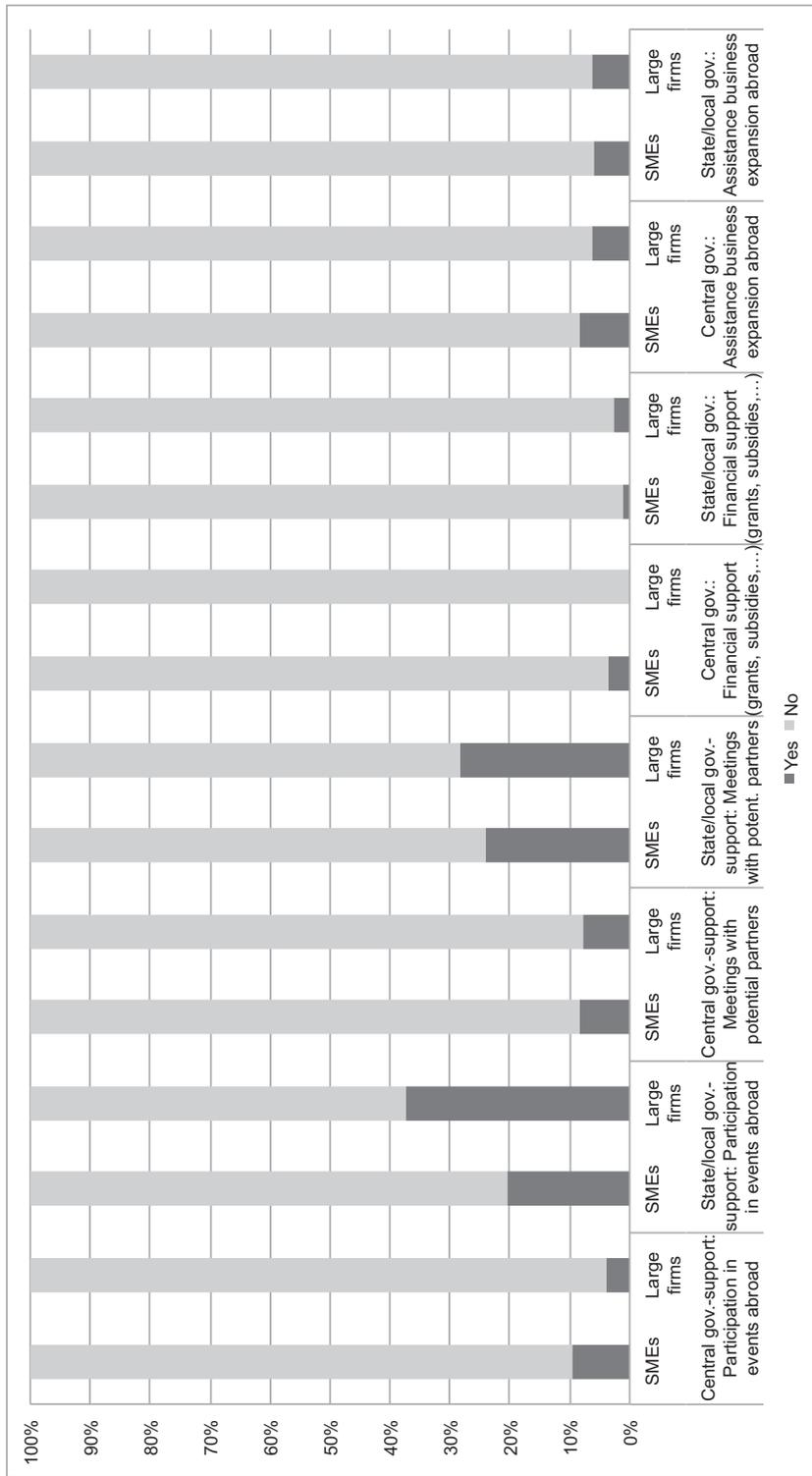
their firm’s participation as supplier to other local or international firms.

At present, Myanmar’s SMEs seem to receive relatively little support by the government. Figure 10 presents different areas of possible government support for companies’ internationalization and shows how many of our surveyed firms indicated to have received such assistance during 2012 to 2014, distinguishing between support from the

central government and state/local government. The overall picture is clear: only a minority of firms say that they have received any government assistance.

