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## INTRODUCTION

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The economic importance of small and medium-sized enterprises (SMEs) is widely recognized and acknowledged by researchers and policymakers in Southeast Asia. This is not surprising as SMEs typically account for about 97–99 per cent of total enterprises and 60–80 per cent of total employment in Southeast Asian countries (Lee and Zhang 2016). Such statistics notwithstanding, SMEs are often viewed as being disadvantaged compared to large firms because they lack economies of scale and face resource constraints (Harvie 2015). In the theoretical and empirical trade literature on heterogeneous firms, these disadvantages translate into low productivity which affects SMEs' exporting behaviour. For countries in Southeast Asia, this is a serious problem given the fact that many, if not all, countries in the region are committed to achieving greater intra- and inter-regional economic integration. This is to be achieved via the formation of the ASEAN Economic Community (AEC) as well as participation in bilateral and regional free trade agreements (FTAs). The question that follows then is this — can manufacturing SMEs participate effectively in economic integration given the disadvantages they experienced? It was with this question in mind that the Economic Research Institute

for ASEAN and East Asia (ERIA) and ISEAS – Yusof Ishak Institute (ISEAS) collaborated to undertake a research project to better understand the current state of manufacturing SMEs' participation in economic integration. This book is a collection of the research papers from the project.

The chapters in this book are organized into two sections. The first part covers country papers. The countries included are Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand and Vietnam. These are based on primary data collected in the research project. The second part covers linkages between multinational enterprises (MNEs) and SMEs in Southeast Asia. Chapters in this category rely on secondary data and fieldwork interviews with MNEs operating in the region.

For the country studies, several methodological challenges were encountered right from the inception of the project. These affected the sampling approach to be adopted for the surveys. First, due to financial constraints, the project could only cover 200–300 firms per country. Due to this relatively small sample size, it made sense to focus mainly on a few key industries. The main criteria for the choice of these industries was the importance of these industries to the country (see Table 1.1).

A second methodological problem relates to the lack of a single definition of SMEs amongst Southeast Asian countries. To overcome this problem, a single definition (based on OECD discussion notes) was used to guide the sampling of firms by firm size.<sup>1</sup> A third methodological decision was to include large-sized firms in the surveys. This was important in order to compare between SMEs and large firms and identify factors that uniquely affect SMEs' participation in economic integration. The guide for sample size distribution given to country researchers is as follows:

- 30–40 per cent of sample: firms with 11–49 workers
- 40–50 per cent of sample: firms with 50–249 workers
- 20 per cent of sample: firms with 250 or more workers

Finally, the questionnaire used for the survey comprised of 40 questions organized into ten key sections: (1) general information, (2) sales and exports, (3) production and inputs, (4) employment and human resource, (5) technology and innovation, (6) ASEAN Economic Community, (7) utilization of free trade agreements, (8) government

**TABLE 1.1**  
**Sample Distribution by Industry and Country**

Industry	Indonesia	Thailand	Cambodia	Vietnam	Myanmar	Philippines	Total
Food products	52	95	22	48	89	11	317
Beverages	20	0	10	0	0	2	32
Tobacco products	0	0	1	0	0	0	1
Textiles	1	10	2	82	0	4	99
Wearing apparel	70	0	80	0	102	23	275
Leather products	14	21	7	0	0	2	44
Wood products excl. furniture	15	0	1	78	2	1	97
Paper products	0	0	0	0	1	3	4
Printing and recorded media	0	0	6	0	0	3	9
Coke and refined petroleum products	0	0	0	0	0	0	0
Chemicals and chemical products	0	0	0	0	0	13	13
Pharmaceutical products	0	0	0	0	0	0	0
Rubber and plastics products	0	104	2	0	0	18	124
Non-metallic mineral products	0	0	0	0	0	1	1
Basic metals	0	0	1	0	0	4	5
Fabricated metal products	0	9	30	0	0	16	55
Computer, electronic and optical products	3	0	2	0	0	9	14
Electrical equipment	4	0	0	0	0	3	7
Machinery and equipment n.e.c.	0	33	0	0	0	4	37
Motor vehicles	1	0	1	0	0	14	16
Other transport equipment	0	0	3	0	0	1	4
Furniture	20	29	10	0	0	5	64
Other manufacturing	0	0	20	0	3	67	90
Repair & installation of machinery/equipment	0	0	1	0	0	1	2
Total	200	301	199	208	197	205	1,310

Source: ERIA-ISEAS Project.

support, (9) other comments, and (10) risk preferences. The questionnaire was designed to generate data that could be used to econometrically test the determinants of participation in regional integration. From the onset of the project, the project coordinators made no effort to impose standardized econometric specifications. This encouraged the country chapter writers to experiment with a variety of specifications which include determinants of: (i) export participation, (ii) import participation, (iii) FTA utilization, and (iv) production network participation.

What are the general findings of the country chapters? Overall, there is still a low level of awareness of AEC amongst SMEs, especially in some of the less developed ASEAN member countries. In these countries, there is significant uncertainty amongst SMEs about how the AEC will impact their businesses. The uneven progress in the implementation of the National Single Window — which affects customs procedures — is also reflected in the findings of this study. An important facilitator of SME internationalization is FTA. The relatively low utilization rate of FTAs amongst SMEs, especially in the less developed Southeast Asian countries, indicates that the barriers to using FTAs remain real and substantial. Government support for SME development — including those aimed at encouraging SMEs to export — remain uneven across ASEAN member countries. As ASEAN moves towards another vision of a more integrated community by 2025, more attention needs to be paid to SME development to ensure that the fruits of regional integration can be equitably shared.

Several key findings emerge in the studies on MNEs in the region. In the study on Japanese MNEs operating in ASEAN countries, large firms are more likely to use FTA schemes in exporting compared to SMEs. The key obstacle to FTA utilization is the need to obtain certificates of origins. The study on South Korean MNEs in Vietnam highlights the difficulties faced by domestic SMEs in integrating into the global production networks. Significant government support is needed to bring this about. The role of government is also highlighted in the study on Taiwanese MNEs in ASEAN countries. In particular, the study argues that whilst the second unbundling of production opens up opportunities for SMEs to participate in the global production networks, obstacles exist but these can be overcome by industrial policies aimed at anchoring flagship MNEs and by strengthening the local industrial base and linkages along the value chain/supply chain. The study on Cherry, the Chinese automotive MNE in Malaysia, demonstrates that

premature entry of MNEs could feature very limited linkages between MNEs and domestic SMEs. This problem has been compounded by government policies that favour domestically-owned automotive firms.

The studies in this volume collectively demonstrate that the participation of SMEs in regional integration is a challenging problem. It is hoped that this book will provide insights to scholars and policymakers in the Southeast Asia region and beyond on how to enhance SMEs' participation in regional and global economy in the future.

#### NOTE

1. See the entry for SMEs at <<https://stats.oecd.org/glossary>>.

#### REFERENCES

- Harvie, Charles. "SMEs, Trade and Development in South-east Asia". Paper presented at the Conference on 50 Years of Trade Impact for Good, October 2015.
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