Two general observations can be made. First, by and large, state/local governments are more active in supporting firms’ internationalization efforts. In most of the four policy areas shown in Figure 10, the share of respondents reporting

FIGURE 10  
Extent and Nature of Government Support by Firm Size during 2012–14



SOURCE: ERIA-ISEAS Enterprise Survey 2015.

support from state/local government is higher than the share of respondents reporting support from the central government.<sup>10</sup> Second, the area where government seems most active is the provision of support for companies' participation in events abroad (e.g. fairs and exhibitions). By contrast, almost no company indicated to have benefitted from the provision of financial support (e.g. grants, subsidies, loans).

Strikingly, large firms were more likely to report having received government support than SMEs for almost every area of assistance. Overall, large firms seem more able to secure government support. Although the underlying reason for this is not clear, it is likely that this results from larger firms being more aware of support schemes and having better access to policymakers. It is also possible that smaller firms are less comfortable engaging with public authorities, especially when they are not officially registered.

## 8. Perceptions and Expected Impact of Regional Economic Integration

The results from our survey suggest that a significant share of Myanmar SMEs are unaware of the AEC, let alone of its implications. Specifically, less than 25 per cent of the SMEs responding to our survey were familiar with the AEC and the ASEAN Blueprint for SME Development. Similarly, when asked about how the AEC has affected or will affect their business in different areas, half or more of respondents said that they "don't know" or have "no opinion". That's the reason why the percentages shown in Figure 11 do not add up to 100 per cent in each of the different categories. The balance corresponds to the share of respondents that chose "don't know" or "no opinion" as their answers.

As can be seen in Figure 11, optimism trumps pessimism when it comes to profits, access to intermediate inputs and particularly exports (where the share of respondents expecting an increase is larger than the share expecting a decrease). In general, large enterprises appear to be more optimistic with regard to these variables (and especially exports) than SMEs. Moreover, large

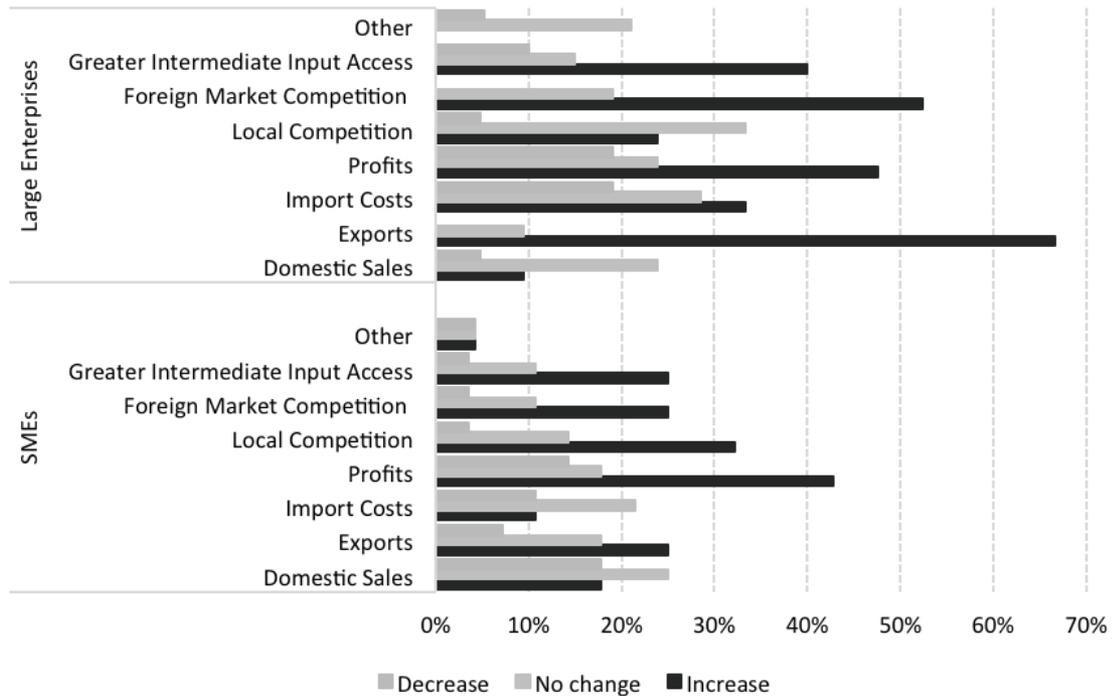
enterprises also tend to be more optimistic with respect to domestic sales while among SMEs the share of skeptics (who are afraid domestic sales will decrease) is as big as the share of optimists (who expect domestic sales to increase).

However, Figure 11 also shows that there are concerns related to import cost, competition in local markets and especially competition in foreign markets where more respondents expect an increase than a decrease. Interestingly, there are significant differences between SMEs and large firms with the latter being more concerned about losing out to competition in foreign markets and rising import costs. By contrast, SMEs are more worried about competition in the local market; 32 per cent of them expect it to intensify while only 24 per cent of large firms do so. These findings seem to reflect a general orientation of SMEs towards domestic markets and a higher degree of trade integration of large firms. Overall, these responses also point to survey participants' concerns that the AEC will expose them to more competition while the export and foreign market opportunities that it offers will be hard to capture.

Figure 12 sheds some light on the underlying mechanisms that respondents think will drive these expected changes. Overall, responses do not differ too much between SMEs and large firms. Around 40 per cent of responding SMEs and more than half of the surveyed large enterprises expect connectivity in terms of transport and communication services to improve, thanks to the AEC. Overall, a bit more than a quarter of respondents expect both export and import duties to decrease as a result of AEC; however, SMEs are more optimistic in this regard than large enterprises. All this should facilitate market access to other countries within ASEAN for any ASEAN firm, thereby potentially leading to fiercer competition in the individual ASEAN countries' markets.

Figure 12 also reveals that around 40 per cent of SMEs expect customs procedures, standards regulations, and the investment process in ASEAN countries to "increase". However, it is not entirely clear what exactly they imply with their responses. There might have been different interpretations and understandings of the underlying questions.

FIGURE 11  
Firms' Responses to the Question: "How Has AEC Affected or Will Affect Your Business?"



SOURCE: ERIA-ISEAS Enterprise Survey 2015.

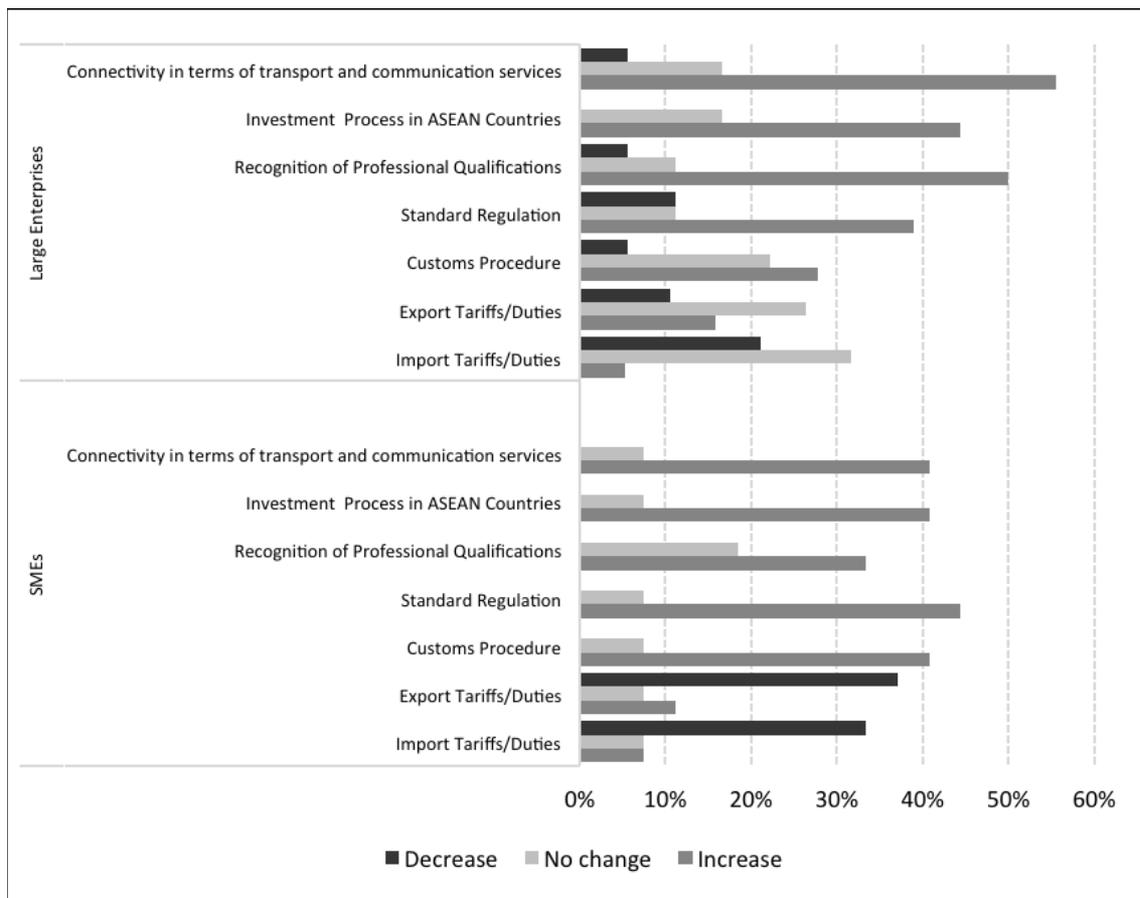
Respondents likely meant an "improvement" in customs procedures — although some might actually have expressed their expectation that customs procedures will become more numerous and cumbersome. When indicating that they anticipate an "increase in standards regulations", respondents may have had more and/or stricter regulations in mind (given that such quality and safety standards are more stringent in the more advanced ASEAN economies than they currently are in Myanmar) — although some might as well have meant an "increase in harmonization" of standards regulations across ASEAN (given related initiatives at ASEAN level) (see also UNIDO 2015).

Finally, it should be highlighted that more than 40 per cent of respondents answered that they "don't know" or that they have "no opinion" on

how key changes related to the AEC will affect their business which, again, likely indicates a limited awareness and understanding of the AEC.<sup>11</sup>

As part of the survey, firms were also asked to provide additional comments on how they think ASEAN economic integration will affect their firm and how increased competition from firms based in other ASEAN countries will affect their business. Some firms indicated that they were afraid of lacking the technological capabilities needed for withstanding the increase in competition particularly in foreign markets, while others fear that the size of their firm will become too small in the context of such market expansion. Moreover, quite a number of respondents stated that to become or stay competitive in more integrated regional markets, it will become more important to pay attention to product quality and quality

FIGURE 12  
Firms' Responses to the Question: "What Are Key Changes Due to AEC That Affect Your Business?"



SOURCE: ERIA-ISEAS Enterprise Survey 2015.

control while there will also be an increased need for product and process innovation as well as for the ability to deliver at shorter lead times. All this likely requires new investments for which some respondents fear to lack the capital.

The additional comments that respondents provided in the questionnaire help us to better appreciate the concerns that they have with regard to the changes they expect for the situation in the domestic market. Here, one big concern is the influx of imports from more competitive foreign producers. Many respondents expect an increase in competition for market share while some are afraid

that this could trigger a price war that hurts their revenues. Another concern that some respondents voiced relates to the labour market where they fear losing out against foreign-invested firms coming to Myanmar, via an increase in competition for labour and a shortage of skilled workers who will rather take jobs at foreign-invested firms as they are better paid. A few respondents are also concerned that increasing regional integration will stimulate labour emigration, further aggravating the shortage of skilled labour. One possible root cause of this concern may be that 47 per cent of respondents expect the recognition of

professional qualifications to increase due to the AEC, theoretically making it easier for qualified Myanmar labour to find (often better-paid) jobs in other ASEAN countries. Finally, a number of survey participants anticipate an increase in competition for raw materials, possibly leading to higher raw material prices.

Despite this, a small subgroup of respondents indicated that they hope for better access to foreign markets, more opportunities for export expansion, an improvement in the business environment, as well as better transportation and lower logistics/transaction costs. Some SMEs expect the AEC to bring improved access to technology and packaging supplies, foreign investment inflows and an increased potential for joint ventures.

When asked about how FTAs outside ASEAN have affected or will affect their business in various aspects, around 60 per cent respondents were not able (or willing) to provide a concrete answer, saying that they “don’t know” or have “no opinion” (see Bernhardt, De and Dickenson-Jones 2016). Generally, respondents seem to be a bit more optimistic about reaping benefits from regional integration within ASEAN than from FTAs with countries outside the grouping. Meanwhile, SMEs seem equally concerned about FTAs leading to increases in competition in domestic and foreign markets whereas large enterprises appear to be more concerned about increases in competition in foreign markets, likely due to their higher export orientation.

Overall, most Myanmar SMEs do not (yet) seem to be prepared to keep up with the internationalization and regionalization of their business environment. This is partly explained by their lack of awareness about business opportunities in foreign markets, for example, those arising from the AEC and other trade preferences. Such SMEs will be unable to take advantage of the benefits and opportunities provided by global and especially regional integration.

## 9. Policy Conclusions

At present, Myanmar SMEs scarcely participate in regional economic activities, although there

are differences across sectors. The intensification of regional economic integration brings both opportunities and challenges to Myanmar’s SMEs. With the promise of greater market access and more foreign investment also comes the threat of greater competition from more productive foreign producers. The results from our survey suggest that most of them do not seem to be well prepared for or even aware of the implications of the opening of Myanmar’s economy.

First and foremost, it will, thus, be up to SMEs themselves to make the necessary efforts and investments to fully exploit the opportunities of regional economic integration while avoiding its pitfalls. In addition, public policy can play an important role in supporting SMEs to become more competitive and benefit from the new regional context. The research presented here points to a few broad policy areas where government reforms and support measures are most needed.

### *9.1 Encourage Firm Registration and Collect Better Data to Allow Evidence-Based Policymaking*

A large number of SMEs are currently unregistered and operating in the informal sector in Myanmar.

Overall, measures to encourage registration should seek to reduce the financial and administrative burden of registration. Given the reluctance of many businesses to engage with the government, it is also important to ensure the costs of registering for firms are outweighed by its benefits such as access to policy support, information and training, and involvement in the policymaking process.

In addition, efforts to increase registration rates could also be paired with wider efforts to collect better data. A first step could be the establishment of a central and complete business registry that identifies vital information about firms such as their sector of operation, number of employees, ownership structure and participation in international trade. This registry could then be used to conduct a census of Myanmar enterprises to allow a more accurate and detailed mapping of Myanmar’s business population. In the longer

run, the objective should be to move towards conducting regular and systematic business surveys in order to keep the stock of information updated. The dearth of data available at present makes it difficult for policy makers to better understand and design the reforms needed for successful SME development.

### *9.2 Increase Awareness of and Knowledge about ASEAN and FTAs*

The results from our survey clearly pointed out that there is very little awareness and knowledge among Myanmar SMEs about ASEAN integration, the AEC and FTAs more in general.

Against this backdrop, the government could take measures to help SMEs increase their awareness of and knowledge about AEC and the FTAs that Myanmar has signed. This might be done through launching a public campaign, including seminars, forums, workshops and other events for SMEs. The government could also disseminate reference materials and help organize industry and trade fairs with a specific focus on business opportunities within ASEAN. Facilitating access to information is a very valuable service that the government can provide to SMEs as they are less likely to have the capacity to regularly search and process information on foreign markets and processes. This is particularly true in Myanmar where the ICT infrastructure is limited and ICT usage low.

Practically this could be done through industry associations (such as UMFCCI, MGMA, etc.) but also by piggy-backing on existing initiatives such as the “Business Forum”, a platform for public-private dialogue, and the “Saturday Talks” organized by the Department of SME Development.

### *9.3 Promote Human Resource Development*

There is clear evidence that the limited supply of skilled labour is a major impediment to corporate competitiveness. Given this, it is suggested that government efforts should be focused on increasing the domestic supply of skilled labour.

These efforts should not only cover technical skills needed by workers but also skills needed for white-collar, clerical and managerial jobs.

From a longer term perspective this implies the need to upgrade the quality of the education system at all levels, which should also involve strengthening vocational education and technical training to ensure the skills needed by priority sectors can be supplied domestically. In the short to medium run, government policy can aim at expanding the supply of government-provided trainings as well as at supporting and strengthening existing private training institutes. At the same time, in order to ensure that enterprises increase their demand for skill development programmes, the government should consider introducing measures that incentivize firms to invest in workforce training and development.

### *9.4 Support Technological Upgrading and Investment*

Both our survey and past research revealed that the level of technological sophistication is relatively low among Myanmar SMEs, with usage of modern or foreign technology being quite limited. Policy measures to consider include strengthening linkages between SMEs and innovation and technology agents (such as universities, R&D centres and laboratories) and establishing pilot science and technology parks (possibly within industrial and special economic zones). Moreover, the existing network of both technological and, in particular, business incubators could be expanded and accessibility increased for private SMEs (since at present incubators mainly supply their services to state-owned enterprises).

Part of the problem is the difficult access to finance in Myanmar, particularly loans with longer maturity which are essential for investments in equipment and machinery. To increase borrowing by SMEs, policy measures should aim at making credit available at more attractive conditions, raise awareness on existing government support schemes, and have programmes to increase financial literacy not only among SMEs but also banks. This could be complemented with direct

support schemes such as targeted grants, subsidies or other incentives.

Apart from that, FDI can be important both as a channel for technology transfer and for bringing additional capital into the country. Myanmar's SMEs can possibly benefit from FDI by either becoming suppliers to foreign-invested companies or by entering into joint ventures with foreign companies. They may also benefit from spillover effects, i.e. positive externalities resulting from backward linkages from foreign firms to the local supplier base, and knowledge diffusion. However, for these linkages and spillover effects to materialize, a smartly designed and effective regulatory framework for FDI needs to be in place that provides security to foreign investors but also incentivizes them to establish such linkages.

#### *9.5 Encourage ICT Usage of SMEs*

The results from our and other surveys have shown that Myanmar SMEs currently only use ICT to a limited extent. Further government efforts, through either direct investments, public-private partnerships or tendering, will be necessary in the future to expand the underlying infrastructure, to enhance connectivity, and to improve the reliability, quality, speed and diffusion of ICT service provision.

Apart from these infrastructural shortcomings, another main reason for the very low usage of ICT, both among SMEs and enterprises more generally, is that there is a generation gap among Myanmar entrepreneurs. Older entrepreneurs and SME owners who have started running a business under the old regime often do not have the habit to seek ICT solutions for their business. Many of them are therefore still relying on traditional ways of communicating, networking, trading, organizing production, and managing. At the same time, there is a large younger generation of potential entrepreneurs with great interest in and appetite for ICT solutions. These differences should be taken

into account by the government when it designs policies and programmes to encourage ICT usage among Myanmar SMEs.

One way to encourage ICT usage could be through subsidization or the provision of other incentives. Financial and technical support could be provided to SMEs that want to introduce business management software or set up web-based portals to offer online sales and online payment. Policies could also engage providers of ICT solutions to provide relevant training to businesses. Another option to consider is to offer mobile ICT Training for SMEs across the country, especially targeting older entrepreneurs and rural areas, to enhance SMEs' awareness of the advantages of applying ICT to their business.

#### *9.6 Simplify the SME Definition*

Although the new SME Law has only been enacted recently, the SME definition it stipulates is still excessively complex and not in line with regional or global definitions. This situation may contribute to complicating or even hindering the proper implementation of policies targeting SMEs, both at national and regional levels. A simpler SME definition will make it easier for government agencies to determine whether or not applicants for certain government support programmes and measures are eligible in the first place, or whether or not certain exemptions from rules and regulations apply to a given company. Similarly, it will help other stakeholders involved in SME support programmes, such as banks (extending loans to SMEs under the SME credit guarantee insurance scheme offered by the Myanmar Insurance Company) or training providers (offering subsidized training programmes to SMEs) to distinguish those companies that qualify from those that do not. Overall, a simpler SME definition can contribute to guiding and designing more targeted SME development policies and other promotion measures.

## NOTES

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1. Based on data from the World Development Indicators database.
2. See the “Data and Statistics” section of the Department of Investment and Company Administration’s (DICA) website: [www.dica.gov.mm/](http://www.dica.gov.mm/).
3. See also [www.smedevelopmentcenter.gov.mm/](http://www.smedevelopmentcenter.gov.mm/).
4. See Bernhardt, De and Dickenson-Jones (2016) for a more in-depth discussion of the shortcomings and more details on the survey implementation in general.
5. This is different from the official definition in Myanmar where according to the 2015 SME Law, SMEs are defined by four criteria: sector of operation; number of employees; capital investment; and value of annual turnover (see [www.smedevelopmentcenter.gov.mm/?q=en/def\\_sme](http://www.smedevelopmentcenter.gov.mm/?q=en/def_sme)). This definition has been criticized as being overly complex and not in line with international practices.
6. The average number of employees per firm in our sample is higher than that found by UNDP (2014, p. 18): An average food processing firm in their sample employs 8 workers and an average apparel manufacturer 106 workers. There, thus, seems to be a certain bias towards larger firms in our sample.
7. It is noteworthy that some respondents incorrectly identified non-ASEAN countries such as China, Japan, Hong Kong or Taiwan when asked about their businesses relationship with ASEAN countries, suggesting that knowledge about ASEAN is still quite limited among many Myanmar enterprises; see also further below.
8. Note that our category of “foreign-invested firms” or “firms with foreign ownership” includes both firms that are fully foreign-owned and firms that have at least some foreign ownership.
9. Note that these percentages only refer to the share of survey respondents mentioning a given country as an export market. They do not say anything about trade volumes or values.
10. This likely also reflects the tendency for firms to more directly engage with local officials under the authority of Myanmar’s subnational governments (see Dickenson-Jones et al. 2016).
11. Again, these “don’t know” and “no opinion” response are the reason why the percentages shown in Figure 12 do not add up to 100 per cent in each category.

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